



**UT Tyler**  
THE UNIVERSITY OF TEXAS AT TYLER

## Internal Audit Department

August 3, 2023

Dr. Kirk Calhoun  
President  
The University of Texas at Tyler  
3900 University Blvd.  
Tyler, TX 75799

Dr. Calhoun,

We have completed the University Advancement Endowment Distributions Audit as part of our Fiscal Year (FY) 2023 Audit Plan. The objective of this audit was to review distributions of endowments on both The University of Texas at Tyler (UT Tyler) Main campus and Health Science Center (HSC) campus for compliance with the requirements of donors. The scope of the audit included distributions from September 1, 2022, through March 31, 2023.

This audit was conducted in accordance with guidelines set forth in *The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing* and Generally Accepted Government Auditing Standards. We appreciate the assistance provided by management and other personnel and hope the information presented in our report is helpful.

Sincerely,

Stephen Ford  
Vice President, Chief Audit Executive

Enclosure

cc:

Dr. Archie Tucker, Senior Vice President, University Advancement  
Ms. Cindy Scott, Senior Vice President, Human Resources, Chief Human Resources Officer  
Mr. David Barron, Vice President, Enrollment Management  
Mr. Dwain Morris, Executive Vice President, Administration, Chief Business Officer  
Dr. Julie Philley, Executive Vice President, Health Affairs, Vice Provost  
Dr. Amir Mirmiran, Executive Vice President, Academic Affairs, Provost  
Mr. Daniel Deslatte, Senior Vice President, Business Affairs, Chief Operating Officer-Health Affairs  
Ms. Kris Kavasch, Senior Vice President, Finance, Chief Financial Officer  
Mr. Nathan Flory, Director of Financial Aid  
Ms. Cara Wreyford, Director, Human Resources  
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**University Advancement Endowment Distributions Audit**



**August 3, 2023**

INTERNAL AUDIT DEPARTMENT  
3900 UNIVERSITY BOULEVARD  
TYLER, TEXAS 75799

**The University of Texas at Tyler**  
**University Advancement Endowment Distributions Audit**

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**AUDIT OBJECTIVE**

The objective of the engagement was to review distributions of endowments on both The University of Texas at Tyler (UT Tyler) Main campus and Health Science Center (HSC) campus for compliance with the requirements of donors. University Advancement is responsible for oversight of endowments; however, the earnings are assigned to different budget authorities and account owners who are responsible for expending the earnings in accordance with the endowment agreements.

**CONCLUSION**

This audit identified areas for improvement related to policies and procedures, monitoring of distributions and transfers, and for enhanced communications as described in the observations below for University Advancement and other institutional departments.

**OBSERVATIONS**

<b>This audit identified the following opportunities for improvement</b>		
1	Medium	<i>Employee Appointment Changes Are Not Communicated to University Advancement</i>
2	Medium	<i>Expenditures Not in Compliance with Endowment Agreements</i>
3	Medium	<i>Endowment Compliance Officer Not Aware of Transfers</i>
4	Medium	<i>Endowment Compliance Policy Does Not Include Expenditure Monitoring</i>
5	Medium	<i>Inadequate Documented Policies and Procedures (HSC)</i>

**#1: Employee Appointment Changes Are Not Communicated to University Advancement**

**Medium:** Inadequate training of employees managing endowment transactions could result in expenditures that do not follow the endowment agreement.

University Advancement provides training for budget authorities, account owners, administrative assistants, and others who are responsible for processing distributions from endowments. University Advancement is not included in the PeopleSoft appointment routing and is therefore not automatically notified of employee appointment changes. This results in training not being assigned by University

Advancement.

**Opportunity for Improvement:** University Advancement should request that the Endowment Compliance Officer be added to the routing in PeopleSoft for all appointment changes in an endowment cost center or account so endowment documents and training can be provided.

**Management Response:** Advancement will initiate a dialogue with Budget, Payroll, and HR to determine an efficient solution to ensure that all appointment changes are communicated seamlessly to Advancement.

**Responsible Person:**  
Senior VP, University Advancement

**Anticipated Implementation Date:** Communication will be sent to request initial dialogue toward solution by August 4, 2023.

**#2: Expenditures Not in Compliance with Endowment Agreements**

**Medium:** If the donor's requests are not followed, a loss of donations could result, and funds may be required to be returned to donors.

Donors may include specific spending restrictions when an endowment is established. Testing of distributions from 27 different endowments revealed distributions from 4 of the student support endowments did not follow the spending restrictions in the endowment agreement. These included the following:

- a. Main Campus: A scholarship was awarded without the department head's recommendation;
- b. Main Campus: Scholarships were awarded to seven (7) different students instead of paying the full tuition of one (1) student;
- c. HSC Campus: An employee scholarship was awarded to a recipient seeking a degree in a field other than the one (1) specified in the endowment requirements; and
- d. HSC Campus: A scholarship committee was not used to determine qualified employees receiving the scholarships.

These occurred when the department processing the distributions did not follow the endowment guidelines.

**Opportunity for Improvement:** Endowment documents should be reviewed before funds are disbursed to ensure compliance with donor requests. If funds were used that were not in compliance with the donor agreement, funds should be transferred to correct the oversight.

**Management Response #1 – Main Campus:**

- a. We have a process in place that specifies that all endowments that do not have specific instructions on who should make the recommendation for the awards will be appropriately awarded by the scholarship office. In this case the specific "department head recommendation" requirement was not inputted into the Blackbaud management system to follow. This has since been updated to include this specific restriction. For 2023-2024 Aid year and going forward it is a requirement to have the department head recommend. Additionally, another review of all endowments will be done to confirm that no other endowments have atypical directives such as this and if they do those will be added into Blackbaud management system.
- b. There was an update to the original Memorandum of Understanding (MOU) that we had on file. The updated MOU contained the new directions that the funds should go pay the full tuition of one student instead of awarding the funds to multiple students at lower amounts. Our MOU records have since been updated for this endowment and we have already implemented this change and awarded one student for the 2023-2024 aid year.

**Responsible Person:**  
Director, Financial Aid

**Anticipated Implementation Date:**

- a. This has been partly implemented. The specific endowment reviewed has already been corrected and implemented. The further review of all endowments for additional requirements is scheduled to be completed by September 30, 2023.

- b. The implementation of this has already been completed. The MOU records have been updated within the Financial Aid and Scholarships Office and correct awarding has been completed for the next aid year.

**Management Response #2 – HSC Campus:**

- c. Scholarship funds received by the employee were tracked back and this situation was identified as an isolated incident that occurred when the employee switched disciplines in relation to a job move within the institution. Once the Texas Chest Foundation Endowment is replenished in September, Human Resources (HR) will work with Finance to reimburse the affected Nursing endowment.
- d. A committee of people review submissions electronically per process. Intake of application reviewed by HR Specialist and required items documented - > List of applicants emailed to Executive Director of HR for Review of good standing status and Director of HR for overall review -> HR Coordinator processes awards. HR will update the existing written procedures to include language that applications that qualify for Nursing endowments are processed in the same manner as Texas Chest Foundation.

**Responsible Person:**

Director, Human Resources

**Anticipated Implementation Date:** September 30, 2023

**#3: Endowment Compliance Officer Not Aware of Transfers**

**Medium:** Transfers could result in expenditures that do not follow the endowment agreement and errors in the Endowment Compliance Annual Report.

Endowment transactions can include transfers to other cost centers and accounts. The transfers may be necessary to allocate the funding to different budget authorities or account owners. The transfers may also be necessary to ensure the correct PeopleSoft function is used based on the planned expenditure(s). Transfers to other cost centers and accounts increase the risk that funds are co-mingled; making it difficult to determine if expended funds meet the endowment agreement.

University Advancement is responsible for completing an Endowment Compliance Annual Report that is provided to UT System and UT Tyler senior leadership. This report includes year-end balances of endowment cost centers and accounts that receive distributions from UTIMCO\*. Balances in cost centers and accounts that received funding by transfers may be omitted from the report if ending balances are not transferred back to the original cost center or account, and University Advancement is not made aware of the balances.

The Endowment Compliance Officer is not consistently made aware of transfers or year-end balances, therefore, the department receiving the funds may not be provided with required endowment documents and training, and this could lead to the possibility of inaccurate information contained in the Endowment Compliance Annual Report.

**Opportunity for Improvement:** University Advancement should request that the Endowment Compliance Officer be included in the PeopleSoft transfer routing to verify that transfers are

appropriate and to ensure the department receiving the funds is provided with endowment documents and required training.

The PeopleSoft roll-forward process can be used to automatically transfer ending balances back to the original cost center or account. University Advancement should discuss using this process with budget authorities and account owners who transfer funds. This process would further help to ensure the accuracy of the Endowment Compliance Annual Report and enable unspent transfers to automatically be returned to the originating cost center or account at year-end.

**Management Response:** Advancement has been meeting with Academics and Finance to obtain a solution toward ensuring that we are aware of transfers and the accommodating account holders in real-time.

**Responsible Person:**  
Senior VP, University Advancement

**Anticipated Implementation Date:** Advancement will encourage Finance and Academics to complete the process of providing an adequate solution by September 30, 2023.

*\*UTIMCO: The University of Texas/Texas A&M Investment Management Company is the external investment corporations that oversees investment for UT System institutions.*

#### **#4: Endowment Compliance Policy Does Not Include Expenditure Monitoring**

**Medium:** If the donor's requests are not followed, a loss of donations could result, and funds may be required to be returned to donors.

The University of Texas System Policy 117 (UTS 117), Endowment Compliance Plan Systemwide Standards and Guidelines, Section 5.5, requires University Advancement to establish a monitoring plan based on its risk assessment. It further states the plan might include periodic testing of select endowment expenditures. Currently, University Advancement is not monitoring expenditures for compliance with donor requirements. Monitoring could reduce the risk of noncompliance with donor agreements.

**Opportunity for Improvement:** The Endowment Compliance Policy should be expanded to include monitoring of expenditures and transfers for compliance with endowment agreements.

**Management Response:** We are addressing this monitoring issue with Academics and Finance. Once Advancement is included in the routing, we can begin the process of monitoring. This observation is contingent upon items #1 and #3 above occurring.

**Responsible Person:**  
Senior VP, University Advancement

**Anticipated Implementation Date:** Implementation should begin in October 2023.

#### **#5: Inadequate Documented Policies and Procedures**

**Medium:** Inadequate written policies and procedures increases the risk that endowment funds could be awarded to a recipient who does not meet donor requirements. This also increases the risk that endowment funds are not appropriately used before using funds from other sources.

Departments should maintain written policies and procedures for responsibilities assigned to their area. Currently, Human Resources on the HSC campus has internal procedures for awarding employee scholarships that includes receiving and reviewing applications. However, this process is not documented. In addition, there are multiple funding sources for employee scholarships, but the department does not have procedures for selecting the most appropriate funding source for each award, specifically using endowment funds prior to other internal funds.

**Opportunity for Improvement:** Human Resources on the HSC campus should develop a written policy and procedures for the application, selection, and awarding processes.

**Management Response:** HR will update current written procedures to include responsibilities, clarify funding source selection per recent guidance surrounding the newly introduced clinical tuition reimbursement program and the use of existing endowments to fund applications. HR is also standardizing the application to take in the need to review funding source and document on the application.

**Responsible Person:**  
Director, Human Resources

**Anticipated Implementation Date:** August 31, 2023

**The University of Texas at Tyler**  
**University Advancement Endowment Distributions Audit**

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**BACKGROUND**

Endowments are established to support the mission and goals of UT Tyler. Donor agreements may include requirements for the distribution of the endowment’s investment earnings. According to the Endowment Compliance Annual Report prepared by University Advancement, the market value of UT Tyler’s endowments was over \$143 million as of August 31, 2022. The report also stated that during FY 2022, the University received over \$5.6 million in earnings and expended over \$5.7 million, which included expenditures from prior years’ accumulated earnings.

The University Advancement Endowment Distributions Audit was included in the UT Tyler Fiscal Year 2023 Audit Plan as a risk-based audit.

**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**

The scope of the audit was limited to endowment expenditures from September 1, 2022, through March 31, 2023, on both the UT Tyler Main and HSC campuses. However, the scope for the student support area was limited to only the Spring semester scholarships.

To achieve the audit objective, the Internal Audit Department:

- Reviewed applicable policies and procedures and endowment documentation, and
- Conducted testing of a sample of distributions from endowment cost centers and accounts to verify compliance with donor agreements.

**OBSERVATION RANKINGS**

Internal audit departments across The University of Texas System use a consistent process to evaluate audit results based on risk factors and the probability of a negative outcome.

<b>Legend</b>	
<b>Priority</b>	<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>
<b>High</b>	<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>
<b>Medium</b>	<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>
<b>Low</b>	<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. These findings are communicated separately to management.</i>