



TEXAS

The University of Texas at Austin

**Foreign Gift and Contract
Reporting**
Office of Accounting

November 2023

Office of Internal Audits
UT Austin's Agents of Change



OFFICE OF INTERNAL AUDITS
THE UNIVERSITY OF TEXAS AT AUSTIN

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Executive Summary

Foreign Gift and Contract Reporting

Office of Accounting
Project Number: 23.010

Audit Objective

The objective of this audit was to determine whether the processes for reporting foreign gifts and contracts ensure information is accurate, complete, and in compliance with the Higher Education Act (HEA), Section 117 requirements.

Conclusion

The University of Texas at Austin's (UT Austin) processes for reporting foreign gifts and contracts do not ensure information reported is accurate, complete, and in compliance with the HEA, Section 117 requirements.

Audit Observations¹

Recommendation	Risk Level	Estimated Implementation Date
Policies and Procedures	High	May 2024
Gifts and Contracts Reporting	High	May 2024
Restricted Gifts and Contracts	Medium	January 2024
Expense Contracts and Purchase Orders	Medium	January 2024

Engagement Team

Ms. Mary Anderson, CPA, Auditor II
Mr. Jason Boone, CFE, Auditor III
Mr. Patrick McKinney, CIA, Director

¹ Each observation has been ranked according to The University of Texas System Administration (UT System) Audit Risk Ranking guidelines. Please see the last page of the report for ranking definitions.



Detailed Audit Results

Observation #1 Policies and Procedures

UT Austin does not have documented policies and procedures related to foreign gift and contract reporting at the institutional or unit level. Other than periodic communication and information requests from the Office of Accounting (Accounting), UT Austin has not established guidance on roles and responsibilities for collecting requisite information for HEA, Section 117 reporting requirements. Lack of established guidance has reduced awareness of requirements and increased the risk of inaccurate reporting of foreign gifts and contracts to the U.S. Department of Education (ED).

The ED has increased scrutiny of institutional compliance with the obligation to report certain gifts, contracts, and ownership interests involving foreign sources. Failure to accurately report this information may result in fines or impact UT Austin's eligibility to participate in Title IV programs.

Recommendation: UT Austin should create a policy and related procedures to outline Section 117 reporting requirements and campus roles, responsibilities, and timelines for data collection and reporting.

Management's Corrective Action Plan: Accounting and Financial Management (AFM) will create a documented procedure for foreign gift reporting requirements as part of the Handbook of Business Procedures.

Responsible Person: Executive Director and Controller
Senior Financial Officer, Office of Accounting

Planned Implementation Date: May 31, 2024

Observation #2 Gifts and Contracts Reporting

UT Austin underreported foreign gifts and contracts by approximately \$1.1 million for the 2022 calendar year. Section 117 requires institutions to report foreign gifts and contracts when the annual aggregated total exceeds \$250,000 from a single entity. Reports are submitted twice annually, and Accounting inadvertently did not aggregate gifts and contracts for the full calendar year. Accounting identified this error and updated procedures to ensure all yearly data is included.

Notable Practices

In 2021, Accounting was assigned responsibility for coordination of the reporting process and submission of information. Since that time, Accounting has:

- Improved its reporting process as new information is learned.
- Developed templates to obtain more accurate reportable information from campus.



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Additionally, the University is not capturing data necessary to report anonymous foreign gifts exceeding the reporting threshold. Anonymous donor information is not maintained in VIP², and University Development does not provide the information to Accounting for Section 117 reporting. As a result, UT Austin may be underreporting foreign gifts to the ED, which requires institutions to report this information provided they can reasonably obtain donor identity.

Lastly, UT Austin's foreign gift and contract reporting process does not include procedures to identify and report tuition and fees paid by foreign entities. Accounting was not aware that the ED considers tuition paid by a foreign source as a contract for reporting purposes. Since the reporting threshold could be exceeded if a foreign source pays tuition for multiple students during the year, UT Austin may be underreporting foreign contracts to the ED.

Recommendation: Accounting should update previous Section 117 submissions to include underreported gifts and contracts. In addition, management should work with applicable units (e.g., University Development) to determine if previous submissions should have included any anonymous gifts or tuition and fee payments. Accounting should collaborate with these units to develop procedures to capture transactions for future reporting periods and incorporate the procedures into the policies recommended in Observation #1.

Management's Corrective Action Plan: AFM will update previous Section 117 submissions, as appropriate. Additionally, AFM will coordinate with other units to determine if anonymous gifts or tuition and fee payments should be added to previous Section 117 submissions. Processes will be developed and documented as part of a new section of the Handbook of Businesses Procedures.

Responsible Person: Executive Director and Controller
Senior Financial Officer, Office of Accounting

Planned Implementation Date: May 31, 2024

Observation #3 Restricted Gifts and Contracts

UT Austin does not report descriptions for restricted or conditional foreign gifts or contracts as required by Section 117. Institutions are required to include a description of the nature of conditions or restrictions (e.g., employment of faculty, selection or admission of students); however, UT Austin reports limited information and terms (e.g., Research Activity) to describe restrictions. Accounting was unaware that the statute requires additional disclosures for restricted and conditional gifts or contracts.

Recommendation: Accounting should update its procedures to obtain and report additional detailed information for restricted and conditional gifts or contracts as required by the ED.

² UT Austin's database and central repository of alumni, donor, and constituent data.



Management’s Corrective Action Plan: AFM will communicate with campus contributors to the Section 117 report to require inclusion of the restricted or conditional gifts information. AFM will include this additional information in the next reporting cycle of July-December 2023.

Responsible Person: Senior Financial Analyst, Office of Accounting

Planned Implementation Date: January 31, 2024

Observation #4 Expense Contracts and Purchase Orders

UT Austin includes expense contracts and purchase orders (POs) as part of its Section 117 reporting. More than \$6 million in POs and expense contracts with foreign entities were reported to the ED during the scope period. The ED guidance states that institutions are generally not required to report "money-out," arms-length, contracts involving purchases made by institutions from foreign sources. Neither Accounting nor the campus units submitting gift and contract information to Accounting were aware of this guidance. In addition to inaccurate reporting, inclusion of this data creates unnecessary effort and inefficiencies for the impacted campus units.

Recommendation: Accounting should work with impacted units to only include required foreign gifts and contracts in its Section 117 reporting. The policies recommended in Observation #1 should incorporate these requirements and respective unit responsibilities for collecting and submitting the information to Accounting.

Management’s Corrective Action Plan: AFM has already communicated the exclusion of expense contracts with campus contributors to the Section 117 report. AFM will exclude all expense amounts in the next reporting cycle of July-December 2023.

Responsible Person: Senior Financial Analyst, Office of Accounting

Planned Implementation Date: January 31, 2024

Conclusion

The University of Texas at Austin’s processes for reporting foreign gifts and contacts do not ensure information reported is accurate, complete, and in compliance with the HEA, Section 117 requirements.

Table: Controls Assessment

Audit Objective	Controls Assessment
Determine whether the processes for reporting foreign gifts and contracts ensure information is accurate, complete, and in compliance with the HEA, Section 117 requirements.	Ineffective



Background

HEA, Section 117 requires institutions of higher education that receive federal financial assistance to disclose biannually to the U.S. Department of Education any gifts received from, and contracts with, a foreign source that, alone or combined, are valued at \$250,000 or more in a calendar year. Accounting is responsible for compiling information from campus units and reporting to the ED. Reports contain information provided by the Business Contracts Office, University Development, Discovery to Impact, Office of Sponsored Projects, and Texas Global.

Scope, Objectives, and Methodology

This audit was conducted in conformance with The Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing*. Additionally, we conducted the audit in accordance with Generally Accepted Government Auditing Standards and meet the independence requirements for internal auditors. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions on our audit objectives.

The scope of this review included the previous three reporting cycles (July 2022, January 2023, July 2023). Specific audit objectives and the methodology to achieve the objectives are outlined in the table below.

Table: Objectives and Methodology

Audit Objective	Methodology
Determine whether the processes for reporting foreign gifts and contracts ensure information is accurate, complete, and in compliance with the HEA, Section 117 requirements.	<ul style="list-style-type: none"> • Conducted interviews and walkthroughs with personnel responsible for foreign gift and contract identification and reporting • Analyzed reporting processes and procedures to identify possible control gaps or inefficiencies • Reviewed supporting documentation for Section 117 reporting • Reconciled unit data provided to Accounting to reports submitted to the ED • Observed units’ procedures for identifying reportable foreign gifts and contracts



Criteria

Section 117 of the Higher Education Act of 1965

20 United States Code § 1011f – Disclosure of Foreign Gifts

- (a) Disclosure Report
- (b) Contents of Report
- (c) Additional disclosures for restricted and conditional gifts
- (h) Definitions

Published guidance provided by the Department of Education (2022 Webinar)

Observation Risk Ranking

Audit observations are ranked according to the following definitions, consistent with UT System Audit Office guidance.

Risk Level	Definition
Priority	If not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of The University of Texas at Austin (UT Austin) or the UT System as a whole.
High	Considered to have a medium to high probability of adverse effects to UT Austin either as a whole or to a significant college/school/unit level.
Medium	Considered to have a low to medium probability of adverse effects to UT Austin either as a whole or to a college/school/unit level.
Low	Considered to have minimal probability of adverse effects to UT Austin either as a whole or to a college/school/unit level.

In accordance with directives from UT System Board of Regents, Internal Audits will perform follow-up procedures to confirm that audit recommendations have been implemented.

Report Submission

We appreciate the courtesies and cooperation extended throughout the audit.

Respectfully Submitted,

Sandy Jansen, CIA, CCSA, CRMA, Chief Audit Executive



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