

**UNIVERSITY OF CALIFORNIA DAVIS
INTERNAL AUDIT SERVICES**

**UCDHS Health Sciences Advancement
Gift Processing – Health System
Internal Audit Services Project #11-15**

June 2011

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MANAGEMENT SUMMARY

As part of the Internal Audit Services (IAS) audit plan for fiscal year 2010-2011, IAS conducted a review of the gift processing function at the UC Davis Health System (UCDHS). A second audit that encompassed centralized gift processing functions carried out by University Relations (UR), Office of Research (OR) and Extramural Accounting (EFA) was conducted concurrently on the UC Davis campus. The purpose of our review was to evaluate existing systems, policies, procedures, and practices in order to assess the efficiency and effectiveness of the operation. Because the university is in the midst of *The Campaign for UC Davis*, a university-wide initiative to inspire 100,000 donors to contribute \$1 billion in philanthropic support, the efficiency and effectiveness of the gift processing function is critical.

At UCDHS, gift processing activities are carried out by Health Sciences Advancement (HSA). HSA is a separate fundraising unit under the direction of the UCDHS Chief Executive Officer and Vice Chancellor for Human Health Sciences and works in collaboration with UR's Advancement Services Division. All gifts submitted through HSA for processing are deposited, recorded, and tracked internally to ensure the proper handling, acknowledgement, tax receipting, and stewardship of funds on a timely basis. Gifts are forwarded to the Central Gift and Data Services Unit of UR's Advancement Services Division, where they are formally accepted, processed, and recorded. Gift and Data Services is the official office of record for all gifts processed at UC Davis.

Our review covered fiscal year 2011 through May 2011. Audit procedures included interviewing HSA management and staff, reviewing applicable university policies and procedures, and performing operational and analytical reviews of financial information as considered necessary. We also selected a sample of UCDHS gifts to review in detail.

Overall, our review found that Health Sciences Advancement has most of the necessary tracking and controls in place to timely and efficiently process gifts to the Health System. Our primary concern in the gift processing system was the large balances that had accumulated in the undistributed cash gifts account. The tool used to assist in clearing the undistributed cash gifts account is normally the Gift Aging Report, which is not considered "user friendly" by many development units. As of January 31, 2011, the total of cash gifts deposited into this account above the normal 60 day processing time was \$333k. Four months later at the end of May, the total unposted balance over 60 days old remained consistently high at \$357k. These undistributed funds were able to accumulate primarily due to HSA not performing reviews of outstanding gifts on the Gift Aging Report for any preparers of UCDHS gifts outside of their own unit. Further review of this same Gift Aging Report also disclosed that HSA was not reviewing outstanding gifts processed frequently enough to have these transactions removed from the report. Additionally, there were private grants appearing on the report in error, due to an erroneous posting of these grants to the undistributed cash gifts account. Finally, there was no established follow-up procedure in place between HSA and UR to address

instances when gift documentation had been resubmitted by HSA but remained on the Gift Aging Report beyond a reasonable correction date.

It is essential that HSA make it a priority to review and address outstanding items on the Gift Aging Report on a monthly basis, manage all corrections previously submitted every sixty days, establish formal escalation procedures for items that are not cleared timely, and include all preparers of UCDHS gifts regardless of origination.

Most importantly, we recommend that HSA consult with UCDHS leadership regarding the benefits of requiring all Health System departments to utilize HSA for all gifts processing functions. This directive would allow for HSA to have more control over the gift processing functions and be able to provide better customer service to departments and donors.

Other issues were also identified during our review, as explained in the body of the report.

OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT CORRECTIVE ACTIONS**1. REVIEW OF GIFT AGING REPORT**

The Gift Aging Report is not being reviewed on a consistent or complete basis by HSA.

Gifts that are processed online are immediately posted to a recipient department account. Gifts that require manual processing are placed into an undistributed cash gifts account until the Gift is accepted into the Advancement Information System (AIS) and posted to the departmental account by Extramural Accounting. On a monthly basis a Gift Aging Report is generated by Extramural Accounting for gifts that have not yet posted to a departmental account. HSA is responsible for the review, follow-up, and correction of any outstanding UCDHS undistributed cash gifts.

As of January 31, 2011, the total of cash gifts received but not yet distributed above the normal 60 day processing time was \$333k. Four months later at the end of May, the total unposted balance over 60 days old remained consistently high at \$357k. Further detailed analysis of these unposted gifts past 60 days old identified that approximately 40% were more than one year old throughout this five month period.

HSA was not reviewing the Gift Aging Report on a regular basis. When the report was reviewed, gifts originating outside of HSA by UCDHS departments were not included in the review process. In addition, corrections that were resubmitted to UR and Extramural Accounting were not being monitored to ensure timely resolution.

Because HSA, UR and Extramural Accounting do not currently have a formal agreement on how to address problems regarding getting items cleared from the Gift Aging Report, gifts can sit in the undistributed account longer than necessary.

Recommendation

HSA must make it a priority to review and correct the Gift Aging Report on a monthly basis, review the status of all corrections submitted to UR every 60 days, and ensure that the review includes transactions associated with all initiators of UCDHS gifts. This process could be enhanced by adding a box to the Gift Acceptance Report (GAR) to identify resubmissions to ensure corrections are handled in a timely manner. Management should also consider establishing reasonable goals and associated metrics to measure performance and drive the reduction of days outstanding on the Aging Report.

Management Corrective Actions

HSA will begin a monthly review of the Gift Aging Report, with follow-up on all items outstanding greater than 60 days. The first monthly review will be completed by August 31, 2011.

HSA will also obtain and use a "RESUBMIT" stamp on all documents associated with gifts that must be resubmitted to Central Campus offices by September 30, 2011.

2. CONTROL OF GIFT PROCESSING BY HSA

There is currently no requirement for UCDHS departments to submit gifts to HSA for processing.

UCDHS departments are not required to submit gifts received to HSA for processing. When HSA is bypassed, their ability to ensure timely and effective deposit and GAR preparation, tax receipting, acknowledgement, gift tracking, and monitoring and resolution of items on the Gift Aging Report is greatly diminished. As a result, gift processing times can be unnecessarily increased, as was demonstrated during our review of a sample of individual gift files. Our samples indicated much longer processing times when School of Medicine departments process their own gifts.

Recommendation

HSA should consult with UCDHS Senior Management to discuss the benefits of having all gifts directed to HSA and ask that an appropriate directive be issued to Health System Departments if warranted.

Management Corrective Actions

The HSA Chief Administrative Officer will present a proposal for requiring all gifts to be submitted to HSA for processing by June 30, 2012.

3. OTHER CAMPUS WIDE ISSUES AFFECTING HSA

The following issues were noted during our review of the HSA Gift processing function. However, because the same issues were noted in other areas of the UC Davis campus during the Campus Gift Processing review (IAS Project #11-06), they are being addressed in that report with the expectation that management corrective actions will cover the entire campus.

- Gift processing is primarily a paper based system where gifts are processed and tracked in a separately maintained excel spreadsheet based shadow system by HSA. Gift packages are delivered to UR through the intra-office mail for input into the Advancement Information System (AIS). The entire process is labor intensive and prone to lost documents and misrouted paperwork. Additionally, this system has no reporting capability with any integrated automated data sharing or direct input into AIS. Significant labor and resources are devoted to dual entry, verification, and tracking of data elements.
- Reports currently are not sufficient to properly support the clearing of undistributed cash gifts account and the follow-up on pledges not collected.
- The mechanism for tracking Principal Investigator's (PI) gifts to their own research through direct giving or payroll deductions is completely manual, with no standard procedures in place to assure that a proper level of signatory approval occurs on funds expended by a PI in accordance with PPM 260-15 "*Solicitation and Acceptance of Private Support*", Section V.E.3 which states "employees who donate gifts should not have signatory approval over expenditures from that gift fund."