UNIVERSITY OF CALIFORNIA DAVIS
INTERNAL AUDIT SERVICES

University Relations
Gift Processing
Internal Audit Services Project #11-06

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<u>MANAGEMENT SUMMARY</u>

As part of the Internal Audit Services (IAS) audit plan for fiscal year 2010-2011, IAS conducted a review of the university's gift processing function, which is primarily managed by University Relations, although school and college development units, the Office of Research, and Accounting & Financial Services all have roles in the process.

In June 2011, the Chancellor announced a reorganization that will result in the formation of an Office of Development, to be led by a Vice Chancellor of Development, a position that has been under recruitment during fiscal year 2011. The Office of Development will have responsibility for the UC Davis Foundation accounting and for Advancement Services, the unit that has primary responsibility for gift processing. The UC Davis Foundation is a separate 501(c)(3) entity that manages the university's endowed gifts and private assets.

Because the university is in the midst of *The Campaign for UC Davis*, a university-wide initiative to inspire 100,000 donors to contribute $1 billion in philanthropic support, the efficiency and effectiveness of the gift processing function is critical. As such, the central purpose of this review was to assess the efficiency and effectiveness of the university's gift processing function.

In fiscal year 2009-2010, philanthropic support to UC Davis totaled approximately $112 million. Of this total, approximately $70 million (63%) represented current use gifts; approximately $29 million (26%) represented endowment gifts; and approximately $13 million (11%) represented capital gifts. The $112 million was comprised of approximately 41,000 gifts and pledges, 92% of which were less than $1,000.

Audit procedures included obtaining an understanding of the gift processing lifecycle; reviewing applicable university policies and procedures; interviewing management from University Relations, Office of Research, and Accounting & Financial Services; selecting a sample of gifts to review in detail; conducting a campus-wide e-mail survey of personnel from school and college development units and financial personnel involved in the gift processing function; and completing analytical reviews of various types of financial data involving the gift processing cycle. Also, concurrently with this project, IAS conducted a review of the UC Davis Health System's Health Sciences Advancement gift processing function, which is IAS project 11-15 and is reported on separately.

Our review covered fiscal year 2011 through May 2011 and was completed in June 2011. The operations of the Annual Fund Call Center were excluded from the scope of the review, primarily because the Call Center generates only approximately 1% of total donations to the university.

Overall, IAS identified several areas in which the efficiency and effectiveness of the gift processing function could be improved. First, the gift processing function is largely a paper-based system with limited processing and reporting functionalities, resulting in development units maintaining redundant shadow systems of their activities. Second, most types of gift funds are credited to a holding account and are therefore not available for expenditure until the gift has been processed by the development unit, University Relations, Office of Research (if necessary), and Accounting & Financial Services. Third, the current gift processing function is decentralized throughout development units and departments, a model that does not mirror the "shared service center" approach being adopted across campus to improve the efficiency of administrative functions. Fourth, the accounting and banking operations of the UC Davis Foundation are separate from those of the university, which creates inherent limitations in processing gifts directed through the UC Davis Foundation. Finally, although this IAS project was not primarily a compliance review, during the course of the audit IAS noticed two compliance-related issues regarding (a) support from individuals for research purposes, and (b) donations by employees, both of which are explained in further detail in the body of this report.

Regarding many of the concerns identified by IAS, University Relations management had independently recognized similar opportunities for improvement, and this fiscal year implemented an electronic scanning/interface process with Extramural Accounting to improve the efficiency of posting gifts to accounts. However, current management has been hesitant to commit the new development unit or to direct current resources to system changes until the Vice Chancellor of Development is hired, which is expected to occur in early fiscal year 2012. Given the significance of *The Campaign for UC Davis*, as well as subsequent campaigns which are expected to have even more aggressive goals, improving the gift processing system should be a priority for management.

OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT CORRECTIVE ACTIONS

1. GIFT PROCESSING FUNCTION

A. The gift processing function is largely a paper-based system, which lacks many of the processing and reporting functionalities present in other university systems, resulting in inefficiencies such as shadow systems within university development units.

When gifts are received, development units within schools, colleges, and departments complete paper copies of Gift Acceptance Reports (GAR), which are routed via courier or through inter-campus mail to University Relations for entry into the Advancement Information System (AIS). Paper-based processes such as these are inherently subject to misplaced and misrouted documents compared to automated processes. Automated processes also allow for establishing performance metrics and accountability, as well as better tracking of operations by management.

Additionally, the mainframe version of AIS currently in use by the university is outdated and soon will no longer be supported by the vendor, which has now released a web-based version. Although University Relations has been eager to convert to the web-based version, management has had to delay the commitment until the new Vice Chancellor for Development is hired. However, the reporting capabilities of the current system are very limited, and many units must rely exclusively on a weekly report distributed by University Relations for information from AIS. Also, due to the time involved in processing, authorizing, and input of data into AIS, the statistics included in the weekly reports are not current.

Because of the paper-based nature of the process, as well as the limited reporting capabilities of AIS, most development units maintain some form of "shadow system" to track their activities. These may range from simple systems such as document imaging to complex systems that track dozens of data elements for every gift received by the unit. From the university-wide perspective, however, shadow systems represent redundant processes and therefore inefficiency, as data is keyed-in and imaged (or copied and filed) by development units for their shadow systems, and then forwarded to University Relations, where the same data is keyed into the AIS system and imaged again.

Recommendation

In an optimal scenario, the entire gift processing life-cycle would be automated. Electronic documents could be routed online for acceptance and authorization, such as with the MyTravel system for travel reimbursements. All documents would be imaged and available within the AIS system for easy retrieval by all units, as with vendor invoice imaging in the accounting system. A re-engineering project of this magnitude would require a significant commitment of university resources and likely the assistance of an outside consulting firm.

Also, even if it is not practical to automate the entire process, University Relations should move forward with converting to the web version of AIS as soon as is practical after the new Vice Chancellor is hired. The web version should assist considerably with respect to reporting, as the user-interfaces are significantly improved, which should allow units the ability to produce their own reports.

If resource constraints prevent management from implementing a version of one of the scenarios described above, at a minimum, management should have development units fax or scan/e-mail GARs and supporting documents to University Relations for input into AIS.

Whichever alternative is pursued by management, the concerns addressed should include: minimizing misplaced documents; providing tracking to establish accountability; allowing timely reporting to units; adequately supporting the current version of AIS; and eliminating inefficiencies associated with the shadow systems that are necessary in the existing gift processing environment.

Management Corrective Actions

1. University Relations will recruit a business analyst (resources pending) for the purpose of developing a strategic, optimized process design for gift processing. This effort will include recommended changes to both technology and process design to address the end-to-end gift process. The expected result will be a Strategic Business Charter document outlining the suggested optimal approach, required technology components, proposed resource model, projected performance impacts, timeline estimate, and anticipated budget necessary to implement. The designed approach will address the key items indicated in the audit, namely: minimizing misplaced documents; providing tracking to establish accountability; allowing timely reporting to units; adequately supporting the current version of AIS; and eliminating inefficiencies associated with the shadow systems. The document conclusions will incorporate phased implementation and funding options as appropriate. The target completion date for the Strategic Business Charter (pending position funding) is June 30, 2012.

2. University Relations will develop a proposal for Advance Web implementation by March 31, 2012.

3. University Relations will develop a proposal for implementing a fax-to-image proposal design incorporating the elements of the audit as indicated by September 30, 2011.

B. Most types of gift funds are credited to a holding account and are therefore not available for expenditure until the required paperwork has been completed and reviewed/processed by University Relations, Office of Research, and Accounting & Financial Services, as necessary.

The university accounting system includes an "online gift processing system" that allows certain gifts to be credited immediately upon deposit into the account of the department to which the gift was directed by the donor; however, this online system can only accommodate certain types of gifts. For example, the online system cannot accommodate any gifts made by credit card; gifts by check in amounts over $999; gifts in amounts over $500 for research purposes; gifts for which new accounts are required to be established, and gifts to the UC Davis Foundation. As a result of these constraints, most types of gifts are instead credited to a holding account and are typically not available for expenditure for at least 60 days until all of the required processing and approvals have occurred. Additionally, many gifts that could be accommodated by this online system are nevertheless processed manually, primarily for one of the following reasons: (a) the online system is not required to be used; (b) gift processing staff have not taken training required for obtaining access to the system; and (c) follow-up with the donor may be required to determine exactly which university program or account should be credited.

On a monthly basis, Accounting & Financial Services distributes to development units and deans' offices a report of the holding account transactions, so that recipients can review gift activity and take appropriate follow-up actions, such as submitting GARs if necessary in cases when a gift has been deposited but a GAR has not yet been submitted. However, the IAS university-wide survey indicated that many units struggle with the format of the monthly report, especially with respect to identifying which items in the holding account have not been processed yet vs. which items are in process and awaiting completion.

Recommendation

In an optimal environment, the university would reduce its dependence on holding accounts by upgrading the "online gift processing system" to accommodate more types of gifts to both the Regents and the UC Davis Foundation. This type of structure would provide for more timely access to gift funds, as well as reduce processing workload in departments and centralized offices. At a minimum, consideration should be given to raising the current threshold of $999 for certain Regents' gifts via check, so that a greater number of these gifts could be processed online.

Regarding the monthly holding account report, many transaction line items were originally recorded over a year ago. Development units should be directed by University Relations to immediately place emphasis on these transactions within the holding account so that they can be resolved in a timely manner.

Finally, the monthly holding account activity report should be reformatted for greater ease of understanding, use, and analysis by development and administrative units. Reformatting efforts should be coordinated with users to ensure that their concerns are incorporated into any revisions that are made.

Management Corrective Actions

1. University Relations will produce and deliver to all impacted parties a request to raise the threshold for gifts to utilize the online gift processing system to a higher limit (a $5k limit will be tested) from the current $999 limit by December 31, 2011. This will require a UC Office of the President policy change that will also be requested.

2. University Relations will review the guidelines for utilizing the current online gift processing system with the impacted parties and provide any recommended changes for approval and implementation by December 31, 2011.

3. University Relations will investigate the possibility of utilizing the on-line gift processing system to process UC Davis Foundation gifts. This will likely be dependent on IAS observation 2 below regarding the UC Davis Foundation accounting system, and the associated Management Corrective Action 2.2. regarding the UC Davis Foundation, which has an implementation date of June 30, 2012.

4. University Relations will review the procedures related to the monthly holding account activity report for recommended changes to the distribution and accountability. Also, a focus group will be established with users, Extramural Accounting, and Internal Controls will define requirements for a more user-friendly report. These actions will be taken by October 31, 2011.

C. **The current gift processing function is decentralized throughout development units and departments, a model that does not mirror the "shared service center" approach being adopted across campus to improve the efficiencies of administrative functions.**

Personnel who process gifts as part of their job responsibilities are spread among development units throughout schools, colleges, and departments. Within the university's larger development units such as the Health System and School of Veterinary Medicine, personnel who process gifts are staff with full-time responsibilities for gift processing; however, within smaller units and most departments, gifts are processed by staff that have many other duties among their job responsibilities. As a result, these staff may not be as familiar with university gift-related policies and procedures as staff that process gifts full-time, which increases the likelihood for errors and non-compliance during processing. Additionally, staff must be familiar with different processes and forms depending on the nature of the gifts, the amount of the gift, the purpose of the gift, and whether the gift is being directed to the Regents or the UC Davis Foundation. Finally, many respondents to the IAS survey indicated that their units currently do not consistently have adequate staff to process all of their gifts in a timely manner.

In recognition of the inefficiencies inherent in the university's decentralized processes such as gift processing, the campus has begun an initiative to implement "shared service centers" to handle certain administrative functions such as human resources. When the university hired an external consultant to assist with the shared service center implementation, University Relations made a proposal to include gift processing as one of the functions within the project. However, gift processing was not included in this first phase of service center development.

Recommendation

University Relations should move to a model that optimizes efficiency and effectiveness, such as centralized gift processing. A project of this magnitude would require a significant commitment or shift of university resources and likely the assistance of an outside consulting firm.

In the near term, University Relations should assess the training provided to development units and gift processors, and increase access to reporting that will meet the needs of users.

Management Corrective Actions

1. University Relations strongly supports the move to a shared services model and a resulting centralized gift process. As mentioned, management had previously submitted a shared services proposal toward this direction. Management's expectation is that the approach to this model would be expanded, developed, and outlined as a component of the Strategic Business Charter effort stated above in Management Corrective Action response 1.A.1. Some critical components to this model include:

   a. Centralized receipting
   b. Workflow management tool (potentially Kuali workflow)
   c. Up-front "gift portal" application (MyTravel example)
   d. Lockbox capabilities to improve speed and minimize errors
   e. AIS web capabilities
   f. Enhancements to the Electronic Document Management System
   g. Common accounting system

2. Training for AIS gift processing currently is delivered on a monthly or quarterly basis by gift staff members depending on the subject. Management has no data that supports that the current level of training is insufficient for development units and gift processors. While we do agree that the effectiveness of the current training program bears review, it is possible that there are other factors that are a greater influence to this issue such as rate of turnover within the departments, retention, reluctance to attend training, etc. University Relations recommends that we solicit a cross functional team to review the training both by approach and delivery method and present to leadership an improvement proposal by November 30, 2011.

3. University Relations will incorporate review of reporting needs identified during the audit into the comprehensive Strategic Business Charter identified in item 1.A.1. Additionally, the coordinated move to AIS web reporting will continue to allow for more self-service reporting capabilities.

2. THE UC DAVIS FOUNDATION

The accounting and banking operations of the UC Davis Foundation are separate from those of the university, which creates limitations in processing gifts through the UC Davis Foundation.

Gifts to the university are directed either to the University of California Regents or to the UC Davis Foundation, which is a separate Internal Revenue Service 501(c)(3) entity. The UC Davis Foundation is led by a volunteer fundraising board that helps to raise and increase philanthropic support, manages the university's endowed gift funds and other private assets, and advises university leaders in areas related to public trust and support.

Historically, most gifts and pledges to the university have been directed to the Regents rather than the UC Davis Foundation. For instance, in fiscal year 2010, of the total gifts and pledges of $112 million received by UC Davis, only $32 million (29%) was directed to the UC Davis Foundation. However, recently the Chancellor issued a statement to senior leadership that in the future, whenever possible, gifts should be directed through the UC Davis Foundation rather than through the Regents, in an effort to increase the assets of the UC Davis Foundation, which are managed by a group of dedicated alumni and friends who have UC Davis' interests in mind, and promote a more personal level of stewardship.

Currently, however, the accounting and banking operations of the UC Davis Foundation are entirely independent of the university's accounting and banking operations, which creates limitations in processing gifts through the UC Davis Foundation. For example, gifts to the UC Davis Foundation cannot be deposited at the main cashier's office; cannot be processed using the online gift processing system; and generally require longer processing times and more effort on the part of the development units before the funds ultimately become available to departments and researchers. Additionally, reporting capabilities of the UC Davis Foundation to the university's development units are limited and cannot be accessed through the university's accounting system. Until changes are made to the accounting and banking operations of the UC Davis Foundation, these limitations will likely represent significant obstacles to achieving the Chancellor's goal of directing gifts through the UC Davis Foundation whenever possible.

Recommendation

The accounting and banking operations of the UC Davis Foundation should be integrated into the university's Kuali system.

      Management Corrective Action

    1. The UC Davis Foundation will work with Extramural Accounting to develop a plan and timeline for moving to a new chart of accounts on Kuali by June 30, 2012.

    2. The UC Davis Foundation will give development officers access to the Fundriver database by December 31, 2011, so they will be able to view and pull reports on all of their endowments online at any time.

3. SUPPORT FROM INDIVIDUALS FOR RESEARCH PURPOSES

Office of Research is not reviewing support from individuals directed to university researchers or research projects to determine whether the support represents a gift or a grant/contract.

University Policy & Procedure Manual (PPM) 260-25, *Gift Processing and Acknowledgement Procedures*, dictates in section V.J. that support for research purposes "must be reviewed by the Office of Research to determine, in collaboration with University Relations when appropriate, if the donation constitutes a gift or a grant." However, PPM 260-25 is unclear as to whether gifts from individuals are included within the policy, as reference is made to the "sponsor company." Currently, support from individuals directed to university researchers or research projects is not being forwarded to the Office of Research for their review. As such, this support is being recorded as gifts without consideration as to whether the support may actually represent a grant or contract.

Recommendation

University Relations and Office of Research have worked very well together in the past in drafting policies and memorandums of understanding regarding matters surrounding privately-funded support of the university's research efforts. IAS recommends that the two offices work together on this issue as well, to define circumstances under which support from individuals should be reviewed by the Office of Research. The offices may need to consult with counsel and/or UC Office of the President to determine if there are any legal or policy constraints that need to be considered. Also, a risk-based approach should be adopted in establishing a dollar limit for support to be reviewed.

Also, after consensus has been attained between the two offices, PPM 260-25 should be revised to reflect decisions reached and eliminate the imprecision in the current policy.

      Management Corrective Action

    1. University Relations will work with the Office of Research to review the procedures related to gifts from individuals for research and the 700-U form. The two offices will come to agreement on the correct process, taking into account risk, reward, and efficiency. This will be completed prior to March 31, 2012.

2. Based on the actions taken in Management Corrective Action 1. above, applicable policies and procedures will be updated to reflect any changes by March 31, 2012.

4. DONATIONS BY EMPLOYEES

The university currently has no consistent procedures for identifying donations by employees that are directed to accounts that they may control, such as researchers donating funds to support their own research projects.

Policy allows for employees to make donations to the university, including researchers supporting their own research projects. However, PPM 260-15, *Solicitation and Acceptance of Private Support*, requires in section V.E.3, that "employees who donate gifts shall not have signature approval over expenditures from that gift fund." In these cases, a department head or vice chancellor/vice provost/dean must: (a) retain signature authority over the funds; and (b) must verify acknowledgement of this requirement prior to acceptance of the gift. Currently, however, when a gift is received, there is no consistent means for identifying whether it is from an employee, and, if so, whether it is being directed to an account that the employee may control. When a school, college, or department notifies University Relations that a gift is from an employee and is subject to PPM 260-15, University Relations obtains the acknowledgement form required by policy prior to accepting the gift; however, if no notification is made, University Relations may not be aware that an acknowledgement form is required.

Recommendation

The format of the GAR should be modified to include boxes indicating whether the gift is from an employee, and, if so, whether the gift is being directed to an account controlled by the employee. Also, for donations made by employees through the automatic payroll deduction process, procedures should be implemented to have employees attest at the time they authorize their payroll deduction whether their gifts are being directed to accounts that they control. University Relations can then take appropriate action as necessary.

Management Corrective Action

1. By September 30, 2011, University Relations will modify the GAR form to add a box indicating whether the gift is from an employee, and, if so, whether the gift is being directed to an account controlled by the employee.

2. By November 30, 2011, University Relations will review the payroll deduction forms and work with related partners to have the forms for campus and the Health System require that the employee specify if the gifts are being directed to accounts under their control. Procedures will also be developed and implemented within gift processing to monitor payroll deduction forms to ensure compliance with PPM 260-15.

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