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OFFICE OF INTERNAL AUDIT  
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April 21, 2015

Dr. David Daniel, President,  
Ms. Lisa Choate, Chair of the Institutional Audit Committee:

We have completed an audit of Endowment Compliance as part of our fiscal year 2014 Audit Plan, and the report is attached for your review. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. The objective of our audit was to ensure adequate controls exist over Endowments to ensure compliance with appropriate laws, policies and procedures, the effectiveness and efficiency of operations, the reliability and integrity of financial and operational information and the safeguarding of assets.

Overall, we found that in general, adequate controls do exist. However, the attached report details recommendations that will enhance compliance.

Management has reviewed the recommendations and has provided responses and anticipated implementation dates. Though management is responsible for implementing the course of action outlined in the response, we will follow up on the status of implementation subsequent to the anticipated implementation dates. We appreciate the courtesies and considerations extended to us during our engagement. Please let me know if you have any questions or comments regarding this audit.

Toni Stephens  
Institutional Chief Audit Executive

*UT Dallas Responsible Parties:*

Ms. Susan Rogers, Vice President for University Advancement  
Ms. Paula Austell, Director of Endowment Services

*Members of the UT Dallas Institutional Audit Committee:*

*External Members:*

Mr. Bill Keffler  
Mr. Ed Montgomery  
Dr. Hobson Wildenthal, Executive Vice President and Provost  
Mr. David Crain, Chief Information Officer  
Dr. George Fair, Vice President for Diversity and Community Engagement; Compliance Officer  
Dr. Bruce Gnade, Vice President for Research  
Dr. Calvin Jamison, Vice President for Administration  
Mr. Terry Pankratz, Vice President for Budget and Finance  
Dr. Gene Fitch, Dean of Students  
Mr. Timothy Shaw, University Attorney

*The University of Texas System:*

Dr. Pedro Reyes, Executive Vice Chancellor for Academic Affairs  
Alan Marks, Attorney  
Mr. J. Michael Peppers, CIA, CRMA, CPA, FACHE, Chief Audit Executive  
Ms. Moshmee Kalamkar, CPA, CIA, Audit Manager

*State of Texas Agencies:*

Legislative Budget Board  
Governor's Office  
State Auditor's Office  
Sunset Advisory Commission



## Executive Summary

### **Endowment Compliance, Report No. 1512**

**Audit Objective and Scope:** The objective our audit was to ensure adequate controls exist over Endowments to ensure compliance with appropriate laws, policies and procedures, the effectiveness and efficiency of operations, the reliability and integrity of financial and operational information and the safeguarding of assets. The audit scope was September 2013 through December 2014.

The following is a summary of the audit recommendations by priority and risk type. See Appendix A for additional details.

High (0)	High/Medium (0)	Medium(2)	Low(0)
Recommendation	Priority and Risk Type		Estimated Implementation Date
(1) <i>Ensure Excessive Balances Plans are Approved and Monitored</i>	<b>Medium - Compliance</b>		August 31, 2015
(2) <i>Enhance Endowment Compliance Training</i>	<b>Medium – Compliance</b>		May 31, 2015
<b>Responsible Vice President:</b> Susan Rogers, Vice President for University Advancement		<b>Responsible Party:</b> Paula Austell, Director of Endowment Services	
<b>Staff Assigned to Audit:</b> Polly Atchison, CPA, CIA, Audit Manager; Staff Auditors: Hiba Ijaz, Ashley Mathew			



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## Background

Endowments are restricted funds made up of gifts and bequests to the University that are subject to a requirement that the principal be maintained intact and invested to create a source of income to help provide support to students, faculty, and institutional programs. The University of Texas System Investment Management Company ([UTIMCO](#)) is responsible for investing the endowment funds. As of December 31, 2014, UT Dallas had 378 endowments with a market value of \$384.4 million<sup>1</sup>.

The University of Texas System [Endowment Compliance Program](#) assists institutions with their endowment compliance. Endowment Services is responsible for managing endowments and ensuring compliance with endowment restrictions at UT Dallas. Executive management has determined that Endowment Compliance is a high-risk area; therefore, a risk management plan is in place that provides monitoring, training, and reporting procedures to minimize the risks of noncompliance.

During FY 2014, the Vice President for Development and Alumni Relations was the responsible party for Endowment Compliance. Effective February 2015, the responsibilities for compliance have been assigned to the newly appointed Vice President for University Advancement with duties delegated to the Director of Endowment Services.

Noncompliance with endowment restrictions could result in future endowments not being approved by the UT System Board of Regents, negative public relations, loss of support by the public and the legislature, and donor dissatisfaction. Statutes, policies, and procedures governing endowments include not only the endowment agreements, but also various UT System and UT Dallas policies and procedures, including:

- [UTS 138, Gift Acceptance Procedures](#)
- [UTS 117, Endowment Compliance Plan System-Wide Standards and Guidelines](#)
- [UT System Board of Regents Rules and Regulations, Series 60000, Development](#)
- [UTDBP3034, University Endowment Policy](#)

## Audit Objective

The objective our audit was to ensure adequate controls exist over Endowments to ensure compliance with appropriate laws, policies and procedures, the effectiveness and efficiency of operations, the reliability and integrity of financial and operational information and the safeguarding of assets. The audit scope was September 2013 through December 2014.

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<sup>1</sup> University of Texas Investment Management Company (UTIMCO)



## Scope and Methodology

The scope of this audit was September 2013 through December 2014 and our fieldwork concluded on March 20, 2015. To satisfy our objectives, we performed the following:

- Gained an understanding of endowment compliance operations through discussions with responsible personnel, review of UT System and UT Dallas policies and procedures, and review of other documentation as necessary.
- Reviewed the Endowment Compliance Risk Management Plan which outlined the monitoring, training, and reporting processes to ensure compliance.
- Performed a risk assessment of endowments at UT Dallas and developed audit procedures to provide assurance on the key risk areas.
- Gained an understanding of the endowed scholarship awarding process and monitoring procedures performed by the Endowment Compliance personnel. Endowed scholarships will be tested separately during the UT Dallas internal audit of Scholarships, currently in process.
- Tested expenses to ensure compliance with endowment agreements and donor wishes.
- Determined if plans to fill vacant endowed chairs were in place, approved, and enforced.
- Determined if spending plans for endowments with excessive balances were in place and being monitored.
- Determined if reports were being filed in a timely manner.
- Reviewed training records to ensure compliance with the risk management plan training requirements.
- Reviewed the job descriptions and organization to ensure efficiency.
- Tested transfers to ensure donations were handled in accordance with UT System policies.

Where applicable, we conducted our examination in accordance with the guidelines set forth in The Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*. The *Standards* set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance or audit work, and management of the internal auditing department.

## Audit Results and Management's Responses

### Controls

Our audit work indicated that the following controls currently exist:

- A Risk Management Plan addressing monitoring, training, and reporting for the highest compliance risks pertaining to Endowments is in place.
- Processes are in place to ensure that endowment expenses comply with the terms of the agreement. We found no exceptions in our testing.



- Transfers from UT Dallas to UT System are being made in accordance with UT System policies.
- An Endowment Compliance Team meets quarterly to discuss key compliance issues and risks.

### Audit Recommendations

Although the above controls are in place, opportunities exist to enhance compliance and the efficiency of operations.

### *Priority Findings – UT System*

A UT System priority finding is defined by the UT System Audit Office as: “*an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.*”<sup>2</sup>

We have **no UT System Priority Findings** resulting from this audit.

### *Audit Recommendations*

See Appendix A for the Priority Findings and Risk Matrix defining the various risk factors and risk levels for each audit recommendation.

- (1) *Ensure Excessive Balances Plans are Approved and Monitored*  
**Risk Rating:** Medium★; **Risk Factor:** Compliance

The UT Dallas endowment policy, UTDBP3034, states that “*Endowment distributions should be expended on an annual basis. When it is impossible or impracticable to use all endowment distributions on an annual basis, accumulations in excess of twice the annual distribution will be reinvested in the corpus of the endowment. Exceptions will be granted by the President and Provost only upon request of the designated endowment administrator.*”

In accordance with their risk management plan, Endowment Services monitors all endowment account balances at least twice a year and maintains a log of excessive balances. The status of excessive balances is communicated to the Endowment Compliance Team at each quarterly meeting. Endowment administrators are required to prepare plans to spend down the endowments, and the plans are to be reviewed, approved, and signed off by the Executive Vice President and Provost.

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<sup>2</sup> Appendix A defines the priority and risk ranking used for all internal audit recommendations.



During fiscal year 2014, 56 endowments had excessive balances requiring a spending plan to be created and approved. Spending plans were only created for 24 of the endowments, and only one of those plans was appropriately approved and signed by the Executive Vice President and Provost.

**Recommendation:** We recommend the newly appointed Vice President for University Advancement implement procedures and improve communication to executive management to ensure that excessive balance plans are properly approved and monitored.

**Management's Response:** *Currently the excessive balances and spending plans are discussed with the endowment compliance committee at least twice a year. The committee meets quarterly. As recommended, Endowment Services will require a spending plan for all endowments with excessive balances to assist endowment holders in meeting this goal. The Office of Development/Endowment Services has strengthened the current spending plan memorandum requiring the endowment chairholder/administrator to itemize the projected spending. A plan will be required of the endowment holder to resolve the excessive balance, subject to approval by the Executive Vice President and Provost.*

**Estimated Date of Implementation:** *8/31/2015*

**Person Responsible for Implementation:** *Paula Austell, Director of Endowments*

(2) *Enhance Endowment Compliance Training*

**Risk Rating:** Medium★; **Risk Factor:** Compliance

The risk management plan for Endowment Compliance requires that all new endowment deans and administrators are required to attend Endowment Compliance Orientation, preferably within two months of the endowment approval. Also, annual on-line training is required for all endowment deans and administrators, and/or at the time of an incidence of non-compliance. In reviewing the training records, we found the following:

- a. Only 209 of the 257 endowment deans and administrators completed their annual endowment compliance training during FY 2014.
- b. Endowment Compliance did not have an accurate population of employees requiring training. We obtained a list of employees with access to endowment accounts and found an additional 48 employees who should have received Endowment Compliance training.
- c. Endowment Compliance Training results are not currently being monitored and communicated to upper management.



Without regular training, employees may not be aware of both new and existing policies and procedures. As the risks of Endowment Compliance are high, this is especially important to minimize the risks of noncompliance with policies, procedures, and endowment agreements.

**Recommendation:** We recommend that the process for ensuring annual endowment compliance training be enhanced by ensuring that the appropriate population of employees is captured and communicating the training results to upper management for their review and disposition.

**Management's Response:** *Training completed during the previous quarter is reported to the endowment compliance committee within each quarter's Risk Assessment Monitoring Plan. During 2014 an extensive project was completed in which each endowment owner submitted the names of those who have access to their endowment proceeds. This was used to determine the individuals who required training as of the end of April 2014. Research is currently underway to find a process that will quickly and accurately identify all those who have access to use of endowment funds, so that scheduled, routine checking can be performed once a quarter to assure those with access have been adequately trained. We are looking into new methods of keeping this list updated including the use of PeopleSoft utilities to identify all individuals with access. We will request assistance of the Compliance Office in assuring this training is offered and required of access holders. Other means of assuring compliance will be explored with Budget and Finance.*

**Estimated Date of Implementation:** *End of 3<sup>rd</sup> quarter FY15*

**Person Responsible for Implementation:** *Paula Austell, Director of Endowments*

## Conclusion

Based on the audit work performed, we conclude that overall, adequate controls exist over Endowment Compliance. The enhancements to the existing compliance program will help further ensure compliance with appropriate laws, policies and procedures, the effectiveness and efficiency of operations, the reliability and integrity of financial and operational information and the safeguarding of assets.

We appreciate the courtesy and cooperation received from the management and staff in Endowment Services and the Office of the Vice President for University Advancement as part of this audit.



## Appendix: Priority Findings and Risk Matrix

### Definition of Risks

Risk Level	Definition
<b>High</b>	High probability of occurrence that would significantly impact UT System and/or UT Dallas. Reported to UT System Audit, Compliance, and Management Review Committee (ACMRC). Priority findings reported to the ACMRC are defined as <i>“an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.”</i>
<b>High/Medium</b>	Risks are considered to be substantially undesirable and pose a moderate to significant level of exposure to UT Dallas operations. Without appropriate controls, the risk will happen on a consistent basis.
<b>Medium</b>	The risks are considered to be undesirable and could moderately expose UT Dallas. Without appropriate controls, the risk will occur some of the time.
<b>Low</b>	Low probability of various risk factors occurring. Even with no controls, the exposure to UT Dallas will be minimal.

### Risk Factors

- Reputation - damage to the image of UT Dallas and/or UT System
- Information Security - integrity, confidentiality and availability of information
- Compliance – compliance with external legal or regulatory requirements
- Accomplishment of Management’s Objectives – goals being met, projects being successful
- Effectiveness and Efficiency – objectives at risk and/or resources being wasted
- Capital Impact - loss or impairment of the use of assets
- Life Safety – including loss of life, injury, toxics/infectious disease
- Management Oversight
- Operational Alignment – management’s alignment of people, process and technology to efficiently accomplish organization objectives
- Designed Controls – adequacy of controls within critical operations
- Payments/Expenditures – including fines and legal costs
- Lost Revenue – actual and/or opportunities