

August 3, 2021

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0940

Subject: *Gift Fund Expenditures*
Report 2021-04

The final report for Gift Fund Expenditures 2021-04, is attached. We would like to thank all members of the department for their cooperation and assistance during the review.

UC wide policy requires that all draft reports be destroyed after the final report is issued. We also request that draft reports not be photocopied or otherwise redistributed.

Christa Perkins
Director
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Attachment

cc: Judy Bruner
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UC San Diego

AUDIT & MANAGEMENT ADVISORY SERVICES

Gift Fund Expenditures
Report No. 2021-04
August 2021

FINAL REPORT

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I. EXECUTIVE SUMMARY

Audit & Management Advisory Services (AMAS) has completed a review of Gift Fund Expenditures as part of the approved audit plan for Fiscal Year 2020-21. The objective of our review was to evaluate, on a sample test basis, that funds gifted to UCSD (either via the Foundation or the Regents) and endowment income, where applicable, were expended by UCSD departments per the donors' intent as indicated in gift letters, and in a timely manner. The scope of the review included an analysis of fund transfers in the last two completed fiscal years (through June 30, 2020).

Based on our review of gifts selected for testing, we concluded that funds gifted to UCSD (either via the Foundation or the Regents) and endowment income, where applicable, were expended by departments per the donors' intent as indicated in gift letters and the funds appeared to be utilized in a timely manner. We identified no expenditures which appeared to be at variance with the intent of the donor for the sampled funds.

Along with gift transfers, department recipients receive the appropriate information about the donors' intentions and can monitor with reasonable assurance that gift fund expenditures are within the donor's wishes. In all instances where initial questions arose about gift expenditures, the recipients confirmed their receipt of donor documents, in addition to STAR fund purpose information, and demonstrated their understanding of the gift with the donor's intent.

II. BACKGROUND

Audit & Management Advisory Services (AMAS) has completed a review of Gift Fund Expenditures as part of the approved audit plan for Fiscal Year 2020-21. This report summarizes the results of our review.

Philanthropic investment or gifts to UC San Diego (UCSD) create scholarships and fellowships, expand academic programs, fund groundbreaking research, support faculty recruitment and retention, enhance patient care, construct new buildings, and provide a pool of flexible funds to help UCSD meet its highest priority needs. Gifts solicited on behalf of UCSD belong to either of the following two legal entities: The Regents of the University of California (Regents), or The Campus Foundations – UC San Diego Foundation (Foundation).

The Foundation, under the auspices of the Regents, is a separate non-profit corporation, formed in 1972 to promote UCSD's educational and research goals and meet individual campus fundraising needs that the Regents are logistically unable to provide. Governed by an independent Board of Trustees, the Foundation generates and accepts charitable donations, and manages a diverse portfolio of assets such as stocks and bonds, artwork, commercial and residential real property, trusts, and cash.

UCSD Advancement Services is the operating office for the governance and corporate operations of the Foundation. Advancement Services provides policy and legal gift documentation guidance; creates, maintains, and reviews gift funds; processes and receipts all charitable gifts in accordance with IRS and UC policy; accounts for and invests charitable gifts; enters and records private support; and stewards donors and campus customers with gift data and fund balances.

As part of the Advancement Services unit, the UCSD Office of Gift Acceptance and Policy Administration (Gift Processing) is the sole campus department with delegated authority to officially accept private gifts to UCSD received on behalf of the Regents of the Regents and the Foundation. The Regents typically receive one-time gifts including real estate to be held, endowment gifts, and gifts-in-kind to be held, while the Foundation is better equipped to process high volume gifts including fundraising and events, capital project gifts, real-estate to be sold, gifts-in-kind to be sold, and ongoing multi-year gifts.

Gift Processing

Gift Processing records all Regents and Foundation gifts in the Advancement Donor Database, ESP (Engagement Stewardship Philanthropy¹). Regents gifts were then entered into the campus Integrated Financial Information System² (IFIS). Foundation gifts are entered into the Foundation's accounting system, Blackbaud Financial Edge. Upon departmental request, Foundation gifts were transferred to campus via journal entries recorded in both Financial Edge and IFIS.

Aiding the process is the STAR (Stewardship, Transparency, Accountability, Reporting) Dashboard, an online dashboard to provide Advancement and recipients with access to financial information related

¹ The commercial name is Blackbaud eCRM, where CRM is an acronym for Customer Relationship Management.

² IFIS is the former UCSD financial system. UCSD has since transitioned to Oracle Financial System as of July 2020.

to University private support gift funds for both Foundation and Regents. It is the portal through which gift recipients may learn about the purpose of their gift funds and can access the gift document. Gift Processing ensures the integrity of gift data recorded and stored in its donor database for donor, departmental, and institutional reporting. There are two general types of gifts: restricted and unrestricted. Restricted gifts are to be used for a specific purpose as agreed to by the donor and the University. Unrestricted gifts can be used at an administrator's discretion to meet the needs of the unit. Both restricted and unrestricted gifts are subject to compliance with University policy regarding the proper classification of incoming awards and the policy for cash handling.

Gifts may also be categorized by the donor's wishes. If the gift is intended for immediate use by the recipient department³, it is called a current gift, which is made available to the department upon their request. In comparison, a gift where the funds are set aside to earn a return that will then support the donor's intended wishes is an endowment gift.

The Regents and the Foundation each accept current and endowment gifts, though there are differences in how gifts arrive to the intended recipient as shown below:

- Foundation / Endowment Gift – The recipient department requests that the transfer be made. The requests can be one-time or set to repeat monthly if the funds allow.
- Foundation / Current Gift – same as above.
- Regents / Endowment Gift – General Accounting completes endowment transfers once per year, typically in September. There are no departmental requests involved with the process.
- Regents / Current Gift – Transfers are driven by the donor. When the donation is processed, it is then transferred to the intended recipient without delay.

As part of an institutional response to COVID-19, the Foundations Board on April 23, 2020, announced that approximately 75% of the Foundation's current use and endowment payout fund balances had been transferred to recipients. A few exceptions, such as in the case of unfilled endowed chairs, were exempt until the chair was filled per donor requirement. Departments were encouraged to use all expendable gift balances where possible before expending operating funds.

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

The objective of our review was to evaluate, on a sample test basis, that funds gifted to UCSD (either via the Foundation or the Regents) and endowment income, where applicable, were expended by UCSD departments per the donors' intent as indicated in gift letters, and in a timely manner. The scope of the review included an analysis of fund transfers in the last two completed fiscal years (through June 30, 2020).

To achieve our objective, we performed the following:

³ Department is used as a general term. The actual recipient may be a researcher, department, program, college, an institute, or campus. In case of scholarship gifts, the ultimate recipients are the students, though the awards will go through one of the administrative entities mentioned.

- Reviewed prior internal audit reports regarding Gift Fund Expenditures;
- Reviewed the audited UC San Diego Foundation Financial Statements of June 30, 2019 and 2020;
- Reviewed the following policies:
 - G-327 Gifts: Financial Reporting of Gifts of Tangible and Intangible Property, University of California Office of the President (UCOP) Accounting Manual,
 - Policy & Procedure Manual (PPM) 410-1 Gifts and Endowments,
 - PPM 410-5 Policy on Timely Expenditure of Endowment Payout and Expendable Gifts,
 - PPM 410-10 Assessment of Current Gift & Private Grant Fund Interest Earnings from UCSD and the UC San Diego Foundation,
 - PPM 410-20 Allocation, Reallocation and Administration of Gifts and Bequests,
 - PPM 410-30 Endowed and Current Use Gift Funds Minimum Policy,
 - Development Reference Guide, May 2015, and
 - Administrative Guidelines for Allocation, Reallocation and Administration of Gifts and Bequests Received by The Regents and the Campus Foundations, UCOP;
- Interviewed the following:
 - Director, Gift Processing & Business Operations, Advancement,
 - Associate Director, Gift Policy/Stewardship office, and
 - Controller, UC San Diego Foundation;
- Reviewed expenditures on a sample of gift transfers from each of the following gift categories:
 - Foundation Endowment,
 - Foundation Current,
 - Regents Endowments, and
 - Regents Current gifts;
- For each of the four groups above, performed the following:
 - Selected a sample of current gift and endowment earnings transfers from the Foundation and UC Regents during FY2019 and 2020 for detailed testing. See sampling methodology below,
 - Obtained donor documentation from STAR and ESP for review and compared with the purpose of the gift within STAR,
 - Traced transfers from Foundation into the corresponding UCSD fund(s) in IFIS,
 - For the sampled gift transfers, reviewed expenditures covering the two fiscal years within scope and with respect to donor’s directive,
 - When warranted, contacted the recipient department to learn of their understanding regarding the gift’s purpose via the “fund purpose” documented in STAR and the receipt of donor document, and
 - For the sampled transfers, concluded whether expenditures are consistent with University policy and donor intent.

Sampling and Testing Methodology

The following schedule summarizes the Foundation and Regents current gifts and endowment income transfers to recipients within the scope of this review.

Gift and Endowment Transfers <i>(in millions of dollars)</i>	Current Gifts	Endowment Transfers	Total
Regents Gifts			
Total FY2019	\$ 29.6 ⁽¹⁾	\$ 26.5	\$ 56.1
Total FY2020	\$ 26.9	\$ 31.5	\$ 58.4
Total Regents	\$ 56.5	\$ 58.0	\$ 114.5
Foundation Gifts			
Total FY2019	\$ 65.9 ⁽³⁾	\$ 35.5	\$ 101.4
Total FY2020	\$ 98.8 ⁽²⁾	\$ 41.7	\$ 140.5
Total Foundation	\$ 164.7	\$ 77.2	\$ 241.9
Total Gift & Endowment Transfers	\$ 221.2	\$ 135.2	\$ 356.4
<p>(1) For the Current Gift balance, Current Gift Receipts data was used on account gifts are sent to recipients quickly. This balance is net of a real-estate gift, valued at \$40 million that has not been sold within the scope of this review.</p> <p>(2) Net of \$ 9.5 million real-estate gift and \$2 million gift subject to litigation.</p> <p>(3) Net of \$1.5 million gift subject to litigation</p>			

We selected a sample of gift transfers from the Foundation and Regents covering the period from July 1, 2018 to June 30, 2020 (Fiscal Years 2019 and 2020). Within each entity, current and endowment transfers were sampled separately to allocate roughly equivalent coverage to each type of gift.

Our testing of the items selected consisted of the overall review of the IFIS Expanded Budget Summary of each sampled fund for unusual items as well as the review of supporting documentation for selected expenditures. In addition, we conducted interviews of department personnel responsible for fund expenditures and central administration where deemed necessary.

Regents Testing

Regents Current Gifts totaled \$56.5 million during the two-year period. We selected 29 gifts for review which totaled approximately \$13.9 million, or 25% of the Regents current gifts population.

Regents Endowment transfers totaled approximately \$58 million from 18 donations. Our review determined that five of the transfers within the sample were not gifts, but Funds Functioning as Endowments (FFE) established with campus or departmental funds. The FFE determination was made based on the enclosed documentation that described Regents, University, or departmental funds used to establish the FFE. The gifts and FFE from the 18 donors in the dataset were reviewed in detail. The five FFEs totaled \$41.5 million, leaving a balance of approximately \$16.5 million. The remaining 13 donations of the sample had gifts totaling approximately \$5.9, which comprise 35% of the adjusted Regent Endowment gift transfers.

Foundation Testing

Foundation Current Gifts totaled \$164.7 million. We selected 23 gifts of approximately \$58.4 million, or 34% of Foundation Current Gifts. Foundation Endowment Transfers totaled \$77.2 million. Our review consisted of 16 gifts of approximately \$20.4 million in total, which equates to 26% of the total population.

IV. CONCLUSION

Based on our review of gifts selected for testing, we concluded that funds gifted to UCSD (either via the Foundation or the Regents) and endowment income, where applicable, were expended by departments per the donors' intent as indicated in gift letters and the funds appeared to be utilized in a timely manner. We identified no expenditures which appeared to be at variance with the intent of the donor for the sampled funds.

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