**CONFIDENTIAL**

DEPARTMENT OF NEUROLOGY GIFT FUND EXPENDITURES

AUDIT REPORT #18-601802C

Audit & Advisory Services

June 2018

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Background

As part of the Health Sciences audit plan for 2017-18, UCLA Audit & Advisory Services (A&AS) conducted an audit of expenditures charged to David Geffen School of Medicine (DGSOM) gift funds, including Department of Neurology gift funds. The Department of Neurology was one of three DGSOM departments selected for inclusion in the audit based on the volume of aggregated expenditures charged to gift funds in 2016-17. Below is a summary of Department of Neurology gift fund activity during fiscal year 2016-17.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **New Contributions FY16-17** | **Expenditures FY16-17** | **Ending Balance FY16-17** | **Available Balance June 30, 2017** | **Book Value June 30, 2017** | **Market Value June 30, 2017** |
| Endowments Regental - Principal | | $ 0 | $ 0 | $ 14,879,228 | $ 0 | $ 14,879,227 | $ 44,415,573 |
| Endowments Regental - Income | | 0 | 1,957,393 | 16,986,706 | 15,456,687 | 0 | 0 |
| Current Expenditure - Regental | | 1,072,211 | 2,153,893 | 5,368,208 | 5,368,208 | 0 | 0 |
| Endowments - Foundation | | 3,235,387 | 988,765 | 27,747,443 | 2,797,569 | 31,175,265 | 29,842,158 |
| Current Expenditure - Foundation | | 7,566,750 | 4,344,016 | 18,251,749 | 18,251,749 | 0 | 0 |
| **TOTAL** | | $ 11,874,348 | $ 9,444,066 | $ 83,233,335 | $ 41,874,213 | $ 46,054,492 | $ 74,257,731 |

Purpose and Scope

The purpose of the audit was to assure that funds have been expended in accordance with donor intent and University policies and procedures.

The scope of the audit included a cursory review of all Department of Neurology gift funds and a detailed review of 54 sampled expenditures charged to 29 departmental gift funds during fiscal year 2016-17. The UCLA Consolidated Gift Fund Management Report was used to determine the purpose of the gift funds. Various documentation was examined to verify the nature of the expenditures, including invoices, recharges, travel expense reports, post-authorization notifications (PANs), and payroll reports. Departmental staff were relied upon to explain expenditures for which the nature was not readily apparent.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* and included tests and other procedures considered necessary in achieving the purpose.

Summary Opinion

Based on the results of the work performed within the scope of the audit, expenditures charged to Department of Neurology gift funds were generally in accordance with the donor intent. The audit did, however, identify two gift funds where the official gift purpose on record was not accurate, as well as some other policy compliance issues.

The audit results and recommendations are detailed in the remainder of this audit report.

Audit Results and Recommendations

| **#** | **FINDING and**  **CRITERIA, where applicable** | **RECOMMENDATION** | **MANAGEMENT RESPONSE** |
| --- | --- | --- | --- |
| **GIFT FUND PURPOSE CONCERNS** | | | |
| 1 | Fund with Misleading Purpose  The official fund purpose on record for one gift fund (50599O/54371) is misleading.  Per a letter from the donor, the purpose of the gift is to:   * recruit faculty * expand intellectual capital through the recruitment of advanced trainees and support resources needed * renovate the designated clinic spaces within the existing Movement Disorders Clinic at 300 Medical Plaza and translational research spaces in the Reed Neurological Research Center, and * provide seed funding for novel research projects   Upon receipt of the gift in 2004, $4.4 million was placed in Foundation Gift Fund #61267O, for which the gift purpose states, “to provide immediate funding to recruit faculty, advanced trainees, support resources and seed funding for novel research projects at the discretion of the Chairman of the Department of Neurology.”  The remaining $600,000 was put in Foundation/ Campus Gift Funds 50599O/54371, for which the gift purpose states “to renovate designated clinic spaces within the existing Movement Disorders Clinic in the 300 Medical Plaza and designated translational research spaces in the Reed Neurological Research Center in the Department of Neurology.” These renovations were considered to be part of the Westwood Replacement Project, so this portion of the gift was exempted from the gift administrative fee, which is currently 6.5%. As of December 2017, there are a significant amount of expenditures to-date that do not appear related to the renovations, including salaries, benefits, lease-off-campus, chemical compounds, laboratory tests, supplies, and travel. The remaining fund balance is $232,186.  While the non-renovation expenditures to-date appear to fall within the multiple purposes originally intended by the donor, the current official purpose on record for this gift fund creates the appearance of a deviation from the donor’s intent. | The department should work with External Affairs Fund Management/Support Services to modify the official gift purpose. Because there is a significant amount of expenditures charged to this fund that are not related to renovations, there is a need to evaluate whether the gift administrative fee should be paid. | The Department maintains that care was taken to ensure that these funds were used in accordance with the four stated aims of the donor, a point with which the auditor appears to agree. We disagree with the term “misleading,” and of the conclusion that the use of these funds “deviated from the donor’s intent.”  We have an excellent working relationship with our development officer team and will continue to work with them to ensure that funds are expended in accordance with donor intent.  Additional Audit Comment:  It is only the more restrictive stated purpose of gift fund 50599O/54371 that is at issue, not the expenditures themselves.   Therefore, A&AS has alerted External Affairs of the need to adjust the stated purpose so that it accurately reflects the donor’s wishes, which encompassed multiple purposes*.* |
| 2 | Fund Assigned to Separated/Deceased Faculty  The official purpose of one gift fund (#37288) is to support teaching and research under the direction of a faculty member who had a “without salary” appointment starting in 1994 and passed away in 2010.  Gift funds should be associated only with UCLA employees. | The department should ensure that all gift funds are assigned to compensated faculty members only. Should a faculty member assigned to a gift fund separate from the University, the department should work with External Affairs Fund Management/ Support Services to re-designate the gift funds to compensated faculty members who do similar research. If appropriate substitutes are not available, the department should work with External Affairs Development for guidance. | We agree with and will follow the stated recommendation. |
| **OTHER ISSUES** | | | |
| 3 | Professional Services  The audit identified two instances, described below, where low value orders (LVOs) were used to procure professional services, although using LVOs for such purchases is prohibited by University policy.     * An independent contractor provided translation services for a research study consent form. The $200 expenditure was charged to gift fund #42731. * A consultant provided respiratory care services for the Amyotrophic Lateral Sclerosis (ALS) Clinic. This $928 expenditure was charged to gift fund #42871.   Independent contractor, consultant, or other purchasing agreements are usually required for professional services, regardless of the expected dollar amount or how frequently the services will be utilized.  Without a formal agreement and applicable terms and conditions in place (i.e., whether the vendor will hold the University harmless, if the vendor carries insurance, if California law will govern any legal issues, if the contract can be terminated, etc.), the University is at risk if there is a problem.  There is also an increased risk of violating the University of California Fair Wage/Fair Work (FW/FW) Plan, which requires that the FW/FW wage be paid not only to UC employees working at least 20 hours per week, but also to employees of vendors who are providing services to UC.  \_\_\_\_\_\_\_\_\_\_  Criteria:    UCLA Policy 740 & 741, "Low-Value Purchases" - Attachment A: An LVO should not be used for professional services. A contract is required. | The department should remind staff and faculty that, generally, LVOs cannot be used for professional services and that these services should be processed on a Requisition for Purchase Order.  This procedure ensures that the vendors are appropriately vetted and that the proper terms and conditions are applied. | We have done so and will continue to make new staff and faculty aware of the policy on low value purchases. |
| 4 | Split Orders  The audit identified two payments to the same vendor that were processed on the same day, with the total of the two payments exceeding the LVO dollar limit of $5,000.  The two invoices (for $4,728 and $719) totaled $5,447 and were charged to gift fund #52703. This circumstance gives the appearance that the department asked the vendor to split the invoice to process the purchases as LVOs.  \_\_\_\_\_\_\_\_\_\_\_  Criteria:    UCLA Policy 741, "Low-Value Purchases," Part IV.A.4: LVO Authorization shall not exceed $5,000. Exceptions may be considered on a case-by-case basis and must be issued in writing by the Campus Purchasing Director.  Part IV.B.2: The issuance of multiple LVOs on the same day or repeat orders on consecutive days to a vendor for the same or related material, or the issuance of multiple invoices by a vendor in order to circumvent policy, are prohibited and shall be cause for the withdrawal of LVO authorization. | The department should remind staff that LVOs should not exceed $5,000 per vendor, per day, per account. Lack of adherence to the policy jeopardizes the department’s authority to use LVOs. | We have done so and will continue to make new staff and faculty aware of the policy on low value purchases. |
| 5 | Transfers to Other Departments  Departmental staff have indicated that, when a portion of a Neurology gift is transferred to another department for support/collaboration, Neurology is no longer responsible for monitoring how the funds were utilized. | As a best practice, when funds are initially transferred, the transferring department should receive from the recipient department an attestation that the funds will be spent in accordance with the gift purpose. Quarterly, the recipient department should provide a general ledger extract showing expenditures charged and attesting that expenditures were in accordance with the gift purpose. The DGSOM Dean’s Office supports such a process. | The Chief Administrative Officer is instructing the Chief Financial Officer and financial team to abide by this best practice. We cannot ensure compliance on the part of the recipient department, but we will try. |

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