



UCSB Audit and Advisory Services

Internal Audit Report

Gift Administration – Donor Intent

January 24, 2019

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Report No. 08-19-0001

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January 24, 2018

To: Beverly Colgate, Associate Vice Chancellor for Development
Polly Bustillo Senior Director Development and Advancement Services
Institutional Advancement

Distribution

Re: **Gift Administration – Donor Intent
Audit Report No. 08-19-0001**

As part of the 2018-19 annual audit services plan, Audit and Advisory Services has completed an audit of gift administration. Enclosed is the report detailing the results of our work.

The primary purpose of the audit was a limited review of gift administration internal controls to help ensure gift funds are being managed and administered in accordance with donor intent and University of California (UC) and University of California, Santa Barbara (UCSB) policies and procedures. The scope of the audit included limited testing of current use gift funds active during fiscal year 2017-18. Endowments and funds functioning as endowments were not included in the scope of this review.

Based on the results of the work performed within the scope of the audit, the campus has generally established effective internal controls related to gift administration and current use gift funds are spent in accordance with donors' instructions. However, our review did identify opportunities to improve campus guidance regarding the timeliness of expending current use funds.

Detailed observations and management corrective actions are included in the following sections of the report. The management corrective actions provided indicate that each audit observation was given thoughtful consideration, and that positive measures have been taken or are planned to implement the management corrective actions.

We sincerely appreciate the cooperation and assistance provided by personnel in Institutional Advancement, Business and Financial Services, Bren School of Environmental Science & Management, Department of Computer Science, and Department of Materials. If you have any questions, please contact me.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "aa", with a long horizontal flourish extending to the right.

Ashley Andersen
Director
Audit and Advisory Services

Beverly Colgate, Associate Vice Chancellor for Development
January 24, 2019
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Enclosure

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Senior Vice President and Chief Compliance and Audit Officer Alexander Bustamante

PURPOSE

The primary purpose of the audit was a limited review of gift administration internal controls in place to help ensure current use gift funds are properly administered and managed in accordance with donor intent and University of California (UC) and University of California, Santa Barbara (UCSB) policies and procedures. This audit is part of our fiscal year 2018-19 audit services plan.

SCOPE, OBJECTIVES, AND METHODOLOGY

The scope of the audit included limited testing of the UC Regents of the University of California and UCSB Foundation current use gift funds active during fiscal year 2017-18. Endowments, including funds functioning as an endowment, were not included in the scope of this review. The objectives included determining whether there are adequate internal controls in place to ensure:

- Current use gift funds are accepted and processed according to donor intent and University policies and procedures. This included verifying whether donor intent was documented, gifts were deposited appropriately, a conflict of interest statement was completed if required, gifts were accurately allocated, and gift tax was assessed appropriately.
- Transactions are in compliance with donor intent and University policies and procedures. This included identifying whether transactions were appropriate and reasonable according to donor intent, transactions were in compliance with appropriate UC and UCSB policies, were adequately supported, and that there was proper review and approval obtained.
- Gift fund accounts are properly reconciled and reviewed. We also performed limited data analysis regarding the timeliness of fully expending current use gifts.

To accomplish our objectives, our detailed work included interviews, direct observations, review of documentation, and other steps. Specifically, we:

- Researched and reviewed relevant UC and UCSB audits and advisory work related to gift administration, which are listed in Table 1.
- Researched and reviewed UC and UCSB policies and other guidance related to gift administration processes. See Table 3.
- Conducted interviews with personnel from Institutional Advancement, UCSB Foundation, Business and Financial Services, Computer Science Department, Materials Department, and Bren School to gain an understanding of campus processes and procedures for gift administration.
- Performed a walkthrough of gift processing procedures within the Gift Administration unit.
- Completed an evaluation of internal controls through detailed control interviews with personnel from a sample of departments responsible for current use gift administration and processing.
- Performed and documented a risk assessment that considered gift expenses, gift processing, gift tracking, spending timeliness, training, and guidance based on the result of our interviews, review of documentation, observations, and other work.

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- Selected a sample of 26 current use gifts from three departments for detailed testing of gift processing operations, which included determining whether:
 - Donor intent was properly documented.
 - Deposits followed UC Policy BUS-49 *Policy for Cash and Cash Equivalents Received* and best practices.
 - Conflict of interest disclosures were submitted in accordance with Academic Personnel Manual 28, *Disclosure of Financial Interest in Private Sponsors of Research*.
 - Gifts were accurately allocated.
 - Gift tax was assessed in accordance with UCSB Policy and Procedure, Gift Administrative Fee.

- Selected a sample of 30 expenses from three current use gift funds for detailed testing of expenses, which included determining whether transactions were:
 - Appropriate and reasonable according to donor intent.
 - In compliance with appropriate UC and UCSB policies and best practices.
 - Adequately supported.
 - Properly reviewed and all required approvals were obtained.

- Performed a walkthrough of three departments’ reconciliation process to determine whether procedures reasonably ensure gift fund reconciliations are accurate, timely, and complete.

- Performed an analysis of current use gift fund balances to determine whether they are being used in a timely manner.

Table 1	Relevant UC Audit and Advisory Reports	
Report Name	Year	Campus
Gift Processing	2009	UC Santa Barbara
Gift Administration – Donor Intent	2018	UC Santa Cruz
Development and Alumni Relations Donor Restrictions on Gift Expenditures	2014	UC Davis
Health System Donor Gift Expenditures	2008	UC Davis

Source: Auditor analysis.

This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

BACKGROUND¹

The University of California, Santa Barbara (UCSB) receives a significant amount of gifts from private sources year-round. These funds provide a wide range of support for students, faculty, and various research programs. Gifts to University of California, Santa Barbara from individuals, corporations, and foundations may be made through the UC Santa Barbara Foundation or the Regents of the University of California. Both are considered public charities under Section 501(c)(3) of the Internal Revenue Code, thus qualifying for all charitable deductions to the limit allowed by law. The UC Santa Barbara Foundation and the Regents of the University of California receive and administer individual bequests, endowments, annual gifts from alumni and friends, and corporate and foundation donations.

¹ Department websites within Institutional Advancement.

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The campus has multiple programs to solicit donations, including the Parent & Family Giving Fund and the Annual Fund. The Parent & Family Giving Fund helps create a community of parents actively engaged in their student's college experience and provides the primary vehicle for parents of students to provide philanthropic support to the campus. The Annual Fund is comprised of donations from alumni, friends and families to sustain every part of the UCSB experience including students' well-being, instruction, research and innovation, classrooms and labs, tutoring, and the arts. Online giving is also available to give donors the ease and ability to choose a specific gift area of interest and amount without the difficulty of figuring out where to send donations.

In fiscal year 2017-18, UCSB received approximately \$90 million in private gifts and pledges. Gifts donated to the Regents of the University of California totaled approximately \$64 million while the UCSB Foundation received \$26 million of gifts and pledges.

Organizations involved the Gift Administration Process

Gifts are solicited, processed, and accepted through the Institutional Advancement division. Within this division, Development is the campus fundraising department, and Gift Administration is responsible for processing all donations made to the Regents of the University of California and the UC Santa Barbara Foundation. Institutional Advancement also provides annual training to educate campus departments in the gift administration process. The gifts administration process involves several additional units, including the UCSB Cashier's Office, the UC Santa Barbara Foundation, and Extramural Funds Accounting. See Table 3 for a brief description of key units in the gift administration process.

Table 3		Organizations involved the Gift Administration Process
Department	Description	
Gift Administration	A unit within Institutional Advancement that processes donations made to the Regents of the University of California and the UC Santa Barbara Foundation. Gift Administration handles all UC Santa Barbara Foundation credit card gifts and the Regents of the University of California credit card gifts to departments without merchant services. Gift Administration is staffed by seven full-time career employees.	
UC Santa Barbara Foundation	A separate agency from the Regents of the University of California. Checks made out to the UC Santa Barbara Foundation are deposited into the UC Santa Barbara Foundation bank account. The UC Santa Barbara Foundation is responsible for requesting a new campus fund number from Extramural Funds Accounting. Current use gifts are then distributed to appropriate campus general ledger accounts and funds. The UC Santa Barbara Foundation is also responsible for handling online giving.	
UCSB Cashier's Office	Secures proper campus cash collection deposits in accordance with regulations and guidelines. Checks made out to the Regents of the University of California are deposited at this office. The UCSB Cashier's office verifies necessary documentation is included with the University Gift Acceptance Form (UDEV ²).	
Extramural Fund Accounting	Oversees the financial management of all external funding received by UCSB, including private contracts and grants, endowments, and gifts. The unit also provides financial reporting, cash management, accounts receivable, and gift processing. Once Extramural Fund Accounting receives the signed UDEV, the cash is released from the holding account and a budget is established for department spending. Extramural Fund Accounting also automatically applies gift tax, as appropriate.	

Source: Auditor analysis.

² If the gift is for UC Santa Barbara Foundation, the UDEV 100-8 FDN is used. If the gift is for the Regents of the University of California, the UDEV 100-8 is used. In both forms, the following information is included: legal donor, gift fund purpose, which entity, if payment is a future commitment or will be paid immediately, and payment method.

UCSB Current Use Gift Cycle

Consistent with donor intent, gift funds are categorized as either endowments or gifts available for current use. Generally, the donor intent for smaller gifts is not unique and matches the purpose of an existing gift fund. Larger gifts and/or gifts for a unique purpose are usually deposited into a unique newly created gift fund.

Departments receiving gifts must complete a University Gift Acceptance Form (UDEV Form), which is sent to Gift Administration to review and process. Once information is received and reviewed by Gift Administration, a gift can be formally accepted by the University. Generally, key steps include:

- Receipt of incoming gift or pledge designated to either the UC Santa Barbara Foundation or the Regents of the University of California.
- Departments prepare a gift packet, which includes the completed UDEV, endorsed check, back-up documentation, and authorized department signatures.
- Gift Administration unit receives the gift packet:
 - For gifts designated to the Regents of the University of California, departments deliver the gift packet to the UCSB Cashier's Office; the Gift Administration unit performs daily pickups of the gift packets from the UCSB Cashier's Office.
 - For gifts designated to the UC Santa Barbara Foundation, departments deliver the gift packet to Gift Administration.
- Gift Administration reviews the gift packet, obtains any final signatures, updates database information, and mails receipt to the donor.
- After the gift is posted as accepted by Gift Administration, funds are released to the department:
 - Gifts designated to the Regents of the University of California are transferred to departmental funds.
 - For gifts designated to the UC Santa Barbara Foundation are initially transferred to UC Santa Barbara Foundation funds. Next month, they are transferred to departmental funds.
- Based on the gift type or payment method, reconciliation is performed as appropriate by the UC Santa Barbara Foundation, Gift Administration, and departments receiving gifts.

Relevant UCSB Policies and Guidance

Table 2 outlines policies and guidance we consider most relevant to the scope of this audit.

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Table 2		Relevant UC and UCSB Policies and Other Guidance
Name	Description or Summary	
UCSB Guidelines for Gift Funds (February 2017)	<p>These guidelines provide definitions of the three types of gift funds and describe the manner in which gift funds are managed. There are three types of gift funds:</p> <ul style="list-style-type: none"> • A Current Use Fund is composed of a gift or gifts donated with the express intent that they be fully expended. This fund type should be used to manage gift funds that the department/unit anticipates expending within three years of receipt. • A Fund Functioning as an Endowment may be created by UCSB's administration when a gift or bequest is received and the donor does not instruct either that the gift be expended in its entirety or held as a true endowment. • An Endowment is created by a gift or bequest when a donor instructs the fiduciary that the corpus of the gift be held in perpetuity (or for a specified term of years) with the income used to support the institution or a particular program. 	
UC Policy, Institutional Development	The University of California adopts a donor-centric approach to requests for philanthropic support, based on an understanding of the donor's interests as well as the institution's needs.	
UCOP Development Reference Guide	A reference for development officers and administrators. The guide addresses soliciting and accepting private funds, gift administration procedures, requirements for reporting gifts, funds and management of funds, support groups, campus foundations, and alumni associations.	
UCSB Policy and Procedure, Gift Administrative Fee	Beginning July 1, 2012, an administrative fee of 6% is assessed upon receipt of new gifts and pledge payments (on pledges made subsequent to July 1, 2012) to the UC Santa Barbara Foundation and the Regents of the University of California for the benefit of the Santa Barbara campus. For gifts and pledges made from July 1, 2010 through June 30, 2012, the administrative fee was 2%. The maximum amount of the administrative fee assessed on a gift or pledge shall not exceed \$180,000.	
UCSB Policy and Procedure, Gift Transaction Costs	All direct third party transaction costs related to a gift transaction processed by the campus or The UCSB Foundation shall be fully offset from the proceeds of the gift.	
UCSB Policy and Procedure, Gifts, Grants, Contracts, and Sponsorships Determinations	The guidelines used to determine whether a financial transaction will be treated as a gift, a grant, a contract or a sponsorship. The deposit and expenditure control requirements associated with each type of financial contribution. Reference to the associated gift fees and/or indirect cost recovery charges.	
UCSB Policy and Procedure, Solicitation and Acceptance of Gifts	This policy addresses the procedure for the solicitation and acceptance of Gifts, Gifts-in-Kind, Deferred Gift Agreements, and Fundraising Campaigns.	
Academic Personnel Manual 028, Disclosure of Financial Interest in Private Sponsors of Research	UC guidelines on disclosure of financial interest in private sponsors of research. A principal investigator must disclose whether the principal investigator has a direct or indirect financial interest in the sponsor of research which is funded or supported in whole or in part by a gift from a non-governmental entity which is earmarked by the donor for a specific research project or a specific principal investigator. Disclosure statements must be filed (a) before final acceptance of such a contract, grant, or gift; and (b) when funding is renewed.	
UCSB Gift Compliance Training	Annual campus training that addresses gift processing, administration, and compliance.	
UC San Diego Policy & Procedure regarding Gift and Endowments	“... If no material spending occurs within five years of the receipt of an expendable or current use gift, a spending plan must be provided within 90 days of receiving notice from the Office of Donor Stewardship. If an acceptable spending plan is not submitted and approved, the Chancellor will be notified and the Chancellor may direct appropriate action to ensure that the funds are expended as the donor intended...”	

Source: Auditor analysis.

SUMMARY RESULTS OF REVIEW

Based on the results of the work performed within the scope of the audit, the campus has generally established effective internal controls related to the management and administration of gifts according to donor intent. However, our review did identify potential opportunities to improve campus guidance regarding the timeliness of expending current use gift funds.

DETAILED OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS

A. Gift Processing

Based on testing a sample of current use gift funds, we found the following areas of gift administration were overall processed according to donor instructions and University policies and procedures:

- Donor intent was documented.
- Gifts were deposited appropriately.
- Conflict of interest statements were completed when appropriate.
- Gifts were allocated to the correct account or fund.
- Gift tax was assessed according to campus policy.

However, throughout our work with sample departments, we observed bank account numbers were not consistently redacted from copies of checks. Appropriately redacting sensitive, financial information will help prevent misuse. This best practice could be improved through campus reminders or additional training offered. The results of our testing are summarized in Table 4:

Table 4		Gift Processing Operations		
Criteria	Bren School	Computer Science	Materials	Comments
Donor Intent	✓	✓	✓	All samples documented donor intent.
Gift Deposits	P	✓	P	When reviewing department copies of support documentation, we found eight instances where bank account numbers were not redacted: • Materials: Five check copies had no redactions. • Bren: Three check copies had no redactions.
Conflict of Interest	✓	✓	✓	All samples included a conflict of interest form when appropriate.
Allocation	✓	✓	✓	All samples were appropriately allocated to the correct account and fund.
Gift Tax	✓	✓	✓	Extramural Fund Accounting assessed and applied gift tax to all samples unless there was a waiver.

Source: Auditor analysis.
 ✓ = In compliance with campus policy or best practices.
 P = In compliance with policies but has room for improvement.

As part of our preliminary survey, we interviewed sample departments on their procedures relevant to the gift administration process. This included topics regarding handling mail remittance, deposits, and training. Based on their response, we found potential areas for improvement:

- In interviews with Gift Administration and a sample of departments, we were informed that mail remittances are not consistently verified and processed by two employees, as required by UC Policy BUS-49 *Policy for Cash and Cash Equivalents Received*. This is especially a risk for the Gift Administration unit due to handling a high volume of cash and cash equivalents. As a compensatory control, Gift Administration requires a secondary review of check batches by someone not involved in the deposit process.

- Selected department procedures indicate deposits are not consistently transported in dual custody to the cashiering station. UC Policy BUS-49 *Policy for Cash and Cash Equivalents Received* requires employees, in dual custody, transporting (walking or driving) the deposit to the Main Cashiering Station.
- Selected departments procedures indicate deposits are not consistently made in a timely manner. UC Policy BUS-49 *Policy for Cash and Cash Equivalents Received* states that collections shall be deposited at the designated Main Cashiering Station at least weekly or whenever collections exceed \$500. UCSB Gift Compliance Training³ also recommends depositing gifts within 24 hours of receipt.
- Interviewed departments were not completely aware of annual training or assume there have been no changes to the process. Departments may not be receiving adequate training or have outdated information.

B. Use of Gift Funds

Based on testing a sample of expenses, we found gift funds were spent according to donor intent and generally complied with UC and UCSB policies, as appropriate. Table 5 summarizes our analysis. Specifically, we found expenses were:

- Appropriate and reasonable per donor intent.
- Overall in compliance with appropriate UC and UCSB policies.
- Adequately supported.
- Properly reviewed and approved by authorized personnel.

Table 5		Use of Gift Funds		
Criteria	Bren School	Computer Science	Materials	Comments
Donor Intent Compliance	✓	✓	✓	All expenses were spent according to donor intent.
UC/UCSB Policy Compliance	P	✓	✓	One reimbursement request was submitted 4.5 months after the traveler's return. UC Policy G-28 requires that travel expense claims must be submitted to the travel accounting office within a reasonable amount of time not to exceed 45 days after the end of a trip. Travel reimbursement requests submitted after 45 days are left to the discretion of the campus.

Source: Auditor analysis.
 ✓ = In compliance with campus policy or best practices.
 P = In compliance with policies but can be improved.

C. Gift Reconciliation

Based on our interviews and support documentation, we found there are overall appropriate procedures in place to ensure gift funds are properly reconciled. Specifically, we found that departments:

³ Live training given October 2018.

- Reconcile gift funds as part of the department reconciliation procedure. This is usually performed with the general ledger, the Grand Unified System (GUS)⁴, and excel workbooks.
- Perform reconciliations monthly and annually.

However, we observed opportunities to improve current procedures regarding the review and approval of reconciliations performed for the Computer Science department. Table 6 describes our analysis.

Table 6		Gift Reconciliation		
Criteria	Bren School	Computer Science	Materials	Comments
Gift Reconciliation	✓	✓	✓	All departments include gift funds as part of the regular reconciliation process.
Secondary reviewer/approver	✓	P	✓	Computer Science: As of our audit, the department was in the process of improving current reconciliation procedures, which includes a secondary review.
Periodic	✓	✓	✓	All departments perform reconciliation at least monthly.

Source: Auditor analysis.
 ✓ = In compliance with best practices.
 P = In compliance with best practices but can be improved.

D. Timeliness of Spending

Throughout the course of the audit we observed campus departments appear to manage unrestricted current use gifts as a donation without limitations, which includes the option of holding onto these funds in perpetuity. Even though, accumulating unrestricted current use funds could be rationalized as a prudent decision; donors could decide to maximize the impact of their contributions by selecting other institutions, reducing future campus donations.

Our testing of a sample of 26 current use gifts from three departments did not find donor requirements to enforce funds are expended timely. Additionally, University of California policy does not explicitly address the timeliness of spending current use funds, as it does for the income from endowments. However, we did note the following guidance recommends avoiding current fund accumulation:

- *UCSB Guidelines for Gift Funds* states that, "...current use fund is composed of a gift or gifts donated with the express intent that they be fully expended. This fund type should be used to manage gift funds that the department/unit anticipates expending within three years of receipt..."
- UC San Diego Policy & Procedure Section 410-5 *Gift and Endowments* states that, "...if no material spending occurs within five years of the receipt of an expendable or current use gift, a spending plan must be provided within 90 days of receiving notice from the Office of Donor Stewardship. If an acceptable spending plan is not submitted and approved, the Chancellor will be notified and the Chancellor may direct appropriate action to ensure that the funds are expended as the donor intended."

Institutional Advancement is working with campus departments with the purpose of improving oversight of low activity and low balance current gift funds, minimizing the accumulation of these gifts, and

⁴ GUS is a custom database system for managing and maintaining funding source, purchasing, lien, and other essential financial information for many departments and research organizations across the UCSB campus.

discouraging departments to save them for “a rainy day”. They are also suggesting alternatives to allow some funds to be invested in the endowment pool to minimize inflation effects and increase incomes. It could be beneficial to evaluate the following suggestions:

- Include a process to terminate inactive funds with low balances when there has been no communication with the fund advisor or fund representative over a number of years.
- Allow some non-permanent funds to be invested in the endowment pool which does not change nonpermanent funds to endowed funds.

Our analysis of the information provided by Institutional Advancement regarding current use gift funds highlighted that the balance of 378 existing unspent current use gift funds donated to the campus more than five years ago is around \$4.8 Million.

We recommend Institutional Advancement evaluate the implementation of an action plan to:

- Enhance accessibility and communication of gift administration training. Evaluate recording training sessions and provide online training.
- Consult with key stakeholders to establish an agreed upon policy or procedure for the timely spending of unrestricted gifts to minimize inflation effects and increase incomes.
- Evaluate a process to:
 - Terminate inactive funds with low balances when there is no communication with the fund advisor or fund representative over a number of years.
 - Allow unrestricted current use funds to be invested in the endowment pool to minimize inflation effects and increase incomes.

Management Corrective Actions

Institutional Advancement will evaluate the implementation of an action plan to:

- Enhance accessibility and communication of gift administration training.
- Consult with key stakeholders to establish an agreed upon policy for the timely spending of unrestricted gifts to better follow compliance with best practices.
- Evaluate a process to terminate low balance and inactive funds and allow unrestricted current use funds to be invested in the endowment pool.

Audit and Advisory Services will follow up on the status of this issue by May 1, 2019.