

The University of Texas at Tyler

**University Advancement
Endowment Compliance Annual Report Audit**



March 2019

THE UNIVERSITY OF TEXAS AT TYLER
OFFICE OF AUDIT AND CONSULTING SERVICES
3900 UNIVERSITY BOULEVARD
TYLER, TEXAS 75799

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Fiscal Year 2019

BACKGROUND

The University of Texas at Tyler (UT Tyler) is an institution that is part of the University of Texas System (UT System) and is required to follow UT System (UTS) policies, including UTS 117: *Endowment Compliance Plans Systemwide Standards and Guidelines*. The UT Tyler Office of Audit and Consulting Services has completed an audit of the Fiscal Year (FY) 2018 Endowment Compliance Annual Report (Annual Report) submitted by the Office of University Advancement (OUA) to UT System as required by UTS 117. This audit was included in the FY 2019 Annual Audit Plan approved by the Institutional Audit Committee.

The Annual Report is prepared by the OUA Director of Advancement Services using endowment balances obtained from The University of Texas Investment Management Company (UTIMCO) and PeopleSoft accounting system balances obtained from the UT Tyler Budget and Resource Planning Office. UT System provides an Annual Report template which includes the Main Report and the following supporting schedules:

- Schedule A – Fund Balance Accumulations
- Schedule B1 – Excessive Accumulations*
- Schedule B2 – Reinvestment
- Schedule B3 – Inappropriate Expenditures
- Schedule B4 – No Expenditures
- Schedule B5 – Unfilled Academic Positions
- Schedule P – Pool Balance Accumulations

**Excessive accumulations is defined by UT System as endowment accounts having a year-end operating fund balance that exceeds two times the annual net distribution amount. Spending Plans are required for all endowments with excessive accumulations.*

AUDIT OBJECTIVE

The objective of the audit was to determine if the Annual Report was accurate and agreed to UTIMCO and PeopleSoft balances.

STANDARDS

The audit was conducted in accordance with guidelines set forth in *The Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing* and *Generally Accepted Government Auditing Standards*.

SCOPE AND PROCEDURES

To accomplish our objective, the following procedures were completed:

- ✓ Reviewed the Annual Report for completeness,
- ✓ Reconciled amounts on the Annual Report to UTIMCO and PeopleSoft, and
- ✓ Determined if required spending plans were on file.

Our procedures did not include testing of expenditures for appropriateness with the endowment agreement.

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AUDIT RESULTS

According to The University of Texas System Audit Office, “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.*”

Finding Level Legend	
Priority	<i>A finding is defined as an issue that if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of UT Tyler.</i>
High	<i>A finding that is considered to have a <u>medium to high probability</u> of adverse effects to UT Tyler as a whole or to a significant college or department.</i>
Medium	<i>A finding that is considered to have a <u>low to medium probability</u> of adverse effects to UT Tyler as a whole or to a college or department.</i>
Low	<i>A finding that is considered to have a <u>minimal probability</u> of adverse effects to UT Tyler as a whole or to a college or department.</i>

This audit resulted in three Medium-level findings and one Low-level finding.

Audit Findings		
	Level	Summary of Finding
1	Medium	<i>Annual Net Distribution from UTIMCO not Reconciled to PeopleSoft</i>
2	Medium	<i>Annual Report Operating Fund Balance excluded Secondary Cost Center Balances</i>
3	Medium	<i>Endowment Additions recorded as Gifts for Operations Overstates Fund Balances</i>
4	Low	<i>Accumulated Balances with no Spending Plan</i>

The Annual Report balances should agree to UTIMCO and PeopleSoft with any differences identified and explained. The UTIMCO year-end report includes 294 endowments with a market value of \$87,163,644. This agrees to the Annual Report, however, there were differences in other amounts reported.

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#1: Annual Net Distribution from UTIMCO not Reconciled to PeopleSoft - Medium

Annual Net Distribution is the earnings UTIMCO submits to UT Tyler for the Operating Cost Center of each endowment. The total on the Annual Report is \$3,583,718 which agrees to UTIMCO. However, the earnings total in PeopleSoft is \$3,888,228, which is \$304,510 more than the Annual Report. A schedule of differences by endowment has been provided to OUA for analysis. The differences could result in incorrect PeopleSoft or Annual Report balances.

Recommendation: The differences should be reviewed and corrections should be made to the Annual Report or PeopleSoft as needed. The interest income recorded in PeopleSoft should be reconciled to the UTIMCO report at least quarterly by OUA and necessary corrections should be requested.

Management Response: *OUA is currently reviewing differences and corrections will be made as needed.*

Implementation Date: *4/30/2019*

#2: Annual Report Operating Fund Balance excluded Secondary Cost Center Balances - Medium

The Operating Fund Balance on the Annual Report is \$2,959,741. The total in PeopleSoft is \$3,211,981, which is \$252,240 more than the Annual Report. Some endowments have a secondary cost center created that is funded by the primary cost center to allow different budget authorities to spend the funds. These secondary cost center fund balances were erroneously excluded from the Annual Report. A schedule of differences by endowment has been provided to OUA for analysis. The effect of excluding the secondary cost center resulted in the Operating Fund Balance of the Annual Report to be understated.

Recommendation: The differences should be reviewed and corrections should be made to the Annual Report and PeopleSoft as needed.

Management Response: *OUA is currently reviewing the differences and corrections will be made to the Annual Report and PeopleSoft as needed.*

Implementation Date: *4/30/2019*

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#3: Endowment Additions recorded as Gifts for Operations Overstates Fund Balance - Medium

Endowment donations were recorded in PeopleSoft using account code 45100, Gifts for Operations. These donations are then wired to UTIMCO at a later date or remain in PeopleSoft until the minimum endowment amount of \$10,000 is accumulated. Since these donations are made to increase endowments, they should be recorded in an Endowment Clearing cost center or Endowment Accumulation cost center. Recording endowment additions as an Operating Gift creates the opportunity for the budget authority to erroneously spend the donation and causes monthly and annual financial reports to be incorrect. Some of the donations were not transferred to UTIMCO on a timely basis, with a few not transferred within 12 months of receipt from the donor. Donations that had not been submitted to UTIMCO at year end resulted in overstatement of the Operating Fund Balance of approximately \$25,000. A schedule of differences by endowment has been provided to OUA for analysis. The effect of recording donations to the Operating Gift cost center resulted in the Operating Fund Balance of the Annual Report to be overstated. The effect of not transferring donations timely results in lost investment income.

Recommendation: An Endowment Clearing cost center should be used to record donations that are eligible for transfer. These gifts should be transferred to UTIMCO timely, at least once each quarter, and prior to year-end. An Endowment Accumulation cost center should be used to record donations that are being accumulated until the minimum endowment balance is achieved. Once the minimum is collected, the balance should be transferred to UTIMCO. These clearing cost centers should be reconciled monthly by the OUA.

Management Response: *OUA has revised the process for depositing gifts directly into an established endowment cost center and will now begin using the clearing cost center for these funds. OUA will meet with the Budget Office and others to determine the most effective way to capture new endowments that have not reached the required fund amount for transferring to UTIMCO. Most of the funds received before FY 2018 have been confirmed as received by UTIMCO. OUA will continue to research and confirm balances from FY 2016, 2017, as well as 2018, that were captured in this report.*

Implementation Date: 4/30/19

#4: Accumulated Balances with no Spending Plan - Low

Excessive accumulations is defined by UT System as endowment accounts having a year-end operating fund balance that exceeds two times the annual net distribution amount. Spending Plans are required for all endowments with excessive accumulations. The Annual Report calculates the ratio which resulted in 32 endowments having excessive accumulations per the definition. Many of these were caused by donations not yet transferred to UTIMCO that were erroneously included in the operating fund balance as described in Finding #3 above. Spending Plans were only provided for 20 of the 32 endowments. In addition, when the operating fund balance is corrected for the secondary cost centers described in Finding #2 above, additional endowments may have excessive accumulations and need Spending Plans.

Recommendation: The Operating Fund Balance on the Annual Report should be corrected as noted in Finding #2 and #3. The accumulation ratio should be recalculated and Spending Plans obtained as required.

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Management Response: *OUA is currently reviewing the balances and the accumulation ratio will be recalculated and Spending Plans obtained as required.*

Implementation Date: *4/30/19*

CONCLUSION

The Annual Report and PeopleSoft balances should be corrected for distributions, fund balances, and donations. Donations should be recorded in clearing accounts and spending plans should be obtained. In addition, OUA should prepare reconciliations throughout the year of distributions and clearing account balances. The internal controls over endowments will be strengthened with the implementation of these recommendations.

We appreciate the assistance and documentation provided by the OUA Director of Advancement Services and the Office of the Vice President for Budget and Finance.