THE UNIVERSITY *of* TEXAS SYSTEM
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

UT DALLAS
The University of Texas at Dallas

Office of Internal Audit
800 W. Campbell Rd. SPN 32, Richardson, TX 75080
Phone 972-883-4876 Fax 972-883-6846

January 10, 2017

Dr. Richard Benson, President,
Ms. Lisa Choate, Chair of the Institutional Audit Committee:

We have completed an audit of gifts as part of our fiscal year 2016 Audit Plan, and the report is attached for your review. The objective of our audit was to perform a risk based audit of the gifts process, including Raiser's Edge and Texas Research Incentive Program (TRIP) funds.

Overall, we found that improvements to the current processes are needed. The attached report details recommendations to greatly improve the accuracy of gifts reporting, increase compliance with external regulators, and enhance the accuracy, security, and processes regarding gifts. 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

Toni Stephens
Institutional Chief Audit Executive

UT Dallas Responsible Parties:
   Dr. Kyle Edgington, Vice President for Development and Alumni Relations
   Dr. Kimberly Laird, Associate Vice President and Controller
   Ms. Gloria Muhammad, Senior Director of Finance and Operations
   Mr. Greg Argueta, Director of Accounting & Financial Reporting
   Ms. Kelley Atwood, Director of Gift and Data Services

Members of the UT Dallas Institutional Audit Committee:
   External Members:
    Mr. Bill Keffler
    Mr. Ed Montgomery
    Ms. Julie Knecht
   Dr. Hobson Wildenthal, Executive Vice President
   Dr. Inga Musselman, Interim Provost
   Dr. Calvin Jamison, Vice President for Administration
   Mr. Terry Pankratz, Vice President for Budget and Finance
   Mr. Brian Dourty, Interim Vice President and Chief Information Officer
   Mr. Rafael Martin, Interim Vice President for Research
   Dr. George Fair, Vice President for Diversity and Community Engagement; Compliance Officer
   Dr. Gene Fitch, Vice President for Student Affairs
   Mr. Timothy Shaw, University Attorney

The University of Texas System:
   System Audit Office

State of Texas Agencies:
   Legislative Budget Board
   Governor's Office
   State Auditor's Office
   Sunset Advisory Commission

Executive Summary

Audit Objective and Scope:

Perform a risk-based audit of the gifts process, including Raiser's Edge and TRIP funds. The scope of this engagement was fiscal years 2015 and 2016.

Conclusion:

Overall, we found that improvements to the current processes are needed. The attached report details recommendations to greatly improve the accuracy of gifts reporting, increase compliance with external regulators, and enhance the accuracy, security, and processes regarding gifts.

The following is a summary of the audit recommendations by risk level.

Recommendation	Risk Level	Estimated Implementation Date
(1) Ensure Material Pledges Are Properly Reported	**High**	June 1, 2017
(2) Ensure Compliance with GASB 33	**High**	June 1, 2017
(3) Ensure Compliance with TRIP Gift Restrictions	**High**	March 31, 2017 and August 31, 2017
(4) Enhance Gift Reconciliation Process	**High**	June 1, 2017
(5) Ensure Compliance with CASE Standards	**Medium**	March 31, 2017
(6) Strengthen Raiser's Edge User Access	**Medium**	February 28, 2017
(7) Boost Interdepartmental Communication	**Medium**	March 1, 2017
(8) Enhance Gift Documentation	**Medium**	August 31, 2017
(9) Enhance Gifts Training	**Low**	April 30, 2017

Responsible Vice Presidents:
- Mr. Terry Pankratz, Vice President for Budget and Finance
- Dr. Kyle Edgington, Vice President for Development

Responsible Parties:
- Ms. Gloria Muhammad, Senior Director of Finance and Operations
- Mr. Greg Argueta, Director of Accounting & Financial Reporting
- Ms. Kelley Atwood, Director of Gift and Data Services

Staff Assigned to Audit:

Project Leader: Brandon Bergman, CFE (Senior Auditor)
Staff: Ashley Mathew (Staff Auditor); Students in the Internal Auditing Education Program: Chris Douthit, Shambaran Khadka, Zach Seay

Table of Contents

Background

Raising money is critical for the continued success of UT Dallas and its research initiatives.   For this reason, The Office of Development and Alumni Relations (Development) is tasked with the responsibility of engaging alumni, friends, businesses/organizations and the broader community with the goal of cultivating support in the form of gifts. Development reports to the Vice President (VP) for Development and Alumni Relations. A new VP was recently named[1] after the departure of the previous Vice President in February 2016. While a majority of gifts received are in the form of monetary donation, gifts can also come in the form of gifts-in-kind, securities, or real estate. In addition to private gifts, the University receives matching gifts from the State and UT System through the Texas Research Incentive Program (TRIP) and The University of Texas System Texas Research Incentive Program (UTRIP).

While gifts can be received throughout the University, Development Services is ultimately responsible for the acceptance, processing, distribution and reporting of gift activities. This group is led by the Senior Director of Finance and Operations. During the course of our review, this long-time employee retired and was replaced by another long-time employee within the group. Accounting and Financial Reporting, under the VP for Budget and Finance group, is responsible for the accounting of gift information and reporting in the financial statements.

UT Dallas' records of gifts received are maintained within a fundraising and donor management software known as Raiser's Edge. In addition to maintaining gift records, this software provides the institution with numerous tools needed to cultivate relationships with donors and diversify fundraising management. Over the past six years, the University has received gifts totaling about $194 million.

Gifts Received by Fiscal Year
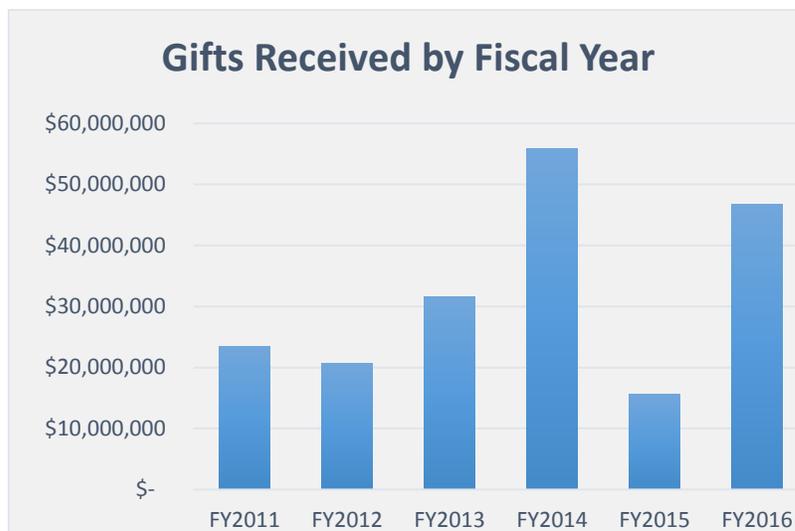
Audit Objective

To perform a risk-based audit of the gifts process, including Raiser's Edge and TRIP funds.

---

[1] http://www.utdallas.edu/news/2016/11/18-32318_Kyle-Edgington-Named-New-VP-for-Alumni-Relations-D_story-wide.html?WT.mc_id=NewsHomePageCenterColumn

Scope and Methodology

The scope of this audit was fiscal years 2015 and 2016 and our fieldwork concluded on September 7, 2016. Since during the course of this engagement the fiscal year 2016 financial statements had not been issued, the financial information related to gift reporting was limited to fiscal year 2015; however, current operations were also reviewed. To satisfy our objectives, we performed the following:

- Interviewed personnel to gain an understanding of the gifts process, Raiser's Edge, and research incentive programs.
- Determined if adequate controls existed over user access within the Raiser's Edge system.
- Tested internal controls regarding research incentive programs to ensure compliance with program guidelines.
- Reviewed the gift reporting calculation process and accuracy, including contributions receivable.
- Tested expenditures made using gift funding to ensure compliance with gift requirements.
- Reviewed and assessed controls associated with gift reconciliations.
- Reviewed the gift donation acceptance, recording, and receipting process.

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.

Conclusion

Overall, we found that improvements to the current processes are needed. The attached report details recommendations to greatly improve the accuracy of gifts reporting, increase compliance with external regulators, and enhance the accuracy, security, and processes regarding gifts.

We appreciate the courtesy and cooperation received from the management and staff in Development and Accounting and Financial Reporting as part of this audit.

Audit Results and Management's Responses

Strengths and Controls Noted during the Audit

Internal controls over UTRIP expenses are adequate to confirm compliance with program regulations.
The TRIP application submission process is adequate to confirm compliance with TRIP program requirements.
Overall, gift funds are being spent in accordance with gift requirements.

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

Observations, Recommendations, and Management's Responses

Opportunities exist to improve gift processes by implementing the recommendations outlined below.

Risk Level	Observation	Risk/Effect	Recommendation	Management's Action Plan
High	1. **Ensure Material Pledges Are Properly Reported** During our review of the contributions receivable process, we noted 34 material pledges (pledges greater than $5,000) totaling $4,167,544.00 that were not included on the fiscal year 2015 outstanding pledges report provided to Accounting & Financial Reporting. The omission of these material pledges occurred because the Raiser's Edge report used had not been reviewed and updated properly to include the appropriate criteria specifications.	Pledge information is relied upon by Accounting & Financial Reporting for the calculation of the University's reported contributions receivable. Therefore, inaccurate pledge information could result in inaccurate reporting on the institution's Annual Financial Report.	On a yearly basis, Development should inspect the criteria used in generating the outstanding pledges report to ensure the report is providing accurate information to Accounting and Financial Reporting.	**Development will be granting Raiser's Edge/NXT access to Accounting and Financial Reporting (AFR) as part of the system upgrade taking place in January of 2017. On an annual basis, Development will consult with AFR to ensure criteria for the outstanding pledge report is consistent with GASB 33 and UT System policies and procedures. Regular quarterly meetings between the offices have been**

Risk Level	Observation	Risk/Effect	Recommendation	Management's Action Plan
	Since this issue was noted during the preparation of the fiscal year 2016 financial statement, Development and Accounting and Financial Reporting were notified to review the reporting criteria immediately to ensure accurate fiscal year 2016 reporting. In addition, since the reporting criteria used in the generation of Development's outstanding pledges report was created in fiscal year 2013 and potentially not adjusted for fiscal year 2014, the fiscal year 2014 contributions receivables reported may have been reported incorrectly.			**scheduled and the review will take place during the third quarter meeting in preparation for the annual financial reporting process.** *Estimated Date of Implementation:* **6/1/17** *Person Responsible for Implementation:* **Ensuring accurate data - Gloria Muhammad, Senior Director Finance and Operations; Review for appropriate information – Greg Argueta, Director of Accounting and Financial Reporting (AFR)**
High	2. **Ensure Compliance with GASB 33** Per discussions held with Development and Accounting and Financial Reporting, along with a review of outstanding pledges used during fiscal year 2015 financial reporting, of the listing of 101 operational pledges, 95 were directly related to endowments. Per Governmental Accounting Standards Board Statement No. 33[2] (GASB 33) permanent endowments cannot be reported as pledges receivable. Overall, neither Development nor Accounting and Financial Reporting are reviewing outstanding pledge activity for compliance with GASB 33 requirements.	Nonconformity with these standards could lead to inaccuracies in UT Dallas's reporting on the institutions Annual Financial Report along with noncompliance with GASB standards.	Development and Accounting and Financial Reporting should determine who has the expertise and information to properly apply GASB 33 standards and implement controls to ensure compliance.	**AFR will work with Development to gain access to pledge-related data and reports within Raiser's Edge/NXT. With assistance from Development on the classification of pledges, AFR will review outstanding pledges on a quarterly basis to ensure compliance with GASB 33.** *Estimated Date of Implementation:* **6/1/17**

---

[2] http://www.gasb.org/cs/BlobServer?blobkey=id&blobwhere=1175824063588&blobheader=application%2fpdf&blobcol=urldata&blobtable=mungoblobs

Risk Level	Observation	Risk/Effect	Recommendation	Management's Action Plan
				Person Responsible for Implementation: **Access - Kelley Atwood, Director of Gift and Data Services; Classification assistance – Gloria Muhammad, and GASB 33 review - Greg Argueta**
High	3. **Ensure Compliance with TRIP Gift Restrictions** While the program does not provide specifics regarding the State's interpretation of "enhancement of research productivity and faculty recruitment," we reviewed a sample of TRIP funded expenditures and made conservative analyses to determine compliance with program guidelines. Per our review, we noted seven of 26 (27%) of employees reviewed whose payroll is paid with TRIP funds did not appear to have a direct research or faculty recruitment-related positon. Specifically, these individuals had administrative, development, or event coordinator related positions. Additionally, we noted two One Card purchases made did not appear to provide any benefit as to the program.	Since this program is funded with State appropriations, non-adherence to program requirements could result in noncompliance with State regulations and potential loss of funding.	Departments receiving TRIP funding should be advised of the restrictions placed on those funds. Additionally, Development should consider performing periodic audits of program expenses to ensure compliance with program regulations.	**Development will communicate with appropriate personnel receiving TRIP funds before distributions are made to the respective cost centers. Additionally, Development will perform semi-annual random audits of TRIP funded cost centers to ensure expenses comply with program guidance.** *Estimated Date of Implementation:* **Communication – 3/31/17, Audits – 8/31/17** *Person Responsible for Implementation:* **Gloria Muhammad**
High	4. **Enhance Gift Reconciliation Process** Development has not conducted an individual gift reconciliation to ensure all received gifts in Raiser's Edge can be specifically and accurately traced through PeopleSoft to ensure gifts are placed into the correct cost center.	Without an accurate way to reconcile individual gifts received, the risk of error or misallocation of gifts is increased.	Development should enhance their gift reconciliation process and consider implementing a monthly individual gift-based reconciliation to ensure accuracy.	**AFR will work with Development to obtain or create reports from both PeopleSoft and Raiser's Edge/NXT to facilitate a monthly reconciliation. AFR will track and maintain reconciliations. Any reconciling items will be sent**

Risk Level	Observation	Risk/Effect	Recommendation	Management's Action Plan
	Additionally, FY 15 gifts recorded in Raiser's Edge showed that UT Dallas received $15,151,663 in cash gifts. However, per Development's fiscal year 2015 PeopleSoft journal log, UT Dallas received $15,039,724 resulting in a discrepancy of $111,939.			**to Development for final review and correction either through the weekly Development journal entry or updates to Raiser's Edge/NXT records within 30 days of being notified of variances.** *Estimated Date of Implementation:* **6/1/17** *Person Responsible for Implementation:* **Reconciliation - Greg Argueta, Resolving Reconciling Items/Data Management – Gloria Muhammad**
Medium	5. **Ensure Compliance with CASE Standards** During our review of selected gifts, we noted the following instances of noncompliance with The Council for Advancement and Support of Education (CASE) standards. UT Dallas follows these prescribed standards to report its fundraising results to CASE and to the Council for Aid to Education. • Six of 44 (14%) gift-in-kind records were not compliant due to a lack of donor documentation declaring the value of their gift without a third party appraisal *(required if gift is valued $5,000 or higher)* or the donor provided professional services (e.g. consulting, golf lessons, catering, or printing) as a gift. • For eight of nine (89%) securities donations tested, the gift dates recorded in Raiser's Edge were not compliant due to	Nonconformity with these standards could lead to inaccuracies in UT Dallas' reporting of fundraising activities.	Development should align current procedures and processes to ensure compliance with CASE standards regarding the recording of gifts.	**The Development gift processing department performs a thorough review of CASE standards annually in September in order to ensure gift receiving procedures and processes are up-to-date. Paperwork required to record gifts will be carefully reviewed by two individuals prior to recording the transaction in Raiser's Edge/NXT and PeopleSoft to ensure that all documents indicating the net value of gifts are present and accurate. The receipt date on stock sales will be used as a standard gift date to ensure consistency and accuracy.**

Risk Level	Observation	Risk/Effect	Recommendation	Management's Action Plan
	inconsistencies of the dates used to record the receiving of the gift. • Four of 44 (9%) cash gifts under $5,000 and one of 44 (2%) of cash gifts over $5,000 were not compliant due to benefit amounts (Quid Pro Quo) being included in the total gift value recorded.			*Estimated Date of Implementation:* **3/31/17** *Person Responsible for Implementation:* **Gloria Muhammad**
Medium	**6. Strengthen Raiser's Edge User Access** We reviewed access of 105 users and noted six who may have access but should not, three who may have more access than needed, and three who are terminated employees. In addition, we noted ten local user accounts that do not use the UT Dallas Active Directory authentication system (NetID) active within the system.	Adequate application controls are vital for safeguarding and maintaining the integrity and availability of the institution's donor information Non-personal user accounts could be used by multiple individuals and associated passwords may not be changed on a consistent basis exposing a security risk to the program.	Eliminate the use of local accounts, as all user accounts should utilize the NetID authentication system. Additionally, enhance the user review process to ensure appropriate user access and accounts are in place.	**Management's Response and Action Plan: Development is in the process of upgrading to Blackbaud NXT from the Raiser's Edge system. The new cloud-based product will require users to login with a specific username and password and doesn't allow for local accounts. A review to determine user access based on authorized roles and responsibilities is underway. An annual review of access will be performed in August where signed confidentiality agreements will be required to continue access to NXT.** **Estimated Date of Implementation: 2/28/17** **Person Responsible for Implementation: Kelley Atwood**
Medium	**7. Boost Interdepartmental Communication** Currently there is limited communication between Development and Accounting & Financial Reporting regarding pledge accounting, write-offs, and receipt of major donations. For example:	A lack of adequate communication can contribute to internal control breakdowns and incorrect financial	Development should consider providing view only Raiser's Edge access to financial accountants working on gifts-related accounting.	**AFR inquiry-only access to Raiser's Edge/NXT has been initiated and scheduled for January of 2017. Also, a quarterly meeting has been established for the**

Risk Level	Observation	Risk/Effect	Recommendation	Management's Action Plan
	• Developments communication with Accounting and Financial Reporting is in the form of the year end Pledge Activity Report used for Annual Financial Reporting. • Development does not have any formal communication with Accounting and Financial Reporting regarding the write-off of large pledges.	reporting as noted in observations 1 and 5.	Additionally, the two departments should consider meeting before year-end to discuss data expectations and needs.	**departments to discuss the pledge review, write-offs, significant upcoming gifts and any outstanding reconciling items.** *Estimated Date of Implementation:* **3/1/17** *Person Responsible for Implementation*: **NXT Access - Kelley Atwood, Gifts – Gloria Muhammad and Meeting - Greg Argueta**

Medium	8. **Enhance Gift Documentation**
	During our review we noted that adequate supporting documentation had not been retained for the following:
	
	• Reporting of Fiscal Year 2015 Received Gifts
	    o Development pulled a report of all received fiscal year 2015 gifts recorded in Raiser's Edge and reported $15,648,220. We tried but were unable to independently reproduce the same results as our total was $15,662,500. While the discrepancy was not material, Development could not explain the noted difference because the initial results and reporting criteria was not retained.
	• Outstanding Fiscal Year 2015 Pledges
	    o We were unable to independently reproduce the same results. As noted above, Development was unable to
		Supporting documentation is necessary to ensure the accuracy of reporting and compliance with gift requirements.	Procedures should be improved, especially over gift reporting, gift acceptance, and recording. To enhance these processes, departments should implement the following:
			
			Development:
			• Document the criteria and original data used for year-end reporting of received gifts and outstanding pledges.
			• Retaining and scanning into PaperSave all donor documentation and proof of compliance including donor declared values for Gift-in-kind.
				Management's Response and Action Plan: Development will provide documentation including criteria used to extract the data for any reports provided to AFR. Additionally, required documentation and signatures for all gifts including gifts over $10k and gifts-in-kind will be obtained and retained into PaperSave. Finally, Development will work with AFR to establish a write-off procedure for pledges.
				
				AFR will develop a gift accounting procedure to include pledges and allowance percentages used for the annual financial report.

Risk Level	Observation	Risk/Effect	Recommendation	Management's Action Plan

	explain the difference between the two results.
	• Received Gifts Documentation
	We noted the following instances of missing or insufficient gift supporting documentation:
	  o Instances of documentation in Raiser's Edge not matching the donor's name, gift amount, or gift date.
	  o Gifts that had no support stating the donor's declared value of the gift-in-kind or an independent appraisal valuation (if required).
	  o Missing signatures of a UT Dallas official accepting gift-in-kind donations.
	  o Documents providing evidence of gift date in regards to IRS tax reporting requirements (post marked prior to January 1).
			• Requesting signed donor documentation for donation over $10,000.
			• Reviewing the current Gift-in-kind receipt procedures and requiring the appropriate signatures.
			• Work with Accounting & Financial Reporting to create a formal write-off policy.
			
			Accounting
			• Documenting procedures for gift related accounting including materiality thresholds.
			• Evaluating the justification of current allowance for doubtful pledges and documenting it.
				Estimated Date of Implementation: **Development – 8/31/17, AFR - 8/31/17**
				
				Person Responsible for Implementation: **Development – Gloria Muhammad, AFR -Greg Argueta**

Low	**9. Enhance Gifts Training** During fiscal year 2016 annual training, gifts training was limited to administrative and fiscal officer personnel roles. In previous years, this training also included Directors and Deans. Additionally, we noted that during fiscal year 2015 no gifts training was provided to anyone within the campus community.	Without effective and adequate training, there is an increased chance for processing errors, and the accuracy of records within Raiser's Edge and PeopleSoft may be impacted. Also, if training is not given to all employees	Development should ensure an accurate employee population is identified and assigned gifts training. Additionally, consideration should be given to assigning gifts training to applicable employees during their new hire training.	**Development will contact Institutional Equity and Compliance requesting that all employees be required to take the Gift Acceptance Training that was approved and implemented. Development will work with the Office of Institutional Equity and Compliance to monitor**

Risk Level	Observation	Risk/Effect	Recommendation	Management's Action Plan
■		that are responsible for donor interactions or gifts in their job responsibilities, then the risk of noncompliance with donor wishes is increased.		**compliance with training requirements.** *Estimated Date of Implementation:* **4/30/17** *Person Responsible for Implementation:* **Gloria Muhammad**

Management's Note: *The Office of Development and Alumni Relations is currently making organizational structure changes aimed at addressing many of the risk areas mentioned in this report. The Data and Gift Services team will be split into two separate departments: Data Services and Gift Services. This will be effective as of February 2017.*

Appendix: Priority Findings and Risk Matrix

Risk Level	Definition
Priority	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 "*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.*"
High	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.
Medium	The risks are considered to be undesirable and could moderately expose UT Dallas. Without appropriate controls, the risk will occur some of the time.
Low	Low probability of various risk factors occurring. Even with no controls, the exposure to UT Dallas will be minimal.