



**THE UNIVERSITY OF TEXAS RIO GRANDE VALLEY
OFFICE OF AUDITS & CONSULTING SERVICES**

Endowment Management and Administrative Fees Analysis

Report No. 16-07

August 8, 2016

Dr. Guy Bailey, President
The University of Texas Rio Grande Valley
2102 Treasure Hills Blvd.
Harlingen, TX 78550

Dear Dr. Bailey,

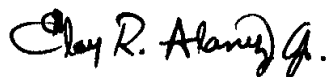
At the request of UT System Administration's Endowment Compliance Program, we completed an audit of the Endowment Management and Administrative Fees Analysis compiled by The University of Texas Rio Grande Valley's (UTRGV) Vice President for Institutional Advancement. UTRGV is proposing the maximum fees distribution rate of .20% of the market value of its endowments in the Long Term Fund as allowed by the Board of Regents. The objective of this audit was to determine whether endowment management and administrative expenses determined by the Vice President for Institutional Advancement were allowable, reasonable and adequately supported for fiscal year (FY) 2016.

Our examination was conducted in accordance with guidelines set forth in The University of Texas System's Policies (UTS) 129 and the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing (Standards)*. The *Standards* set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance of audit work, and management of internal auditing department. UTS 129 requires that we adhere to the *Standards*.

We concluded that UTRGV incurred endowment management and administrative expenses that were allowable, reasonable, and adequately supported. Management and administrative expenses related to endowments totaled \$129,279 through July 31, 2016. Total expenses for FY 2016, including estimated expenses for August 2016, totaled \$152,061, or .32%, which exceeds the maximum distribution rate.

We appreciate the assistance provided by the Division of Institutional Advancement personnel.

Sincerely,



Eloy R. Alaniz, Jr., CPA, CIA, CISA
Chief Audit Executive

cc: Kelly Cronin, VP for Institutional Advancement
UTRGV Internal Audit Committee
UT System Audit Office
Governor's Office of Budget, Planning and Policy
Sunset Advisory Commission
State Auditor's Office
Legislative Budget Board

Office of Audits and Consulting Services

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EXECUTIVE SUMMARY

In the fall of 2007, The University of Texas (UT) System Board of Regents approved a change to the existing “fee for endowment compliance.” For participating institutions, that fee was charged to endowments held in the Long Term Fund of .08% of the market value at year-end in support of endowment compliance programs at UT System institutions and System Administration. The Board voted to expand the fee to cover management and administrative expenses incurred by the institutions and System Administration up to .20% of market value provided that each institution perform an analysis of expenses incurred and that internal audit validate those expenses.

The objective of the audit was to determine whether endowment management and administrative expenses determined by the Vice President for Institutional Advancement were allowable, reasonable and adequately supported. We reviewed expenses for the current year through July 31, 2016, and estimated expenses through fiscal year ending August 31, 2016. We performed our work based on guidance from UT System. Our work was conducted in accordance with guidelines set forth in The Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing*.

We concluded that UTRGV incurred endowment management and administrative expenses that were allowable, reasonable, and adequately supported. Management and administrative expenses related to endowments totaled \$129,279 through July 31, 2016. Total expenses for FY 2016, including estimated expenses for August 2016, totaled \$152,061, or .32%, which exceeds the maximum distribution rate. Furthermore, UTRGV’s methodology used to determine its effort towards endowments stewardship and its estimates for benefits and overhead rates was reasonable.

BACKGROUND

In the fall of 2007, The University of Texas (UT) System Board of Regents approved a change to the existing “fee for endowment compliance.” For participating institutions, that fee was charged to endowments held in the Long Term Fund of .08% of the market value at year-end in support of endowment compliance programs at UT System institutions and System Administration. The Board voted to expand the fee to cover management and administrative expenses incurred by the institutions and System Administration up to .20% of market value provided that each perform an analysis of expenses incurred and that internal audit validate those expenses.

As a result of the Board requirement, the UT System provided a template and guidance for determining allowable expenses as well as suggested steps for auditing the expenses. Typical expenses considered allowable to be charged as management and administrative expenses include those considered indispensable to the endowment funds and do not include fundraising or programmatic expenses, such as:

- Record-keeping and planning
 - Drafting of endowment agreements
 - Holding internal consultations on unusual proposed endowment requirements
 - Obtaining administrative approval to set up, re-designate, or dissolve an endowments
 - Inputting endowment account information into record-keeping system
 - Ensuring accurate transmittal of funds to The University of Texas Investment Management Company
 - Ongoing maintenance of endowment records
 - Overseeing sale of non-cash assets or ongoing administration of those assets if held-for-sale
 - Sending payment reminders
 - Ensuring distributions made accurately and timely
 - Sending gift acknowledgements
- Information systems related to endowments
- Publications specific to endowments
 - Publications on how to make gifts and the tax ramifications
 - Preparing and distributing annual endowment compliance reports
- Oversight and advisory activities such as the gift planning advisory council
- Endowment compliance activities to ensure endowment spent for intended purpose
- Overhead and fringe benefits associated with included direct expenses

AUDIT OBJECTIVE

The objective of the audit was to determine whether endowment management and administrative expenses determined by the Vice President for Institutional Advancement were allowable, reasonable and adequately supported.

AUDIT SCOPE & METHODOLOGY

The audit scope included FY 2016 and was limited to the expenses reported on the endowment management and administrative fee analysis.

We reviewed expenses for the current year through July 31, 2016 and estimated expenses through fiscal year ending August 31, 2016, and accomplished the objective through:

- interviews with key personnel in the Office of the Vice President for Institutional Advancement and the Office of Planning and Analysis,
- testing of documentation supporting expenses,
- recalculation of expenses, and,
- review of calculations for overhead and fringe benefit rates.

We performed our work based on guidance from UT System and the following criteria:

- Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by Texas (Chapter 163 of the Texas Property Code, *Management, Investment, and Expenditure of Institutional Funds*),
- American Institute of Certified Public Accountants' Statement of Position No. 98-2, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities that include Fund Raising*.

Our work was conducted in accordance with guidelines set forth in The Institute of Internal Auditors' *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 of audit work, and management of the internal auditing department.

AUDIT RESULTS

Based on our procedures performed, we determined that:

- Total expenses for endowment compliance totaled \$129,279, of the institution's market value endowments held in the Long Term Fund as of July 31, 2016, and were estimated at \$152,061, or .32% of the institution's market value of endowments held in Long Term Fund through August 31, 2016.
 - Payroll expenses, including fringe benefits totaled \$134,700.
 - Non Payroll expenses totaled \$6,097.
 - Overhead costs totaled \$11,264.
- Endowment expenses were based on payroll and direct event records from the Division of Institutional Advancement. Payroll and direct expenses were verified. However, estimates and assumptions were used due to the absence of cost accounting and effort reporting systems to capture full costs by event or activity. For example:
 - Time incurred in stewardship activities is based on good-faith estimates by individuals performing procedures as no timekeeping records for the allocation of effort by project are maintained.
 - Other allocations of expenses between endowment and non-endowment activities are based on ratios such as endowments to total gifts as no cost accounting system is in place to perform the allocations.
 - Estimates were used to determine overhead and benefit rates, and these estimates appear conservative and reasonable.
- Fees charged to endowments should be done so with prudence and based upon legal interpretation of Section 163 of the Texas Property Code which incorporates UPMIFA.

CONCLUSION

We concluded that UTRGV incurred endowment management and administrative expenses that were allowable, reasonable, and adequately supported. Management and administrative expenses related to endowments totaled \$129,279 through July 31, 2016. Total expenses for FY 2016, including estimated expenses for August 2016, totaled \$152,061, or .32%, which exceeds the maximum distribution rate. Furthermore, UTRGV's methodology used to determine its effort towards endowments stewardship and its estimates for benefits and overhead rates was reasonable.