

Development Restricted Gifts Internal Audit Report  
Project # 2016-25  
*October 7, 2016*

Reviewed by:



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Dr. Ricardo Romo  
President

Executive Summary  
Development Restricted Gifts Internal Audit Report  
Project # 2016-25

**Objective**

Determine if expenses paid with restricted gift funds received during the Capital Campaign (We are UTSA–A Top Tier Campaign) comply with donor restrictions.

**Conclusion:**

In our opinion, based on our sample, expenses paid with restricted gift funds received during the Capital Campaign comply with donor restrictions. However, opportunities for improvement for the monitoring of restricted expenses exist.

A Priority Finding is 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.”* Non-Priority Findings are ranked as High, Medium, or Low, with the level of significance based on an assessment of applicable Qualitative, Operational Control, and Quantitative risk factors and probability of a negative outcome occurring if the risk is not adequately mitigated. This audit resulted in one Medium-level finding, but no Priority Findings.

**Non-Priority Recommendations:**

- Enhance the monitoring of expenses paid with restricted gifts. (Medium)

**Scope:**

The scope of work included a review of expenses paid with restricted gift funds from the four largest priorities from the Capital Campaign. For the periods of FY2015 (September 1, 2014 - August 31, 2015) and a portion of FY2016 (September 1, 2015 - June 2016), donor agreements and related expense detail for the sample of gifts were reviewed.

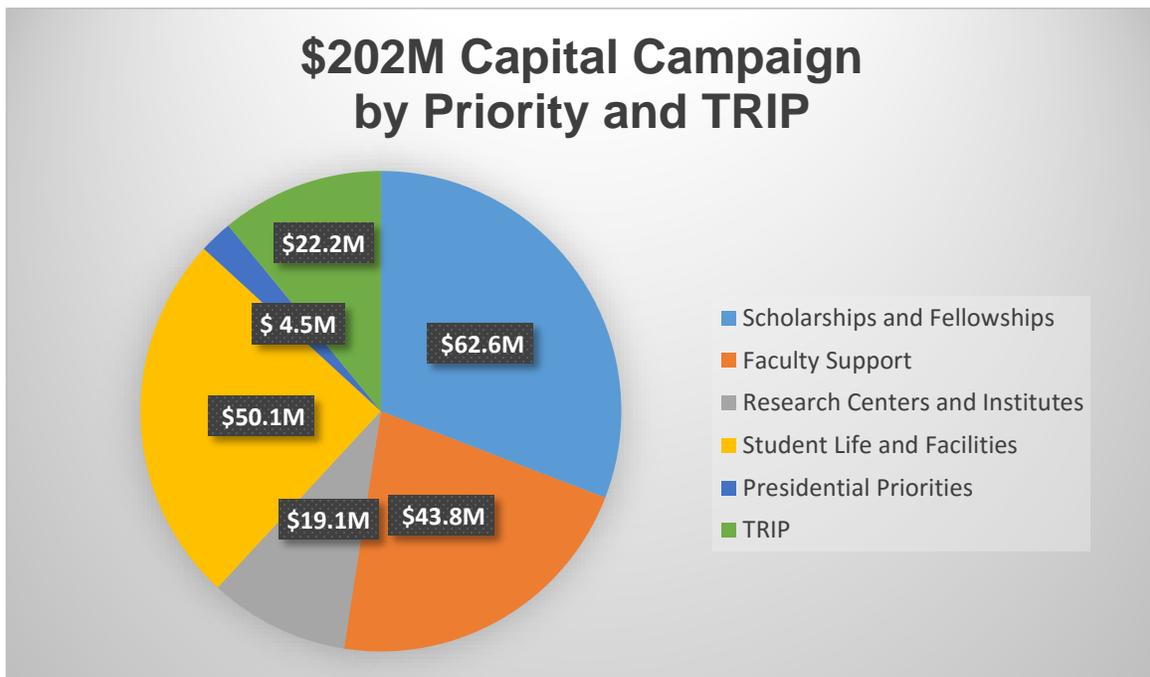
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**Background**

The Vice President for External Relations and Chief Development Officer led the *We are UTSA—A Top Tier Campaign* that launched in 2009 and concluded in early 2016. The capital campaign funds raised included cash, gifts-in-kind, pledge commitments, sponsorships, matching gifts, realized bequests, revocable planned gifts, and irrevocable commitments totaling \$180M. In addition, \$22M of Texas Research Incentive Program (TRIP) matching funds were received. TRIP funds are matched by the State of Texas for eligible donations given for “Research Enhancing Activities”. The total capital campaign impact, when combined with the state matching TRIP funds, is \$202M. See the [We are UTSA Website](#) for campaign results.

The *We are UTSA—A Top Tier Campaign* focused efforts in five areas. Each area was given a priority name **bolded** below:

- Scholarships and Fellowships - **Providing Access to Excellence**
- Faculty Support - **Creating New Knowledge**
- Research Centers and Institutes - **Serving Society**
- Student Life and Facilities - **Enriching Experiences**
- Presidential Priorities - **University Priorities**



The capital campaign had almost 33,000 donors. The top 10 donors of the campaign were:

- The Estate of Mary E. McKinney \$26.9M
- H-E-B \$7.7M
- John S. Richardson and Janet Puckett \$5.3M
- The 80/20 Foundation \$5M
- Robert and Helen Kleberg Foundation \$4.5M

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- The Robert A. Welch Foundation \$4.2M
- Valero Energy Foundation and Corporation \$3.9M
- Lisa G. Nungesser \$3.6M
- Max and Minnie Tomerlin Voelcker Fund \$3.5M
- John L. Kauth \$2.4M

Gifts received in each priority are restricted to use in that area. Each donor may also require additional restrictions for each gift. The Office of External Relations Director of Endowment Compliance and Gift Services, the Financial Affairs Office of Accounting Services, the College/Unit Development Officers, and the department spending restricted gift funds all play a role in ensuring expenses paid with restricted gifts comply with donor restrictions.

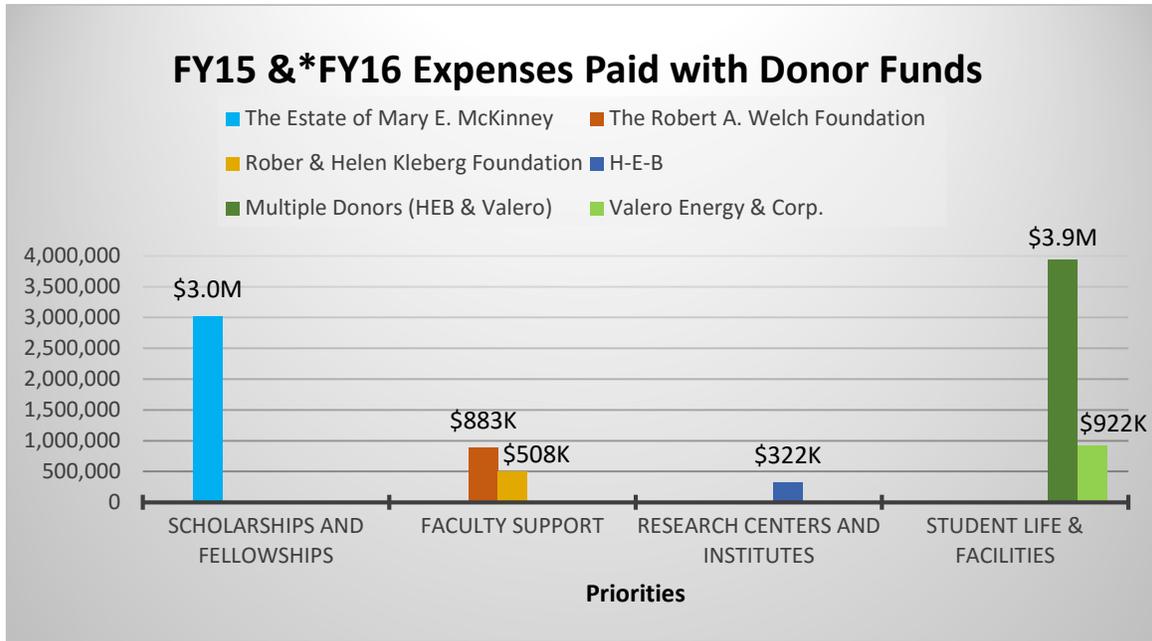
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**Audit Results**

Sample Of Expenses Paid With Restricted Gifts

The expenses paid with restricted gift funds received complied with donor agreements. However, opportunities for improvement for the monitoring of restricted expenses exist.

A sample of expenses paid in FY15 and a portion of FY16 with restricted gifts funds within these four priorities were reviewed:



\*FY2016 includes expenses from September 2015 to June 2016

Monitoring of Restricted Gift Expenses

The Office of External Relations retains donor agreements. When new donor agreements are executed, the following offices or individuals are made aware of donor restrictions through the receipt of restricted gifts agreements:

- The Office of Accounting,
- The College/Unit Development Officers,
- The Provost Office, and
- The Scholarship Office.

See Appendix A for a workflow summary of the restricted gift and endowment account voucher and disbursement process (preventative control), subsequent endowment account expense review by Endowment Compliance (detective control), and the proposed subsequent restricted gift and endowment expense review to be implemented by Accounting (detective control).

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**Preventative controls** are designed to deter unintended events from occurring. Ideally, such controls would be implemented; however, they are more difficult and costly to design controls that are both economical and efficient. **Detective controls** are designed to identify inappropriate activities that have already occurred. They must occur periodically to be considered effective.

<b>Observation:</b>	Limited centralized monitoring of expenses paid with restricted gift and endowment accounts before the expense is processed exists.
<b>Risk Level:</b>	Lack of a monitoring control over expenses paid with restricted gift funds is considered a <b>MEDIUM</b> risk. Due to the limited centralized monitoring, expenses paid with restricted gift and endowment accounts may not comply with donor restrictions.

The Office of Accounting Services	Prior to March 2016, the Office of Accounting Services conducted a limited review of expenses paid with restricted gift accounts before the expense was processed for payment. In March 2016, workflow in the Accounts Payable (A/P) module in PeopleSoft was implemented. Due to limitations within the PeopleSoft workflow process, the Office of Accounting Services is unable to be included in the automated workflow approval process before expenses are paid on restricted gift and endowment accounts.
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<b>Financial Affairs Management's Response:</b>	Accounting Services will review a report on a quarterly basis of all expenditures from restricted non-endowed gift funds processed through Disbursements and Travel Services (DTS). From that report, one of the accountants will review, on a sample basis, whether expenditures were appropriate under the terms of the relevant gift agreement based upon the supporting documentation.  Before the 1 <sup>st</sup> quarterly review, Accounting Services, in conjunction with Endowment Compliance Services, will also determine the pool of endowed gift cost centers to be reviewed, taking into consideration UT System endowment compliance pool guidelines for endowment funds chosen, an accountant will review whether expenditures processed by DTS were appropriate under the terms of the agreement. The sampling methodology will be constructed to conform with any UT System requirements.
<b>Responsible Person:</b>	Assistant Vice President for Financial Affairs & Controller
<b>Implementation Date:</b>	November 30, 2016

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The Office of External Relations	The Director of Endowment Compliance and Gift Services performs a sample review of expenses paid with endowment accounts after the expenses are processed to ensure compliance with donor restrictions. The decentralized offices and the Office of Accounting contact the Director of Endowment Compliance and Gift Services if there are expense allowability questions prior to the expense occurring. Decentralized staff working with endowments, including account reconcilers, are required to be trained in endowment compliance by the Director of Endowment Compliance and Gift Services. Similar training for staff working with restricted gifts does not exist.
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<b>Operations and Gift Services Management's Response:</b>	<p>To ensure easier access to restricted funds purpose/restrictions Accounting staff members responsible for the restricted funds expenditures review will be granted view access to External Relations' gifts record system (Raisers Edge) where Donor's agreements/gift purpose document resides by October 31, 2016.</p> <p>Furthermore, to reduce the risk of inappropriate expenditure, Endowment Services intends to intensify training and awareness of decentralized staff especially as related to expenditures of restricted funds through more frequent trainings and greater communication (that will be undertaken from FY17 and forward).</p> <p>Lastly, External Relations will explore the possibility of expanding compliance training to decentralized staff working with expenditures of non-endowed gift restricted funds.</p>
<b>Responsible Person:</b>	Director of Endowment Compliance and Gift Services
<b>Implementation Date:</b>	November 30, 2016

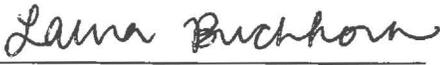
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**CONCLUSION**

In our opinion, based on our sample, expenses paid with restricted gift funds received during the Capital Campaign comply with donor restrictions. However, opportunities for improvement for the monitoring of restricted expenses exist.

  
J. Richard Dawson  
Institutional Chief Audit Executive

  
Paul Tyler  
Director, Auditing and  
Consulting Services

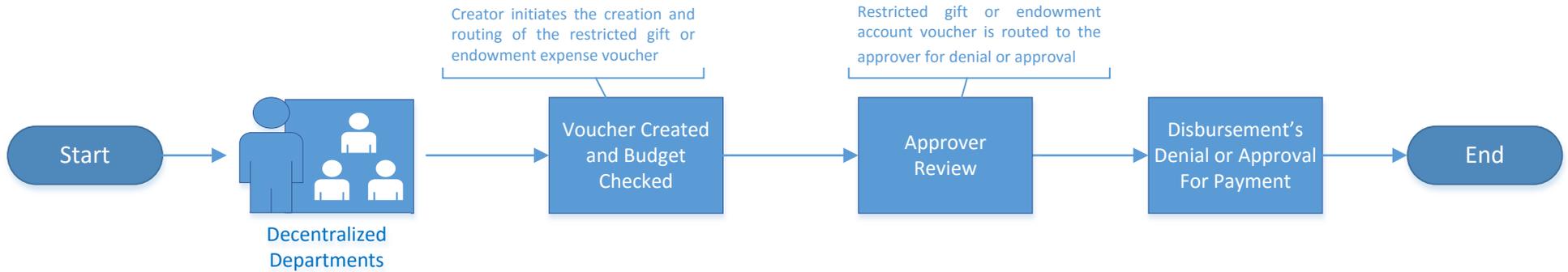
  
Laura Buchhorn  
Audit Manager

  
Raul Huerta  
Auditor III

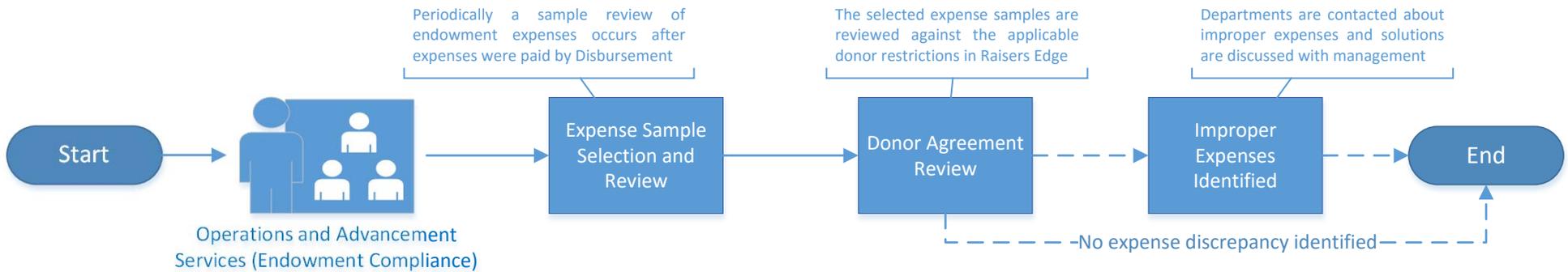
This engagement was conducted in accordance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

## Appendix A: Workflow Summary of the Restricted Gifts and Endowment Accounts

### Restricted Gift and Endowment Account Voucher and Disbursement Process (current process)



### Endowment Compliance's Subsequent Endowment Account Expense Review (current process)



### Accounting's Subsequent Restricted Gift and Endowment Account Expense Review (future process)

