



Internal Audit Report

Gift Administration - Donor Intent

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Frank Beahan
Senior Auditor

Approved
Barry Long, Director
Internal Audit & Advisory Services

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I. EXECUTIVE SUMMARY

Internal Audit & Advisory Services (IAS) has completed an audit of Gift Administration - Donor Intent. The purpose of the audit was to evaluate the effectiveness of controls for ensuring that gift funds are spent in accordance with the donor's instructions (both in the use and timing of funds spent). Our review focused primarily on controls over Endowment payout fund balances and expenditures, also the controls over other gift funds.

Overall, internal controls were effective and provided reasonable assurance that gift funds were spent in accordance with donor's instructions on use and timing. Campus development activity regarding donor intention, campus-wide gift expenditures and stewardship of gift balances was generally in compliance with policies and procedures.

In addition, University Relations has enhanced stewardship of endowment funds by preparation and distribution of an Annual Endowed Fund Report to endowment fund donors outlining the status and use of endowment income, and by meeting annually with campus divisions to review the balance and use of its endowment funds.

However, opportunities were identified within University Relations to help support campus divisional units and to improve controls over current gift funds and gift intent compliance, and campus access to gift fund information.

The following observations requiring management corrective action were identified:

A. Controls and Stewardship – Current Gift Funds

There was no centralized stewardship review process over carryforward balances and use of current gift funds. Stewardship of current gift funds could benefit from inclusion in University Relations Annual Endowment Report annual review process.

B. Access to Letters of Gift Agreements - Research Accountants

Donor intent compliance for Research Gifts could be enhanced if Research Accountant units were provided timely access to University Relations Letter of Gift information documenting the agreement with the donor.

C. University Relations Reports - FOAPAL Information

University Relations use their designation codes while campus division personnel use FIS FOAPAL codes to represent and track the donor's intention for the use of a gift. Providing campus personnel with a crosswalk table of UR designation codes and FIS FOAPAL codes would help improve the efficiency of gift fund administration.

Management agreed to all corrective actions recommended to address risks identified in these areas. Observations and related management corrective actions are described in greater detail in section III. Of this report.

II. INTRODUCTION

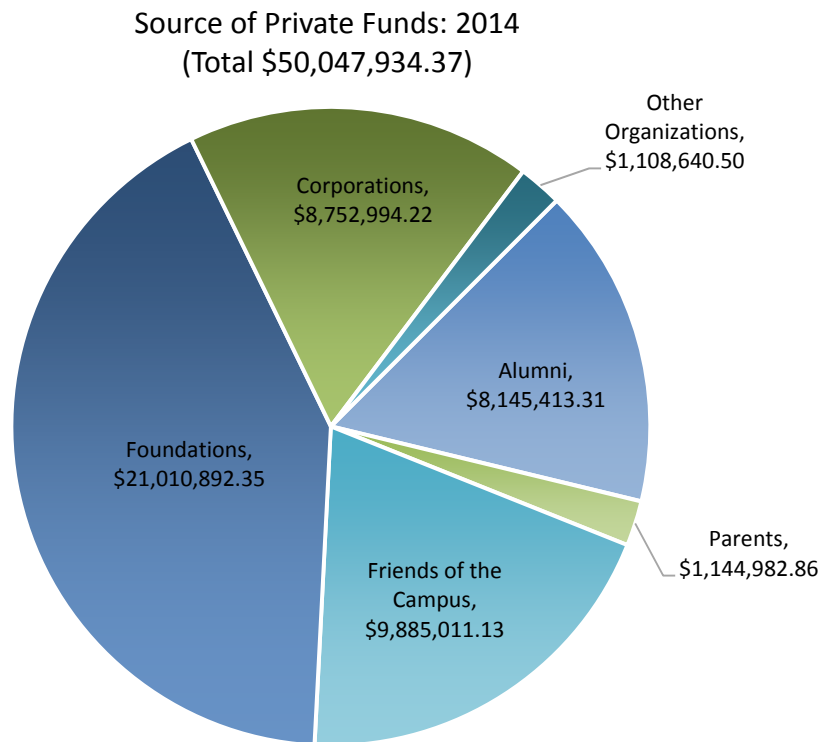
Purpose

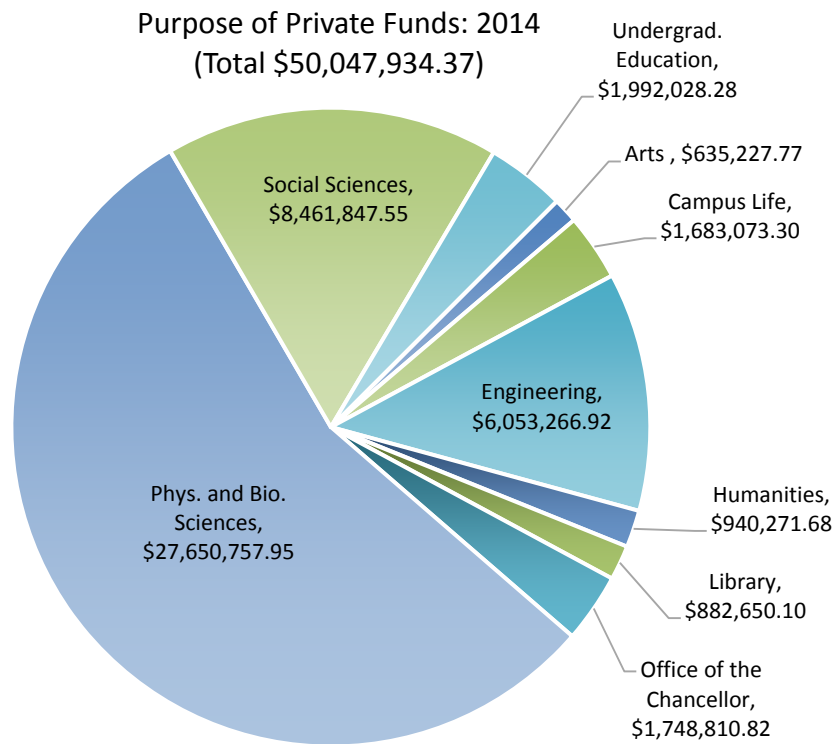
The purpose of the audit was to evaluate the effectiveness of controls for ensuring that endowment income and gift funds are spent in accordance with the donor’s instructions (both in the use and timing of funds spent).

Background

Endowment funds are gifts where the corpus is invested and an annual payout is expended per donor intent. For true endowment funds the corpus is never expended. For funds functioning as endowments the corpus may be expended per donor agreement. In FY 2014 UCSC received \$7.7 million in gifts and pledges from private donors and foundations used to establish 21 new endowed funds. There are 467 individual endowed funds supporting UC Santa Cruz. The market value of the UC Santa Cruz endowed funds as of June 30, 2014 was \$151 million. In the 2014-15 academic year \$5 million in endowment payouts will benefit students, faculty and campus programs.

In addition to the endowed funds the majority of gifts to UCSC are for current use. These are most often smaller gifts. Generally the donor intention 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 deposited into a unique newly created gift or endowment fund. The following charts represent the source and use of gifts to UCSC for FY2013-14.





The primary control for compliance with donor intent is to ensure that the agreement with the donor is clearly documented and the gift is deposited in the correct gift fund and responsibility is assigned to the appropriate UCSC organization. For smaller gifts, this is relatively straight forward. For example, donors can visit the giving.ucsc.edu website and select from a listing of 1,142 existing giving designations. A University Relations designation is an alphanumeric code used by University Relations (utilized in ADFS Banner – University Relations enterprise information system) to represent and track the donor’s intention for the use of a gift. If the donor has a donation for a purpose not listed they can discuss their intention with University Relations and if necessary a new designation code and perhaps a new gift fund will be created. Generally, donors are encouraged to utilize one of the existing designation codes.

For larger gifts and endowments the donor engages in discussions with the Development Officer (DO) assigned to the department responsible for oversight of the proposed gift. The donor, DO and recipient department or faculty member come to an agreement documented in a formal Letter of Gift. For all gifts the donor receives a receipt for each donation and a thank you email or letter.

The process of bringing a gift onboard, from the first contact with the donor to the issuance of a receipt and thank you letter is critical in ensuring that the gift will be used as intended and the processing of the gift is in compliance with UC, UCSC and federal regulations. UCOP provides the UC Development Reference Guide, outlining UC private gift policies and procedures. UC and UCSC gift policies and procedures are risk related in that as gifts become more substantial and unique the requirements of the onboarding and approval process increase.

After onboarding the focus of controls shifts to managing and monitoring the use of gift funds. UCOP actively monitors all endowment utilization by requiring University Relations to submit an annual report of all endowments with a balance available that exceeds 5 years of endowment payout. Expanding on the UCOP annual endowment report, each year University Relations creates a report for each campus division analyzing their endowment payout balance available for each of their endowment funds. Endowments with accumulated balances are identified and its utilization is discussed with the division/department.

The annual reviews by UCOP, and by University Relations and the campus units, of endowment balances and subsequent strategic discussions ensures campus units will not accumulate endowment income rather than utilize the gift as the donor intended. The primary causes of persistent endowment fund accumulation are dated donor agreements and overly specific donor restrictions. In response, several campus units are working with University Relations in seeking donor permission to “repurpose” the donor agreement.

Another control function of University Relations is their Annual Endowed Funds Report to the donors. University Relations reports to the donor the value of the corpus of the endowment, the annual income, expenditures and how that income was utilized in the past year. The report usually contains a narrative describing the use of the funds. For scholarships, the name and hometown of the recipients are listed. Maintaining communication with the endowment donor, at minimum annually, ensures that the donor is engaged and an active participant in monitoring compliance with their intended use of the funds.

The actual expenditure decisions for gift funds are highly decentralized across campus. Internal controls over State funds or grant funds have considerable centralized infrastructure whereas controls for gift fund expenditures tend to reside at the department and principle investigator level. For FY 2014 we identified gift expenditures on 1,255 unique fund and organization combinations indicating the number of unique combinations of source of gift, purpose of gift and responsible person or unit.

Scope

The focus of this review was on controls over donor intent and use of the more material endowment fund balances and expenditures. We observed that controls at the department level were applied similarly to all gift funds, whether they were endowment funds or current use gift funds. Because expenditure decisions for gift funds are so decentralized, we focused our efforts on providing a broad review of stewardship controls across campus units.

Some gift types, gift topics or unit operations were more appropriately reviewed as a complete entity rather than testing expenditures related to a single fund type. For example, regarding scholarship expenditures we examined departmental controls over donor intent compliance in the scholarship recipient selection process. We focused on the decentralized decision making and controls, and relied on a recent internal audit of the Financial Aid Office compliance controls.

We conducted preliminary interviews with University Relations, Financial Affairs, Budget and Planning and an academic division to assess risks and the status, strengths and weaknesses of gift internal controls.

Over the course of the audit, we interviewed 69 individuals across campus with varying levels of responsibility in donor intent stewardship and implementing related donor intent compliance controls.

Procedures for testing included:

- Analytical review of 22,476 FY 2014 gift fund expenditure transactions of 1,255 fund and organization combinations.
- Analytical review of 4,644 combinations of fund and organization gift expenditures summarized at the account code level.
- Analytical review of 1,701 gift fund carryforward balances.
- Reviewed the donor agreements in 75 selected funds Letter of Gift (LOG) files.
- Traced the donor intent LOG to the UR data used in the annual endowment review.
- Tested the data used in the endowment report to UCOP and the Annual Endowment Fund campus review process.
- Tested details of 50 judgmentally selected gift expenditure transactions.
- Testing of endowment fund transactions and balances with values greater than \$5,000 were emphasized over other gift expenditures and balances. Care was taken to ensure distribution across campus units.

We excluded from our review:

- Gift in kind transactions.
- The underlying calculations of gift fund expense transfers.

III. OBSERVATIONS REQUIRING MANAGEMENT CORRECTIVE ACTION

A.	Controls and Stewardship – Current Gift Funds	
<p>There was no centralized stewardship review process over carryforward balances and use of current gift funds. Stewardship of current gift funds could benefit from inclusion in University Relations Annual Endowment Report annual review process.</p>		
Risk Statement/Effect		
<p>Without centralized review or monitoring over non-endowment gifts, there is increased risk that a gift would not be administered in accordance with donor intent and not be detected in the normal course of business.</p>		
Agreement		
A.1	<p>University Relations will include a select sample of current gift funds in the annual review process.</p>	Implementation Date
		07/15/2016
		Responsible Manager
		Assistant Vice Chancellor, Operations and Planning

A. Improving controls and stewardship over non endowment gift funds. – Detailed Discussion

One of the most effective controls over the appropriate use of endowment funds is the annual review of endowment use and accumulated balances. The benefits of the annual review of endowment funds could be applied to stewardship over non-endowment gifts. The Annual Endowment Report review does not include current gifts, it only looks at true endowment funds and funds acting as endowment funds.

Each year UCOP requires UCSC to submit a report listing endowments with an accumulated endowment payout balance greater than five years of income. University Relations builds on this UCOP process and composes a similar report for each division listing all of their endowment funds, five years of annual endowment payout and the accumulated balance University Relations meets with each division to review the Annual Endowment Report. Those endowment funds with accumulated balances greater than 3 years of income are highlighted for discussion. The divisions’ plans for accumulated balances are discussed.

University Relations and the divisions use the Annual Endowment Report review to discuss all their endowments. How the funds have been used and will be used in the future are included in the review. Strategic planning and the relationship with the donor are part of this discussion. The annual review affords the parties the opportunity to ask any questions about compliance with the donors’ intent. The management and stewardship of non-endowment gift funds would benefit from inclusion in this annual review. A limited selection of current gift funds of a Division could be added to the review process with limited impact on the time and effort of the participants.

B. Access to Letters of Gift Agreements - Research Accountants		
Donor intent compliance for Research Gifts could be enhanced if Research Accountant units were provided timely access to University Relations Letter of Gift information documenting the agreement with the donor.		
Risk Statement/Effect		
Without timely access to documentation outlining the intent and use of a gift, Research Accountants spend time requesting such information and/or could inaccurately apply gift funds.		
Agreement		
B.1	University Relations Gift Administration will send Research Accountant units a copy of the gift agreement by-passing the current routing through intermediaries.	Implementation Date
		01/15/2016
		Responsible Manager
		Assistant Vice Chancellor, Operations and Planning

B. Research Accountants Access to Letters of Gift Agreements – Detailed Discussion

Research Accountants support and monitor research gift fund transactions in the same manner they oversee grant expenditures. They must know the specifics of the agreement with the donor. Having this information in a timely manner is critical in their role in supporting the Principle Investigator and monitoring research gift use.

Research Accountants do not routinely receive a copy of the Letter of Gift documenting the agreement with the donor. Research Accountants depend on a handoff from the Development Office to acquire a copy of the Letter of Gift. These handoffs have not been happening routinely. Without the specifics of the donor intent agreement the Research Accountants do not have the information they need in their role supporting the use of research gift funds.

The letter of gift contains information identifying the donor and other details not appropriate to share broadly or post publicly. Therefore the Development Office of each division has a copy of the agreement and shares copies within the division offices as needed. The Research Accountant unit is one of those recipients. Perhaps due to Development Office turnover or event/seasonal workloads the handoff of the gift agreements have not happened in a reliable and timely manner.

C. University Relations Reports - FOAPAL Information		
University Relations use their designation codes while campus division personnel use FIS FOAPAL codes to represent and track the donor’s intention for the use of a gift. Providing campus personnel with a crosswalk table of UR designation codes and FIS FOAPAL codes would help improve the efficiency of gift fund administration.		
Risk Statement/Effect		
Using only designation codes for gift fund reporting sub optimizes interdepartmental workflow and creates a risk of error and ineffective campus communication.		
Agreement		
C.1	University Relations will compose a crosswalk report in the FIS universe of the financial data warehouse listing both designation and FOAPAL codes and titles.	Implementation Date
		01/15/2016
		Responsible Manager
		Assistant Vice Chancellor, Operations and Planning

C. University of Relations Reports - FOAPAL Information – Detailed Discussion

University Relations personnel identify and track gifts by the designation code and description, while department personnel also use FIS FOAPAL codes. If University Relations provided department personnel with a crosswalk report listing UR designation information with corresponding FOAPAL information the communication and administering of gifts by campus personnel would be more effective. This crosswalk report would be accessible to users of the FIS data in the financial data warehouse. The FIS user group generally does not have access to the UR data in the financial data warehouse. This crosswalk report would provide a reference tool not currently available to many FIS Infoview users. An added benefit would be an opportunity for division/department personnel to correct any errors in the correlation between designation codes and FOAPAL codes in the UR ADFS database.

When a gift is deposited in department gift funds, campus personnel have three questions:

- What is the gift for,
- Where are the funds to be deposited, and
- Who is responsible for the use of the gift?

When providing reports to campus personnel, University Relations identifies the gift using a University Relations generated designation code and designation description, for example:

AP001F - Unrestricted: Asian American/Pacific Islander Resource Center

From the UR designation code and description, campus personnel can identify in most cases what the gift is for. However, designation coding does not identify where the funds are to be deposited or who is responsible for the gift.

If University Relations were to provide a crosswalk report mapping UR designation codes to FIS FOAPAL codes departmental personnel would have the reference tool they need to know where the gift was deposited and which unit/manager/PI is responsible for the gift.

FOAPAL = Fund, Organization, Account, Program, Activity Code, Location

The University Relations generated reports being referred to are Infoview reports using the Advancement data universe. The campus Development Offices provide reports to campus departments because they have access to the Advancement universe of data available through Infoview reports, while campus department personnel generally do not have user access rights to the Advancement universe. The reports provided often do not include the FOAPAL, instead they use the University Relations designation code and description.

The crosswalk report would be a corporate certified Infoview report available to all Infoview users with access rights to the FIS data universe. The report would retrieve designation code and FOAPAL information from the Advancement universe. This report would allow department personnel to look up the FOAPAL information associated with the UR designation code residing in the Advancement database. University Relations would communicate more effectively with campus personnel by providing a reference tool listing both UR designation and FOAPAL information for all gifts.