



UT Health

San Antonio

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Date: August 29, 2018

To: Deborah Morrill,
Vice President for Institutional Advancement and Chief Development Officer

Susana Narvaez-Godinez,
Senior Director, Endowments & Administration

From: John Lazarine, Chief Audit Executive
Internal Audit & Consulting

Subject: Audit Report – Gift Compliance Audit

As part of our FY 2018 Audit Plan, we recently completed the Gift Compliance Audit. Attached is the report detailing the results of this review. Management's Action Plans are included in the report.

We appreciate the cooperation and assistance we received from Institutional Advancement throughout the review.

Respectfully,

John Lazarine, CIA, CISA, CRISC
Chief Audit Executive
Internal Audit & Consulting Services

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UT Health
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Audit Report

Gift Compliance Audit (Project # 18-38)

August 29, 2018

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Chief Audit Executive

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Executive Summary

Internal Audit completed a gift compliance audit within the Office of Institutional Advancement at UT Health San Antonio. The audit objective, conclusions and recommendations follow.

Audit Objectives

The purpose of this audit was to assess compliance with donor provisions and related Institutional and UT System policies. This review focused on current purpose gifts.

Conclusion and Corrective Actions

Based on the audit work performed, we concluded gift expenditures are in compliance with the donor provisions and with UT Health San Antonio and UT System policies. However, we identified opportunities to further enhance current policies and processes, which would help ensure that those responsible for managing and using current purpose gifts do so in a manner that ensures compliance to applicable policies and honors the wishes of the donors.

Management has agreed to the following action plans:

- Revise **HOP 6.10.2 Gifts: Acceptance, Processing, and Solicitation** to ensure: it clearly defines current purpose gifts, provides guidance for solicitation, receipt, processing (including documentation requirements to be captured in Raiser's Edge), and monitoring of these types of gifts (example: grateful patient gift of \$50). In addition, they will consider adding links to pertinent accounting policies that would provide the users with additional guidance on proper use of donor funding within current restricted accounts.
- Communicate updated gift policy to departmental staff, who generally receive these gifts, and Financial Administrators, who are primarily responsible for processing and monitoring current purpose gifts.
- Enhance current processes to ensure sufficient documentation regarding donor intent is attached to all current purpose gifts in Raiser's Edge.

Acknowledgement

We appreciate the courtesy and cooperation we received from staff in the Offices of Institutional Advancement and Business Affairs throughout the audit.

Background

The University of Texas Health Science Center at San Antonio (UT Health SA) is one of the country's leading health sciences universities. The operating budget for FY 2017 was \$806.6 million. The mission of UT Health SA is to make lives better through excellence in education, research, health care and community engagement.

The Office of Institutional Advancement is responsible for overseeing and assisting with raising funds to support UT Health SA's mission. The financial support from individuals, as well as foundations and businesses, play a vital role in helping the Institution achieve its mission and goals. The Vice President of Institutional Advancement is delegated by the President to accept gifts for UT Health SA to help further its mission as an academic health science center. This includes the responsibility for maintaining all gift records and acknowledging each gift according to the requirements of the Internal Revenue Service, Board of Regents, the University of Texas System, and UT Health SA's policies and procedures. During FY 2017, UT Health SA received approximately \$65.8 million in gift donations. The chart below depicts a summary of the donations received during FY 2017.

Figure 1: Summary of Donations Received in FY 2017

	Alumni	Parents	Other	Foundations	Corporations	Other Organizations	Totals
Funding Received for Current Operations							
Unrestricted	3,050		56,470	7,349,085	57,617	122,718	7,588,940
Restricted - Academic	55,973	4,724	346,318	2,488,357	717,569	122,492	3,735,433
Restricted - Research	139,718	5,000	777,719	9,534,608	624,501	3,043,125	14,124,671
Restricted - Public Service & Extension	127,052	250	128,063	4,072,813	785,528	648,507	5,762,213
Restricted - Student Financial Aid	93,023	8,125	496,187	798,283	87,470	366,402	1,849,490
Operations	418,816	18,099	1,804,757	24,243,146	2,272,685	4,303,244	33,060,747
Funding Received for Capital Purposes							
Property, Building & Equipment				500,000		6,228,500	6,728,500
Restricted - Endowment	624,133	2,000	20,557,949	4,381,493	193,625	221,362	25,980,562
Purposes	624,133	2,000	20,557,949	4,881,493	193,625	6,449,862	32,709,062
Other Adjustments							
Total Deferred at Face Value			10,000				10,000
Final Total Using Face Value	\$1,042,949	\$20,099	\$22,372,706	\$29,124,639	\$2,466,310	\$10,753,106	\$65,779,809

Source: Business Affairs – Accounting Department (VSE Program – FY 2017 Higher Education Survey Report)

All gifts are considered significant to the Institution and are extremely important in helping to achieve its mission and goals. Gifts are received in various forms, including: liquid funds¹, stocks, endowments, gift-in-kind, property and equipment, and other types of assets. Gift donations are recorded in an endowment fund and/or a current restricted fund, as well as select general funds when unrestricted gifts are received. UT Health San Antonio HOP² Policy 6.1.3 Fund Groups, defines Endowment and Current Restricted Funds as:

“Endowment Fund: The source of funding consists of funds received from public and private donations. The principal must remain inviolate and in perpetuity with only the income from the investment being available for

¹ Cash, checks, credit cards, and other types of assets that can be readily converted into cash quickly.

² UT Health San Antonio Handbook of Operating Procedures, referred to as the “HOP”

expenditure. Funds are invested by the University of Texas System and the income generated is deposited into the current restricted fund group primarily for instruction, research, and scholarship purposes as determined by the donor.”

“Current Restricted Fund: The sources of funding include funds received from individuals, foundations, and corporations and are restricted as to their use by the donor. Guidelines for expenditures are stated in the Regents’ Rules and Regulations. Specific restrictions are maintained by the Office of Sponsored Programs. Adherence to restrictions placed by the donors is the responsibility of the Principal Investigator (PI) of the project or by the department head if no PI is assigned. Funds remaining after completion of the requirements stipulated by the donor may be expended for any purpose which benefits the institution under appropriate provisions of the Regents’ Rules and Regulations.”

All gifts received by the University are required to go through the Office of Institutional Advancement for processing and formal communication with the donor. Use of gift funding (expenditures) occurs at the departmental level. The departments are responsible for ensuring the expenditures are made in accordance with the donors’ provisions and institutional guidelines.

The Office of Institutional Advancement, in conjunction with the Endowment Compliance Committee as required by UTS 117³ and HOP Policy 6.10.1⁴, is responsible for ensuring the appropriate level of endowment compliance from a broad institutional perspective, and for reviewing the institution’s endowment compliance plan.

The Office of Institutional Advancement uses the Endowment Compliance Program training and guidance, as well as the Current Restricted Fund Group policies in the HOP and in Business Affairs Accounting Department’s website, to educate departments regarding gift donations.

³ UT System Policy UTS117 – Endowment Compliance Plan System wide Standards and Guidelines.

⁴ UT Health San Antonio HOP Policy 6.10.1 - Endowments

Audit Scope and Methodology

The scope of this audit included current purpose gifts given to UT Health SA from September 1, 2016 through August 31, 2017 (FY 2017). The objective of this audit was to determine compliance with donor provisions and to evaluate the controls related to gift policy and procedures at UT Health SA.

Current Purpose Gifts are defined by UT System Policy UTS138 – Gift Acceptance Procedures, Part 3. Definitions as *“non-endowed gifts to be expended for the purposes designated by the donor.”*

For the purposes of this audit, and with the assistance of Business Affairs, we requested financial data that was in line with UT System’s definition of Current Purpose Gifts. This data equated to approximately \$31 million. We then excluded any gifts that were associated with a grant, scholarship, or contract associated with a gift donation, which equated to \$15.7 million. This allowed us to assess the controls in place for donations that may not involve reporting progress back to the donor as is required with most grants and contractual agreements. The remaining Current Purpose Gifts total of approximately \$15.3 million became the population from which our sample selections were drawn, and where audit work was conducted.

Our work included interviews with the Office of Institutional Advancement and department personnel, as well as verification of donor provisions through review of supporting documentation. Our testing included inspection of supporting documentation to determine compliance with applicable requirements. Testing criteria included UT System Board of Regents’ Rules⁵ and regulations, UT Health SA policies (HOP) and procedures, Institutional Advancement guidelines, as well as restrictions by donors.

The financial data used in this review was obtained from UT Health SA’s Financial Management System (PeopleSoft), as well as Institutional Advancement’s gift database, Raiser’s Edge. Our reliance was based on performing direct tests on the data and did not include an evaluation of the system’s IT general controls, other than system access to Raiser’s Edge. The financial materiality and general controls over financial data are reviewed annually by external auditors. As such, we did not perform additional steps to verify the material accuracy of the financial data in PeopleSoft.

This audit was conducted in accordance with the standards set forth by the Institute of Internal Auditors’ International Professional Practices Framework. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁵ UTS 138 Gift Acceptance Procedures

Audit Results and Recommendations

A. Opportunities to Enhance the Gift Process

Based on the audit work performed, we concluded gift expenditures are in compliance with the donors' provisions and with UT Health SA and UT System policies. However, we did identify opportunities to enhance the policies and processes associated with managing gifts by updating current policies to define current purpose gifts and to clarify the solicitation, acceptance, documentation, and monitoring process and procedures.

Guidance for Current Purpose Gifts

Through the course of the audit it was determined that *HOP 6.10.2 Gifts: Acceptance, Processing, and Solicitation* does not define a current purpose gift, making processing a gift (example: grateful patient gift of \$50) confusing to departmental finance staff.

The Office of Institutional Advancement relies on *HOP Policy Section 6.10 Endowments* to provide guidance for current purpose gifts. However, current purpose gifts are not defined within the policy. The *HOP 6.10.2 Gifts: Acceptance, Processing, and Solicitation* policy, under the "*Special Instructions Section*" has a list of various gift types along with a description. The gift types noted in the policy include: Gifts-In-Kind, Out-of-Pocket Business Expenses, Endowments, Planned Gifts, Special Gifts, and Exception Gifts.

Through discussions with departmental personnel, the lack of clarity and understanding surrounding current purpose gifts is due in part with the section title of HOP policy 6.10 "Endowments". Additionally, there are not any gift types listed within HOP 6.10.2 that describe a "grateful patient" or in general, low dollar (*under \$1,000 for example*) cash, check, and credit card gift transactions the departments may receive from an individual.

Based on interviews with Finance and Administration Managers, there have been instances where some checks (gift donations) received by the Departments were not sent to the Office of Institutional Advancement as required by HOP Policy 6.10.2. Instead they were deposited at the Bursar's Office directly into departmental accounts.

Furthermore, interviews with departmental Directors of Development (direct reports to the Office of Institutional Advancement, and who reside in the departments) further support the need for improved guidance for current purpose gifts, as the Directors rely on the departmental Finance and Administration Managers to monitor expenses associated with the revenue received from current purpose gifts.

Per the Office of Institutional Advancement, the Directors of Development are responsible for training the Finance and Administration Managers. However, we

confirmed with the Office of Institutional Advancement and departmental personnel that, due to turnover and lack of clarity with the current policy and procedures, there is lack of knowledge on how to handle current purpose gifts once received. If this issue persists, gifts could be placed in the wrong account and not be used in accordance with the donor's wishes. In addition, the donor may not be properly acknowledged for their contribution if the Office of Institutional Advancement is unaware that a donation has been received.

Consistent Documentation for Current Purpose Gifts

As part of the audit, we reviewed supporting documentation for 48 current purpose gifts totaling \$31,225 and found there to be inconsistent documentation regarding the donor's intent. Our sample⁶ testing indicated that donation forms were only included for funds received at events such as: golf tournaments, book and author luncheons, gift funds designated to the President's Council/Excellence fund, or funds designated for a specific Dean. Unless the donation was made online there was limited, to no documentation for contributions made using a credit card or check. The documentation reviewed may have had a project ID (PID) handwritten on the credit card receipt⁷ or check, but this was not enough to determine the donor's intent for the donation. The lack of documentation to designate the use for current purpose gifts could result in gift funds being deposited into the wrong project account and not being used for the donor's intended purpose.

Monitoring of Expenses for Current Purpose Gifts

An opportunity was identified to enhance monitoring efforts for expenses. The Office of Institutional Advancement performs a monthly spot check of 3-4 current purpose gifts over \$10,000 to ensure expenditures are compliant with the donor's intentions. However, we noted instances where research project accounts funded in part by current purpose gifts (current restricted accounts) contained expenses related more to operational expenses than research. Examples of the types of operational expenses noted included: office supplies, bankcard fees, merchant fees, print service charges, and postage fees. Although these expenses may be allowable within a restricted account that includes current purpose gifts, improved monitoring may be needed to ensure these operational expenses are appropriately expensed to the correct account and that gift funds are utilized in a manner consistent with the donor's wishes.

Operational expenses should not be purposely expensed from a restricted fund versus the department's general operating fund since the purpose of the restricted fund is to conduct business in the manner in which the account mandates (such as research efforts). Operational expenses do not support the use of gift funds as indicated in the Acknowledgement Letters⁸ sent to donors after a monetary gift has

⁶ Total of 48 donations were reviewed of which 33 donations were received by credit cards.

⁷ Of the 33 credit card donations, 13 did not have donor intent documented (10 of the 13 only had a PID number written on the credit card receipt.)

⁸ Acknowledgment Letters provided to donors by the Office of Institutional Advancement state their funds will support the needs of others through patient care, treatment programs, leading-edge medical research, professional education and scholarships.

been received. Funds not used, or that appear to have not been used, for the donor's intended purpose could negatively impact the institution's reputation as well as future donations to the Institution.

Through discussions with Business Affairs and the Office of Institutional Advancement, efforts have been made to educate the departments on the need to monitor expenses and ensure the appropriate account restrictions are adhered to. However, additional clarification and/or links to other pertinent information located in other policies and procedures such as disbursement restrictions on donor contributions and websites (example, Business Affairs - Accounting Department) could be added to HOP 6.10.2 Gifts: Acceptance, Processing, and Solicitation to further educate users on the proper use of donor funding within current restricted accounts.

Solicitation for Current Purpose Gifts

Discussions with staff and work performed within a related investigation identified the need for additional guidance and clarification within institutional policies regarding the solicitation of gifts. Currently the HOP Policy 6.10.2 Gifts: Acceptance, Processing, and Solicitation. Solicitation Section states:

"The Vice President and Chief Development Officer and members of the Office of Advancement fundraising team consistently manage the Health Science Center's development strategy. All solicitations of gifts from private sources by any Health Science Center faculty, staff, or student must receive prior approval through the Vice President and Chief Development Officer or his/her designee."

In addition, the HOP Policy 6.10.2 Gifts: Acceptance, Processing, and Solicitation-Solicitation section has a link to HOP Policy 9.1.7 Solicitation which states:

"No solicitation as defined by the Regents' Rules and Regulations, Series 80103, shall be conducted on the campus of the Health Science Center with the following exceptions:

- 1. Registered student organizations may collect membership fees and admission for events and similar activities only if prior approval is obtained from the Vice President for Academic, Faculty and Student Affairs and the required accounting for such activities is made to the Vice President for Academic, Faculty and Student Affairs.*

- 2. Major focus for fund-raising activities on the campus of the Health Science Center should be to generate funds for University programs and the State Employee Charitable Campaign (SECC). Requests by other off-campus, non-profit 501(c)(3) organizations to conduct fund-raising activities must be forwarded to the Vice President and Chief Development Officer for review. Only the Health Science Center Executive Committee may authorize such events."*

During our interviews and discussions with departmental personnel, staff indicated they are encouraged by management to raise money through donations in order to supplement declining state appropriations. Without sufficient guidance, departments are left to determine when and where it is appropriate to solicit gifts. As a result, clinic staff may decide to solicit donations from patients during their appointments. This would place patients and staff in an uncomfortable situation which can be, or appear to be, inappropriate or unethical. Gifts that are solicited inappropriately could negatively impact the institution's reputation and future donations. Current HOP policies do not adequately address this issue.

Risk to the Institution

Development activities play a vital role in helping UT Health SA achieve its key institutional initiatives involving research and educational endeavors. The Institution received over \$30 million of current purpose gift income in FY 2017. As such, strong internal controls should be in place to reduce the risk of financial loss due to misappropriation of funds or damage to the institution's reputation by the appearance of unsatisfactory stewardship of the donors' gift funds.

Risk Ranking: *Medium*

Recommendations

The Vice President of Institutional Advancement should:

A.1 Enhance current policies to clearly define current purpose gifts and to provide guidance for the solicitation, receipt, processing, and monitoring of current purpose gifts.

A.2 Consider enhancing current policies by adding links from other pertinent policies and procedures to HOP Policy 6.10.2 Gifts: Acceptance, Processing, and Solicitation to further educate users on the proper use of donor funding within current restricted accounts.

A.3 Ensure revised policies for current purpose gifts are available and communicated to departmental staff that receive, process and monitor current purpose gifts.

A.4 Ensure donation forms are used for all current purpose gifts to document the donor's intent.

A.5 Continue to work with Business Affairs to obtain additional PID account numbers and/or Fund Codes in order to enhance monitoring efforts of current purpose gift donations.

Management Responses

The following action plans are scheduled to be completed by August 31, 2019.

A.1 - HOP Policy 6.10.2 Gifts: Acceptance, Processing, and Solicitation will be revised to list and more clearly define Current Purpose Gifts under the "Special Instructions" section. Currently, it defines "Gifts" in general which can include endowed gifts and current purpose gifts. The policy will be revised to reference the existing policies and procedures in HOP 6.10.2 regarding the processing, receipting and monitoring of Current Purpose Gifts and to provide more clarity and additional guidance for these aspects of Current Purpose Gifts. Lastly, the Solicitation section within HOP Policy 6.10.2 as well as HOP Policy 9.1.7 Solicitation, will both be revised as appropriate, to provide more clarification and guidance regarding the solicitation processes, procedures, policy and role of the Office of Institutional Advancement. Specifically, the policy will be revised to provide additional guidance as to when and where it is appropriate to solicit gifts and also clarify procedures to address questions that may arise in this area.

A.2 - To further educate users on the proper use of donor funding within current restricted accounts, we will add links from other pertinent policies and procedures to HOP Policy 6.10.2 Gifts: Acceptance, Processing, and Solicitation. We also anticipate having our own Fund Group for Current Purpose Gifts and generating and implementing specific Guidelines for Use of Funds from Current Purpose Gifts.

A.3 - We will make every effort to ensure revised policies for current purpose gifts are available and communicated to departmental staff that receive, process and monitor current purpose gifts. Since including revised and/or new policy in HOP does not seem to be enough, we will consider sending out annual Bulletins to Finance and Administration Management, reiterating such policy and other pertinent information and request that they share this information with their departmental staff that receive, process and monitor current purpose gifts. We may also consider doing an online Current Purpose Gift training like we do with our Endowment Management Training but specifically for Current Purpose Gifts.

A.4 - We will develop and implement policy and procedures that will ensure a donation form will be completed, to properly document the donor's current purpose gift intended use, in the instances where there is no written documentation directly from the donor indicating their intent. In those instances, where the form will need to be completed for example, by the Director of Development or other Institutional Advancement staff member, we will continue to rely on the Thank You Letter and Charitable Gift Receipt provided to the donor as confirmation that their gift has been properly designated and applied as they intended. This process will ensure more consistent documentation regarding the donor's intent and ensure gifts are being used for the donor's intended purpose.

A.5 -To enhance monitoring efforts of current purpose gift donations, we are currently working with the Business Affairs Office to generate our own Fund Group Account for our Current Purpose Gifts over a certain threshold and with certain criteria. This would also afford us the opportunity to write Guidelines for Use of Current Purpose Funds specifically for this Fund Group and would also enhance our monitoring efforts for inappropriate expenses out of these Fund Group Accounts.

Appendix A – Audit Issue Ranking Definitions

The audit issue was ranked according to the following University of Texas System Administration issue ranking guidelines:

- **Priority** – A Priority Finding is defined as an issue identified by internal audit that, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of UT Health San Antonio or the UT System as a whole.
- **High** – A finding identified by internal audit that is considered to have a medium to high probability of adverse effects to UT Health San Antonio either as a whole or to a significant college/school/unit level.
- **Medium** – A finding identified by internal audit that is considered to have a low to medium probability of adverse effects to UT Health San Antonio either as a whole or to a college/ school/unit level.
- **Low** – A finding identified by internal audit that is considered to have minimal probability of adverse effects to UT Health San Antonio either as a whole or to a college/ school/unit level.