April 26, 2016

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Assistant Vice Chancellor, Advancement Services
0940

Subject: Advancement – Gift Processing
Report 2016-07

The final report for Advancement – Gift Processing Report 2016-07, is attached. We would like to thank all members of the department for their cooperation and assistance during the review.

Because we were able to reach agreement regarding management action plans in response to the audit recommendations, a formal response to the report is not requested. The findings included in this report will be added to our follow-up system. We will contact you at the appropriate time to evaluate the status of the management action plans.

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.

David Meier
Director
Audit & Management Advisory Services

Attachment

cc: Judy Bruner
    Clare Kristofco
    Cheryl Ross
    Kathy Terry
    Sheryl Vacca
Advancement – Gift Processing
Report No. 2016–07
April 2016

Performed By:
Tessa Melendez, Auditor
Jennifer McDonald, Manager

Approved By:
David Meier, Director
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I. EXECUTIVE SUMMARY

Audit & Management Advisory Services (AMAS) has completed a review of University of California San Diego (UCSD) Advancement Services – Gift Processing. The objective of our review was to evaluate the internal controls for processing restricted and unrestricted gifts in compliance with University policy, and that the appropriate authority was given for matching commitments. The scope of our audit included funds received by Gift Processing during the period July 1, 2013 to August 31, 2015. This review was performed as part of our approved audit plan for Fiscal Year 2015-16.

AMAS conducted interviews with Gift Processing personnel, reviewed department policies and procedures, and consulted policy in order to assess the department’s internal controls. Our testing procedures consisted of analyzing a sample of gifts for proper classification; supported with department acceptance and appropriate delegation of authority; processed and transferred to the appropriate fund based on donor intent; processed timely and accurately; and assessed the administrative fee of 6% (when applicable).

We concluded that controls for gift processing provided reasonable assurance that restricted and unrestricted gifts were processed in compliance with UC policy. We found no evidence that matching commitments were approved outside of the delegated authority. However, we noted that employees who handle cash did not receive formal cash handling training upon hire, as required by policy. Evidence of cash handling training is an important factor in establishing an individual’s qualification for handling cash and ensuring that University assets are protected, accurately and timely processed, and properly reported.

Management Action Plan

All current and new employees who handle cash will complete formal cash handling training.

Observations and the related management action plan is described in greater detail in section V. of this report.
II. BACKGROUND

AMAS has completed a review of UCSD Advancement Services – Gift Processing. This review was performed as part of our approved audit plan for Fiscal Year 2015-16. This report summarizes the results of our review.

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 University of California (Regents) and the UCSD Foundation (Foundation). Campus foundations were established to meet individual campus fundraising needs that the Regents are logistically unable to provide. 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 is responsible for ensuring the integrity of gift data recorded and stored in its donor database for the purpose of 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.

All cash gifts, gifts-in-kind that are sold for cash proceeds, and new pledges made to the Foundation or Regents were previously assessed an administrative fee of 6%, effective July 1, 2009 through June 30, 2015. UCSD established the fee to partially fund the operation of Advancement. Gift Processing was responsible for processing the administrative fee for gifts to the Regents, excluding endowment gifts\(^1\), and the Foundation gift fee was processed by the Foundation Accounting unit. In August 2015, the administrative gift fee policy was rescinded, effective July 1, 2015 for both Foundation and Regents gifts.

Gift Processing processed more than $125 million in total gifts to the Foundation and Regents in Fiscal Year (FY) 2014-15, a 36% increase over FY 2013-14:

<table>
<thead>
<tr>
<th>Donee Entity</th>
<th>FY 2013-14</th>
<th>FY 2014-15</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundation</td>
<td>$67,077,851</td>
<td>$100,749,805</td>
<td>$33,671,954</td>
<td>50%</td>
</tr>
<tr>
<td>Regents</td>
<td>24,748,629</td>
<td>24,425,949</td>
<td>(322,680)</td>
<td>-1%</td>
</tr>
<tr>
<td>Total</td>
<td>$91,826,480</td>
<td>$125,175,754</td>
<td>$33,349,274</td>
<td>36%</td>
</tr>
</tbody>
</table>

\(^1\) Endowment gifts are processed and managed centrally at the UC Office of the President (UCOP). Prior to 7/1/2015, the administrative gift fee for endowments were transferred from UCOP to UCSD’s General Accounting office for processing. General Accounting would notify Gift Processing once they received notice from UCOP, and Gift Processing would post the journal entry.
III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

The objective of our review was to evaluate the internal controls for processing restricted and unrestricted gifts in compliance with University policy, and that the appropriate authority was given for matching commitments. The scope of our audit included funds received by Gift Processing during the period July 1, 2013 to August 31, 2015.

In order to achieve our objective, we performed the following procedures:

- Reviewed UC Business and Finance Bulletin 49 (BUS 49), Policy for Cash and Cash Equivalents Received;
- Reviewed the following UCSD Policy and Procedures Manual policies:
  - 150 – Contracts and Grants: Classification, Acceptance, and Administration of Awards from Private Sources;
  - 410 – Gifts and Endowments: Administrative Fee on Gifts to UCSD and UC San Diego Foundation;
- Reviewed departmental procedures and policies;
- Interviewed the following Gift Processing employees:
  - Executive Director,
  - Supervisor, and
  - Regents Gift Accountant;
- Reviewed annual raffle report submittals required by the State;
- Reviewed a listing of gift funds for raffle and auction events;
- Reviewed Gift Processing’s most recent cash handling site survey conducted by UCSD’s Office of the Controller;
- Reviewed Delegations of Authority and Disbursements Signature Authorization documents;
- Evaluated departmental responses to internal control questionnaires and a separation of duties matrix for cash awards to the Regents and the Foundation;
- Met with the following Gift Processing employees during a process walk-through of the cash handling process for both Foundation and Regents transactions:
  - Gift and Data Specialists,
  - Gifts and Records Management Specialist,
  - Gift Analyst, and
  - Records Management Lead;
- Reviewed the safe combination change log;
- Selected a sample of gifts received by the Foundation and Regents for FYs 2013-14, 2014-15, and 2015-16 through August 31, 2015 (see below for sampling methodology); and
- Concluded for the sampled items whether gifts were processed according to donor intent and in compliance with University policy.

**Sampling and Testing Methodology**

We reviewed all gifts received for processing during FYs 2013-14 and 2014-15 as well as those received for FY 2015-16 through August 31, 2015. We selected a stratified sample of gifts (excluding events...
such as raffles and auctions) to ensure gifts of all dollar amounts were represented in each fiscal year. The stratified sample consisted of three Foundation and two Regents gifts (excluding gifts less than $1,000\(^2\)), for FY 2013-14; three Foundation and two Regents gifts for FY 2014-15; and one Foundation and two Regents gifts for FY 2015-16 through August 31, 2015.

We judgmentally selected a sample of five event gifts (i.e. auctions and raffles), one conditional pledge from FY 2013-14, five event gifts from FY 2014-15, and two event gifts from FY 2015-16 through August 31, 2015.

Our testing of the items selected above consisted of analyzing whether each gift was properly classified; supported with department acceptance and appropriate University delegation of authority; supported by proper documentation; processed and transferred to the appropriate fund based on donor intent; processed timely and accurately; and assessed the administrative fee of 6% (when applicable).

Our scope did not include a review of the administrative fee assessment for gifts to the Foundation or endowment gifts to the Regents as Gift Processing did not have responsibility for the assessment activity.

**IV. CONCLUSION**

Based on our review, we concluded that controls for gift processing provided reasonable assurance that restricted and unrestricted gifts were processed in compliance with UC policy. We found no evidence that matching commitments were approved outside of the delegated authority. Key gift processing controls included:

- Coordination with campus departments for gift acceptance;
- Established delegations of authority for gift acceptance based on the gift amount;
- Separation of duties for cash handling;
- Coordination with UCSD’s Office of Contracts and Grants Administration for assistance and direction in accurately classifying an award as a gift or grant;
- Monthly reconciliations of credit card merchant charges and cash to the donor database;
- Accuracy checks completed at the following process points: gift type determination, deposit, database input, and post-processing receipt distribution.

All gift transactions for the sample appeared to be processed timely, in agreement with donor intent, and approved by the proper level of authority. We did note one area related to cash handling where improvement was needed. This item is addressed in the remainder of this report.

**V. OBSERVATIONS REQUIRING MANAGEMENT ACTION**

\(^2\) Gift Processing maintains documents for gifts less than $1,000 for 18 months. Therefore, we excluded amounts less than $1,000 from the stratified sample selection for FY 2013-14.
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A. Compliance with Policy

Cash management processes did not fully comply with UC Business and Financial Bulletin 49 (BUS 49), Policy for Cash and Cash Equivalents Received.

Risk Statement/Effect

Employees may not be fully aware of all policy requirements, increasing the risks inherent to cash handling activities.

Management Action Plan

A.1 All current and new employees who handle cash will complete formal cash handling training.

A. Compliance with Policy – Detailed Discussion

University policy establishes procedures for handling and processing cash and cash equivalents and defines University staff roles and responsibilities related to receipt, safeguarding, reporting, and recordkeeping for cash transactions. The policy covers four basic internal control principles that apply to collecting and accounting for cash: accountability, separation of duties, physical security and data transmission security, and reconciliation of accounts. When fully implemented, BUS-49 procedures provide the internal controls needed to establish individual accountability and security for cash transactions.

Policy section IX.15 on physical security requires campuses to provide cash handling training to all employees who handle cash. The training is to be offered when an employee begins work in a cash handling job and at least once per year as a refresher. A web-based cash handling course is available via the UCSD Learning Center for employees with cash handling, processing, or depositing duties. The course takes approximately 30 minutes to complete and fulfills the requirement of the initial and/or annual training.

Campus guidance allows for the yearly refresher requirement to be met by dedicating a structured training meeting to review cash control, internal controls, and BUS-49 policies and procedures as they apply to the department’s specific cash handling operation. AMAS confirmed through an interview with the Executive Director that this practice is currently in place. Although all Gift Processing employees who handle cash review BUS-49 upon hire, they do not complete a formal training program. Evidence of cash handling training is an important factor in establishing an individual’s qualification for handling cash and ensuring that University assets are protected, accurately and timely processed, and properly reported.

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3 Money orders, travelers checks, cashier’s checks, and certified checks.