



# AUDIT AND ADVISORY SERVICES

## Restricted Gifts Audit Project No. 17-691

May 8, 2017

Prepared by:

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Robert Asato  
Auditor-in-Charge

Reviewed by:

Approved by:

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Jaime Jue  
Associate Director

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Wanda Lynn Riley  
Chief Audit Executive



AUDIT AND ADVISORY SERVICES  
Tel: (510) 642-8292

611 UNIVERSITY HALL #1170  
BERKELEY, CALIFORNIA 94720-1170

May 8, 2017

Irene Kim  
Assistant Vice Chancellor  
University Development and Alumni Relations

Assistant Vice Chancellor Kim:

We have completed our audit of restricted gifts as per our annual service plan in accordance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and the University of California Internal Audit Charter.

Our observation with management action plans is expounded upon in the accompanying report. Please destroy all copies of draft reports and related documents. Thank you to the staff of Donor and Gift Services for their cooperative efforts throughout the audit process. Please do not hesitate to call on Audit and Advisory Services if we can be of further assistance in this or other matters.

Respectfully reported,

Wanda Lynn Riley  
Chief Audit Executive

cc: Vice Chancellor Julie Hooper  
Associate Vice Chancellor and Chief Financial Officer Rosemarie Rae  
Assistant Vice Chancellor and Controller Delphine Regalia  
Executive Director Nancy McKinney  
Interim Senior Vice President and Chief Compliance and Audit Officer John Lohse  
Associate Chancellor Khira Griscavage

**University of California, Berkeley  
Audit and Advisory Services  
Restricted Gifts**

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# OVERVIEW

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## Executive Summary

The purpose of the audit was to assess governance and controls in place to assure that restricted gifts including endowments are managed in a fiscally responsible manner, expended in accordance with the gift terms, and practices are in place for identifying unspent funds and managing their use.

Based on our audit procedures performed, we observe that central or campus administrative processes and controls appear to be adequate to support

- stewardship and donor reporting;
- analysis of accumulated funds; and
- communication and training on the establishment and management of restricted gifts and endowments.

Donor and Gift Services currently has processes in place to monitor gift fund expenditures including endowment and funds functioning as an endowment (FFE) distributions on an ad-hoc basis to evaluate whether expenditures are in accordance with the fund terms. Employing a risk-based approach to monitoring gift fund expenditures more routinely will enhance the effectiveness of current controls.

Management has agreed to further develop a risk-based approach to fund monitoring.

## **Source and Purpose of the Audit**

The purpose of the audit was to assess governance and controls in place to assure that restricted gifts including endowments are managed in a fiscally responsible manner, expended in accordance with the gift terms, and that practices are in place for identifying unspent funds and managing their use. Restricted gifts were identified as an area of heightened risk based upon the complexity of some gift fund terms, large accumulated balances in some funds, and potential pressures to use restricted funds in a manner inconsistent with the gift terms to meet current budget needs.

## **Scope of the Audit**

The audit scope included examining current processes and internal controls in the areas of

- stewardship and donor reporting;
- analysis of accumulated funds;
- monitoring the use of funds in accordance with donor terms; and
- communication and training on the establishment and management of restricted gifts and endowments.

Audit techniques included interviews with Donor and Gift Services staff regarding the current practices and control activities, analyzing endowment and current use fund data from Donor and Gift Services and the campus general ledger, and a review of University Development and Alumni Relations website information. Our fieldwork was completed in December 2016.

## **Background Information**

### *University Development and Alumni Relations*

University Development and Alumni Relations (UDAR) is responsible for centralized fundraising and donor engagement and provides a range of central activities and services such as event planning, marketing communications, stewardship, prospect development, gift management, and database management.

### *Donor and Gift Services*

The Donor and Gift Services unit within UDAR provides a spectrum of services such as gift processing and acceptance, fund creation and management, and donor acknowledgement and recognition. The following service teams have specific responsibilities as indicated below.

- *Gift Operations* accepts and receipts gifts and pledge payments.
- *Pledges and Complex Gifts* documents and accepts pledges, sends pledge reminders, accepts gifts of personal property (gifts-in-kind), and accepts gifts and pledge payments funded with publicly traded securities.
- *Fund Management* works with campus units and financial staff to ensure funds are properly set-up so that gifts and endowment payments are distributed correctly. They also ensure that gifts and endowment payout are spent according to donor intent and send annual stewardship and endowment financial reports to fund donors.

- *Donor Recognition* manages the acknowledgement programs for the Chancellor and Vice Chancellor University Development and Alumni Relations as well as the campus-wide annual, lifelong and loyal donor recognition programs. Donor Recognition produces the personalized donor annual giving report and the honor rolls published in the Annual Report of Philanthropy.

Donor and Gift Services has the authority to accept gifts on behalf of the UC Berkeley Foundation and the UC Regents and also has administrative responsibility for all private charitable contributions to the campus. They manage nearly 15,000 active current use, capital and endowed gift funds.

For FY2015-16, Donor and Gift Services recorded \$56.8M in unrestricted gifts and pledges and \$422.3M in restricted gifts and pledges (note this does not include pledge payments).

### **Summary Conclusion**

Based on our audit procedures performed, we observe that administrative processes and controls appear to be adequate to support

- stewardship and donor reporting;
- analysis of accumulated funds; and
- communication and training on the establishment and management of restricted gifts and endowments.

While Donor and Gift Services currently has processes in place to monitor gift fund expenditures including endowment and FFE distributions on an ad-hoc basis to evaluate whether expenditures are in accordance with the fund terms, we believe there is opportunity to further enhance monitoring practices to mitigate the risk that funds are not being spent as the donor intended, including prioritizing review of fund expenditures based on identified key risk indicators, complexities of the fund terms, dollar thresholds of fund balances, or annual distributions.

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# SUMMARY OF OBSERVATIONS & MANAGEMENT RESPONSE AND ACTION PLAN

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## **Monitoring Gift Fund and Endowment Fund Expenditures**

### **Observation**

Donor and Gift Services monitors gift fund expenditures (including endowment and FFE distributions) on an ad-hoc basis to evaluate whether expenses are in accordance with the fund terms. If Donor and Gift Services identifies irregularities in a specific type of fund, it may lead to a more in-depth analysis of other funds that share the same attributes. Additionally, Donor and Gift Services uses expense account codes to perform an analysis on a larger scale or may be asked by campus units to look at a portfolio of funds that supports a specific program.

Although Donor and Gift Services currently does not have a routine process in place to systematically monitor campus gift funds to ensure they are being spent in accordance with donor intent, it is our opinion that monitoring all gift funds (including endowments and FFEs) is not feasible given the total number of funds. We believe, however, there is an opportunity for Donor and Gift Services to further enhance monitoring practices to mitigate the risk that funds are not being spent as the donor intended, including prioritizing review of fund expenditures based on, for example, identified key risk indicators, complexities of the fund terms, dollar thresholds of fund balances, or annual distributions.

### **Management Response and Action Plan**

Donor and Gift Services agrees that the systematic monitoring of campus gift funds is an ideal. While staffing levels and other priorities impede our ability to approach this in a comprehensive manner, we will develop a risk-based approach to planning and scheduling targeted gift fund analyses/reviews by September 30, 2017. Each of these analyses/reviews will be documented upon completion, and findings will be shared on an ongoing basis with our division's management team. We will report our findings to the Controller's Office on a semi-annual basis.