

**UNIVERSITY OF CALIFORNIA, SAN FRANCISCO
AUDIT & ADVISORY SERVICES**

**Gift Administration
Project #23-004**

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University of California
San Francisco

Audit & Advisory Services

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Vice Chancellor
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SUBJECT: Gift Administration Review

As a planned internal audit for Fiscal Year 2023, Audit & Advisory Services (“A&AS”) conducted a review to assess the effectiveness, adequacy, and compliance of processes specific to gift administration.

Our services were performed in accordance with the applicable International Standards for the Professional Practice of Internal Auditing as prescribed by the Institute of Internal Auditors (the “IIA Standards”).

Our review was completed, and the preliminary draft report was provided to department management in November 2022. Management provided their final comments and responses to our observations in December 2022. The observations and corrective actions have been discussed and agreed upon with department management and it is management’s responsibility to implement the corrective actions stated in the report. A&AS will periodically follow up to confirm that the agreed upon management corrective actions are completed within the dates specified in the final report.

This report is intended solely for the information and internal use of UCSF management and the Ethics, Compliance and Audit Committee, and is not intended to be and should not be used by any other person or entity.

Sincerely,

A handwritten signature in black ink, appearing to read 'Irene McGlynn'.

Irene McGlynn
Chief Audit Officer
UCSF Audit and Advisory Services



EXECUTIVE SUMMARY

I. BACKGROUND

As a planned audit for Fiscal Year (FY) 2023, Audit & Advisory Services (A&AS) partnered with Deloitte & Touché LLP to conduct a gift administration audit to assess the effectiveness, adequacy, and compliance of processes specific to gift administration.

The University of California San Francisco (UCSF) Foundation supports UCSF's core mission of advancing health worldwide by raising money for the University. Gifts from private donors keep UCSF among the top health sciences universities in the world by helping attract and retain the best students and faculty members, make groundbreaking discoveries, and deliver compassionate care.

In Fiscal year 2022, 35,000 donors gave a total of approximately \$557 million to the UCSF Foundation. For the BCH-Oakland Hospital Foundation 6,200 donors gave a total of approximately \$26 million.

The UCSF Foundation:

- Encourages and manages donations from alumni, friends, companies, and foundations to all of UCSF's schools and hospitals.
- Ensures that gifts are used in strict accordance with donors' wishes.
- Manages donated endowed assets through the not-for-profit UCSF Foundation Investment Company.
- Administers gifts through UCSF's Office of University Development and Alumni Relations, which handles communication with donors.

The UCSF Foundation recently underwent the implementation for a new donor software system, PACE/Affinaquest (PACE/AQ). The system went live in July 2021.

II. AUDIT PURPOSE AND SCOPE

An internal audit was performed to evaluate of the effectiveness of gift administration. The objective of this internal audit was to evaluate the processes and controls in place related to UCSF Foundation gift administration and BCH-Oakland Hospital Foundation.

The scope of this internal audit covered gifts processed by the UCSF Foundation, which includes gift donations for BCH-Oakland Hospital Foundation, during fiscal year 2022. This included an evaluation of the processes and controls in place to confirm the timely processing and appropriateness of gift transactions and compliance with relevant policies/ procedures in place. The areas of focus included the following:

- Timeliness, accuracy, and completeness of recording of gifts received, including gifts-in-kind
- Appropriate use of gifts in accordance with donor intent and related policies and procedures
- Reconciliation of GL accounts
- Assessment of access roles assigned in the new PACE/AQ system to confirm adequacy of segregation controls
- Appropriate training and guidance provided to employees that are involved with processing gift transactions

- Compliance with relevant policies, procedures and guidelines for the processing and reporting of gift transactions

Work performed was limited to the specific activities and procedures described above. As such, this report is not intended to, nor can it be relied upon, to provide an assessment of compliance beyond those areas specifically reviewed. Fieldwork was completed in November 2022. The following approach was taken to complete fieldwork:

- Reviewed relevant documentation, including policies, procedures, gift agreements and guidelines
- Performed interviews with key stakeholders to determine an understanding of processes, procedures and controls and supporting documentation related to the in-scope areas
- Conducted internal control testing according to defined testing attributes and assess associated design and implementation of in-scope internal controls and processes
- Selected a sample of gift transactions to confirm the appropriateness, accuracy, and compliance of selected transactions

III. SUMMARY

Based on work performed, the following strengths were identified:

- User roles in the PACE/AQ system are clearly defined and assigned, mitigating the risk for inappropriate activity
- Documentation was maintained in-line with policies and procedures supporting processed gifts, including usage in accordance with donor intent where applicable
- For a sample selection of 25 processed gifts, we noted no exceptions related to timeliness, accuracy, and completeness of processing.

The results of the review identified opportunities to improve the control environment and introduce efficiency into current gift administration and related accounting processes. These opportunities are summarized below and discussed more thoroughly in the "Observations and Management Corrective Actions ("MCA")" section that follows.

The specific observations from this review are as follows:

1. Daily Cash Reconciliations – opportunity to return to a consistent process, in place prior to transition to PACE/AQ, for Gift Administration to perform daily cash reconciliations.
2. Unallocated Gift Report – opportunity to improve report content, increase the frequency of distribution, and provide to additional groups (fundraisers) to promote timely gift processing where possible.
3. Gift Modification/Void Process – opportunity to develop reporting from PACE/AQ to reduce current significant manual effort undertaken by accounting team to appropriately account for gifts following modification.

IV. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS (MCAs)

No.	Observation	Risk/Effect	Recommendation	MCA
1	<p><i>Daily Cash Reconciliations have not been performed consistently since the introduction of PACE/AQ.</i></p> <p>Before PACE/AQ went live in July 2021, Gift Administration completed a reconciliation process daily to move cash from a Regents gift lockbox account (SFCMP) to the UCSF Foundation (SFFDN) account. Additionally, the process allows for the confirmation of revenue for each entity. The results of the reconciliation were then provided to Gift & Foundation Accounting. After implementing PACE/AQ, there were challenges in developing a similar process/report to use to perform reconciliations. Due to this, along with Gift Administration resource constraints and working on the backlog for gift processing, daily cash reconciliations were not performed regularly per their normal schedule in 2022.</p> <p>Reports are now available to be used by Gift Administration; however, the process is more manual than in prior years and daily cash reconciliations are still not being consistently performed. In addition, if the individual in the role assigned to prepare the reconciliation is out of the office, a backup is not in place to step in and prepare the reconciliation.</p> <p>Retroactively performing daily cash reconciliations dating back to the start of fiscal 2022 was discussed by management as a planned corrective action. However, fiscal year 2022 is closed, and management would like to focus on 2023 and to achieve a consistent daily</p>	<p>Lack of a process to consistently perform daily cash reconciliations creates an increased risk for inaccurate accounting, including a mismatch between cash and revenue between UCSF campus and foundation entities</p>	<p>A process should be in place going forward for Gift Administration to consistently perform daily cash reconciliations for the entire fiscal 2023 year. Further, a decision should be reached between Gift & Foundation Accounting and Gift Administration on whether catching up from the start of 2022 with retroactive daily cash reconciliations will be performed. It is also important train multiple Gift Administration staff so the process can continue uninterrupted the main performer(s) are unavailable.</p>	<p>As of early December, the Gift Administration Team has trained an additional employee to help with this process. The UDAR IT Director is in the process of providing additional training on the mechanics of the reconciliation report produced by PACE/AQ which is the starting point for Gift Administration’s cash reconciliation. Gift Accounting will participate in these trainings to ensure that accounting needs are incorporated into the process.</p> <p>Responsible Party: Director, Gift Administration</p> <p>Target Completion Date: March 31, 2023</p>

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	<p>reconciliation process for the entire year. However, due to the resource constraints noted above, reconciliations continue to be sporadic.</p> <p>Mitigating controls to confirm cash and gift revenue accounting were identified as being performed by Gift & Foundation Accounting, including:</p> <ul style="list-style-type: none"> - Monthly reconciliation of bank accounts and recording of bank deposits to confirm the cash balance - Reconciliation of gifts processed to revenue recorded to confirm appropriately stated gift revenue <p>However, due to findings from performance of these mitigating controls, a reversing journal entry was recorded by Gift & Foundation Accounting on 6/30/2022 to clear undistributed cash of \$10.7 million by debiting unallocated gift revenue for this amount. The Accounting Team continues to work to clear this difference.</p> <p>Consistent and timely performance of daily cash reconciliations enables real-time identification and recording of potential adjustments. Maintaining this approach helps mitigate the risk of journal entries of the above magnitude needed at year-end.</p>			
2	<p><i>The Unallocated Gift report could be enhanced to provide accurate information to enable a streamlined process for timely identification and allocation of gifts.</i></p> <p>The unallocated gift report is currently generated and circulated monthly to Gift Administration, and</p>	<p>An inaccurate unallocated gift report may result in lack of transparency to recipients including</p>	<p>The unallocated gift report should be reviewed monthly for completeness and accuracy and distributed to members of Gift Administration and to fundraisers. Identified errors should be corrected in advance of distribution.</p>	<p>As part of the process improvement work, stakeholder group with representatives from all areas of UDAR (development, accounting, gift administration, etc.). will</p>

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	<p>then shared with fundraisers on an ad-hoc basis. The intent of the report is to provide recipients with information promoting the timely identification and processing of unallocated gifts.</p> <p>Gifts may remain unallocated for valid reasons, including but not limited to:</p> <ul style="list-style-type: none"> - Awaiting direction from the donor or creation of a project to which the gift will be allocated - Pending completion of a 700U conflict of interest form covering research activities of a faculty member set to receive the gift <p>Review of the unallocated gift report current as of September 21, 2022, identified 1,824 unallocated gifts totaling a value of \$266.9 Million. It is acknowledged this amount includes planned gifts and pledges. The true exposure of cash received and unallocated was approximately \$27 million, or roughly 10% of the above amount. This amount was noted to be in-line with the volume of cash gifts received and regularly processed.</p> <p>Sample testing conducted by Internal Audit did not identify issues with the aging of processed gifts. However, discrepancies were noted in the data contained in the report as follows:</p> <ul style="list-style-type: none"> - 46 donations showing negative amounts totaling over \$14M; - 437 gifts with no description; 130 of these also missing identified prospect managers <p>When the above items were identified, the Gift Administration Interim Director was responsive</p>	<p>fundraisers, and gifts remaining unallocated and unprocessed for an extended period. Additionally, not timely allocating gifts increases the risk of donor intent not being met.</p>	<p>Data migration issues should also be reviewed to confirm they do not impact the usability of the content on the report.</p> <p>Management should identify a method to track communication and follow-up related to unallocated gifts and maintain in a central and easily accessible location; potentially as added columns on this report.</p> <p>Management should ensure that “unallocated” items are truly unallocated and that the unallocated project is not being used as a holding project or dumping ground. Consideration should be given to creating a separate account to house planned gifts pending realization, allocation of pledges to projects that will ultimately receive payments, projects that reflect donor intent of a to be realized in the future, etc.</p>	<p>participate to improve and make the unallocated gift accounting and reporting process more efficient.</p> <p>Responsible Party: Director, Gift Administration in collaboration Controller & Senior Director Gift Accounting and Development Officers.</p> <p>Target Completion Date September 30, 2023</p> <p>a) The filters on unallocated gifts report have been fixed so the report is now accurate and can be circulated around regularly to reduce our number of unallocated items. This report is available to everyone at UDAR to access, and a reminder will be sent out more frequently (at least monthly) so that the number of unallocated items can be reduced.</p> <p>Responsible Party: Director, Gift Administration</p> <p>Target Completion Date: January 31, 2023</p>

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	<p>and quickly worked with the appropriate parties to fix the identified irregularities.</p> <p>In addition, older/potentially inaccurate dates and details are included on the report. For example, the oldest unallocated gift is \$840K from 1981. Gift Administration acknowledges that inaccuracies may exist due to data migration related errors from two prior system migrations (FundAll to Advance and then ultimately to PACE/AQ).</p> <p>It is acknowledged that this report serves as a backup for the allocation and processing of gifts. Gifts received are assigned to a processor in Gift Administration responsible for working the gift. This responsibility includes working to timely allocate and process the gift.</p>			<p>b) Utilization of different projects (accounts) for certain items that are currently being tracked in this account will be evaluated to allow better management and resolution of issues on the various types of transactions (unrealized planned gifts, gifts awaiting documents or donor instructions, etc.) that are currently flowing through this account.</p> <p>Responsible Party: Director, Gift Administration</p> <p>Target Completion Date: October 31, 2023</p> <p>c) Communication to reinforce UDAR’s policy of adding a comment to all unallocated gifts and documenting follow-ups in the Description field will be done.</p> <p>Responsible Party: Director, Gift Administration</p> <p>Target Completion Date: March 31, 2023</p>

No.	Observation	Risk/Effect	Recommendation	MCA
3	<p><i>Gift Modification/Void process is manual resulting in inefficient use of resources.</i></p> <p>While gifts may be merely modified, the modification process often requires the initial gift to be voided in PACE/AQ and a new gift to be processed in PACE/AQ by Gift Administration. The original gift identifier is replaced with the “replacement” gift identifier making tracking and matching difficult and time consuming. Examples of the need for a modification include when gifts are initially recorded as unallocated pending further information regarding donor intent; or are missing required documentation and later modified to reflect the donor’s intent. The process followed by Gift Administration to make this modification is straightforward and a sample selection of 25 gifts did not identify inaccurate amounts.</p> <p>However, the PACE/AQ system does not generate a report clearly indicating the modified gift and highlighting the new amount and allocation. The Gift & Foundation Accounting team manually reviews two separate reports (Gift Log report and Gift Void report) to identify appropriate treatment as new gifts have different ID numbers from the voided gifts. This review process routinely takes 2-3 full days monthly involving multiple team members to account for modifications made to gifts. A single modified gift recently resulted in over 2 hours of work by the Assistant Director of Gift & Foundation Accounting to confirm appropriate accounting. Not identifying and updating records for modified gifts may result in duplicate gift entries (both the original and modified gift).</p>	<p>Significant monthly recurring manual effort to account for gift modifications creates a risk of inaccurate information, including duplicate recorded gifts and an inefficient process to confirm accuracy.</p>	<p>PACE/AQ functionality should be reviewed, and a report created that clearly indicates gift modifications and the intended new amount and allocation in one spot. A report that takes into account accounting needs should be readily accessible by Gift & Foundation Accounting for use in accounting for modified and voided gifts.</p> <p>If current system functionality does not allow for creation of this report, a case should be raised to the vendor to identify ways to reduce inefficiencies. Due to the inefficiencies identified, potential risks, and visibility to campus users, management should give this process improvement the highest priority within the list of process improvements/enhancements.</p>	<p>a) Regular meetings with UDAR IT around the modification/void process and the impacts to accounting and gift processing, have been taking place since the implementation of PACE/AQ. IT has agreed to work with the team to develop specs around reporting needs. Timeline will depend on complexity of coding. The team is working with IT to develop quarterly milestones, with the goal of a final workable process within 12 months.</p> <p>Responsible Party Controller, UCSF Foundation & Senior Director Gift Accounting & Reporting.</p> <p>Target Completion Date: October 31, 2023</p> <p>b) As an interim action, Gift Administration and IT are working with the team to come up with a standardized comment for modifications so the accounting team can quickly and better</p>

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	<p>Before the implementation of PACE/AQ, the prior Advance system produced a single gift modification report for accounting that was then used to process the modification through PeopleSoft.</p> <p>Internal Audit acknowledges this pain point is flagged on an internal listing of potential PACE/AQ system reporting enhancements. This item is not currently prioritized for resolution.</p>			<p>understand the reason for the modification and the action they need to take or adjust on the ledger.</p> <p>Responsible Party: Director, Gift Administration in conjunction with Director, Information Systems.</p> <p>Target Completion Date: June 30, 2023</p>