![utmb Health]

The University of Texas Medical Branch
Audit Services

Audit Report

Endowment Compliance Audit

Engagement Number 2021-024

June 2021

The University of Texas Medical Branch
Audit Services
301 University Boulevard, Suite 4.100
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M E M O R A N D U M

TO: Charles P. Mouton MD, MS, MBA
              Executive Vice President, Provost and Dean, School of Medicine

FROM: Desolyn Foy, CPA, CIA, MHA
              Vice President, Audit Services

DATE: June 23, 2021

SUBJECT: Endowment Compliance Audit
              Engagement Number 2021-024

Attached is the final audit report regarding the Endowment Compliance audit. This audit will be presented at the next Institutional Audit Committee meeting.

Thank you for your cooperation and assistance during the course of this review. If you have any questions or comments regarding the audit, please feel free to contact me at (409) 747-3277.

c: Ben G. Raimer, MD
       Loren Skinner
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       Toby R. Boenig

Background

The University of Texas Medical Branch (UTMB Health) receives endowment gifts from individuals, foundations, corporations, and other entities to fulfill our mission and to provide support to students, faculty, and institutional programs. Appreciating the importance of these donations, the University President Ad Interim made a special request to add this engagement to our approved Audit Plan.

The principal portion of endowment funds are pooled with other UT System endowments for investment by The University of Texas System Investment Management Company (UTIMCO). A Board-approved investment strategy is employed by UTIMCO to increase the funds and generate gains. A portion of these gains become operating income distributed to the University to satisfy the endowment's donative purpose. Endowment compliance oversight is executed through various governance, risk, and compliance control processes.

The governance structure includes policies, procedures, and oversight committee activities. There are several UT System Board of Regents and UTMB Health policies regarding acceptance and management of charitable gifts. Primarily policies require an annual endowment risk assessment, and endowment compliance and monitoring plans. Additionally, there is required training which discusses policy requirements, endowment expenditure management, reporting and general compliance risks. The Endowment Compliance Committee (ECC) is comprised of multi-disciplinary administrators from the Offices of Development, Provost, Research, Finance, and other areas. The ECC is responsible for oversight of the Endowment Compliance Plan and reports to the Executive Institutional Compliance Committee chaired by the University President Ad Interim.

The Vice President and Chief Development Officer is the primary liaison between the donor and UT System. The Office cultivates and maintains relationships with benefactors through various communications, reporting and other events. In collaboration with UT System, the department secures the donative agreement ensuring the donor's wishes are clearly defined. The Office communicates to the benefiting departments the existence of the endowment and its intended purpose. Additionally, they review and provide to the ECC, the annual endowment compliance report prepared by the Office of the Provost. They also prepare the donor annual Report of Use communications.

The Program Manager in the Office of the Provost Administration provides expenditure oversight for each of the benefiting departments in the Academic Enterprise, Health Systems, and Institutional Support. In FY2020 there were $20M endowment expenditures processed and approved in the originating departments and subject to the Program Manager's oversight. In addition, the Project Manager also reviews endowments for un-expended accumulated income to secure and monitor spending action plans.

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Objective, Scope and Methodology

Objective
The objective of this assurance engagement was to evaluate the adequacy of the endowment compliance policies and oversight and monitoring procedures.

Scope of Work and Methodology
The scope of our engagement considered the endowment lifecycle - funds receipt, endowment establishment, expenditure compliance and reporting. We analyzed these activities for new and existing endowments for FY2020. Assurance included interviews, policy and procedure reviews, and data analytics. Specifically, we performed the following to achieve our objective.

- Evaluated the Endowment Risk Assessment to confirm policy mandates and key risks were included and review mitigation processes.
- Performed analytics on all transactions and judgmentally tested select transactions.
- Evaluated the Monitoring Plan to determine if procedures met stated objectives.
- Analyzed training program content, delivery, and attendance tracking.
- Evaluated annual compliance reporting for completeness, accuracy, and timely submission.
- Reviewed spending action plans for approval, comprehensiveness, and execution.

Results Summary

There has been an approximate 5% increase in endowments from FY2019 to FY2020 from 890+ endowments with a market value of $576M to 930+ with a market value of $621M, respectively. The increase brings with it complexities and additional responsibility to ensure compliance. Many of the control measures meet the endowment compliance objectives; however, there are opportunities to improve oversight, automate manual processes, and increase governance.

Oversight and Monitoring
Endowment oversight and monitoring should be supported by an application that centralizes transactions and the endowment agreements and restrictions. A defined and structured oversight approach should be formally documented and consistently performed to ensure policy compliance.

Organizational Governance
All individuals required to take training should be identified and the training content should be updated to include fraud identification and reporting.

Detailed Results

Oversight and Monitoring

Endowment Management Application

There is not an application that centralizes endowment transactions and provides access to the endowment agreements. In FY2020, there were over 140K transactions for more than 900 endowments managed by approximately 100 departments. The lack of an automated tool hinders analytical ability to review data and identify, trend and report on exceptions. There is also a limitation to produce dashboards and other needed reports efficiently and accurately.

> **Recommendation 2021-024-001-High:**
> The Vice President and Chief Administration Officer of Provost Administration, working with the Vice President and Chief Development Officer, should prioritize a feasibility assessment to determine whether the existing Provost Operations Web Enterprise Resources (POWER) system or another automated tool meets endowment management application requirements. In the interim, additional measures should be implemented to consolidate system usage, automate processes to upload information and reconcile systems. Further, exception reports should be developed and monitored to ensure anomalies are identified, tracked, and escalated, if necessary.

> **Management's Response:**
> Leadership will engage the Executive Director of Business & Academic Systems to assess the POWER system's ability to meet the application and reporting needs. Finance and Development Office teams along with the Assistant Vice President of Workforce Operations will lead, plan and test the system for accuracy and compliance. Discussions will begin 8/1/2021 anticipating a completion date of 8/31/2022.

> **Implementation Date: 9/01/2022**

Endowment Agreements

Endowment commitments are not consistently monitored to ensure an endowment agreement is executed timely. The Monitoring Plan states that a gift agreement is required when at least 20% of the total endowment amount is received. Without an executed agreement, interest earned is not expendable funds to support operations. One of five endowment commitments tested received over 80% of the total commitment and there was no follow up to obtain an endowment agreement since December 2020.

> **Recommendation 2021-024-002-High:**
> The Vice President and Chief Development Officer should monitor commitment receipts and secure endowment agreements timely to permit use of operating income. At a

minimum, efforts to secure the agreement should be documented and escalated to leadership for further assistance.

Management's Response:

The Development Office's endowment management system is Raiser's Edge. The Development Fund Manager will utilize the newly developed system query *(Endowments.AccumulatorReview)* to perform monthly monitoring to ascertain whether the accumulator has reached the 20% of the total endowment amount. Raiser's Edge will also be used to record follow-up efforts. If the gift agreement is not received after one month, the information is sent to the V.P. & Chief Development Officer to review and work with the assigned Director of Development to resolve.

Implementation Date: 6/01/21

Expenditure Review Process

The Provost Administration assigned the Program Manager to review expenditure compliance with the endowment purpose; however, the methodology, results and resolution of items are not consistently documented. A methodology provides a disciplined approach to review transactions that addresses processes such as analytics, sample selection (e.g., risk based, dollar amount, etc.), exception tracking and reporting. The ability to execute oversight activities thoroughly and reliably and ensure continuity of procedures is limited without a disciplined approach.

Recommendation 2021-024-003-Medium:

The Provost Administration Vice President and Chief Administration Officer should establish and document standardized policies and procedures regarding endowment expenditure oversight. The procedures should be implemented and, at a minimum, include the methodology, results, and resolutions of items. Cross training should be provided.

Management's Response:

Standard operating procedures (SOP) are currently being developed for all aspects of the endowment process currently managed by the Program Manager. At the completion of each section, the Program Manager will review the process to ensure the Assistant Vice President of Workforce Operations fully understands the step-by-step process. SOPs will be completed by 9/30/2021. The Assistant Vice President of Workforce Operations will be fully versed and cross trained in all processes by 12/31/2021.

Implementation Date: 12/31/2021

Spending Action Plans

Spending action plans required for endowments with revenue accumulations did not have

sufficient detail nor were they approved by the department leader, evidencing agreement with the planned actions.

Recommendation 2021-024-004-Medium:

The Provost Administration Vice President and Chief Administration Officer should require spending plans with sufficient details that have been approved by department leader, preferably one management level above the benefiting department. Further, the follow-up process should be documented, timely and complete. The past due action plans should be escalated to the Endowment Compliance Committee and leadership.

Management's Response:

Spend-down plans are collected each year during the annual AE budget process. For those endowments that are out of compliance with UT System spending policies, we will require a detailed spending plan approved by department and/or school leadership. Plans will receive final approval by Provost Office leadership up to and including the Executive Vice President & Provost. Approved plans will be shared with Finance and the Development Office.

Spending plans will be monitored by Provost Office personnel on a quarterly basis and will be adjusted as needed due to unforeseen incidents (storms, fires, pandemics).

Implementation Date: 12/31/2021

Organizational Governance

Training

There is not a process to identify all individuals required to receive endowment training, monitor completion, and escalate non-compliance. This creates the potential for individuals to be unaware of requirements. Additional, training metrics may be inaccurately reported on the UT System Annual Compliance Report.

Recommendation 2021-024-005-High

The Provost Administration Vice President and Chief Administration Officer, in collaboration with Human Resources and other partners, should establish a process to identify, track and report all individuals' training to ensure inclusion, timely completion and accurate reporting.

Management's Response:

Provost Office personnel will reach out to each Administrative Service Group (ASG) and request the names of current staff managing endowments and related expenditures. This will be done on a semiannual basis beginning July of the calendar and again in January to determine if any changes in personnel or duties have occurred. Once the list is complied,

the Program Manager will work with HR Solutions & Analytics to load the correct training requirements into those employees annual training regimen.

Implementation Date: 10/01/2021

The training program does not include the employee responsibility to report questionable conduct and/or fraud as mandated within the Endowment Compliance Plan. This creates the potential for such activities to not be identified and reported.

Recommendation 2021-024-006-Medium:
The Provost Administration Vice President and Chief Administration Officer should update the training program to include the employee responsibilities to report questionable conduct and/or fraud along with training on how to make such reports.
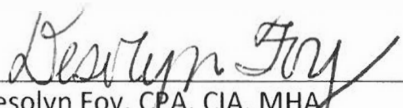
Management's Response:
Provost Office personnel will work with HR Solutions & Analytics to adjust the training modules regarding endowments to include areas around questionable conduct, fraud, and the responsibility and process to report such actions.

Implementation Date: 12/01/2021

Conclusion

Overall controls are adequate to support endowment compliance activities; however, improvement opportunities exist related to oversight and monitoring practices and organizational governance. We greatly appreciate the assistance provided by the Offices of Development, Compliance and Provost Administration

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing as promulgated by the Institute of Internal Auditors.

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