



**The University of Texas System**  
Nine Universities. Six Health Institutions. Unlimited Possibilities.

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**System Audit Office**

702 Colorado Street, Austin, TX 78701  
Phone: 512-499-4390 Fax: 512-499-4426

September 18, 2013

Randa S. Safady, Ph.D., Vice Chancellor for External Relations  
The University of Texas System Administration  
601 Colorado Street  
Austin, TX 78701

Dear Dr. Safady:

We have performed an audit of the development activities at The University of Texas System. The summary report is attached for your review.

We conducted our engagement in accordance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

We will follow-up on recommendations made in this report to determine their implementation status. This process will help to enhance accountability and ensure that audit recommendations are implemented in a timely manner.

We appreciate the assistance provided by the Office of External Relations.

Sincerely,

J. Michael Peppers, CIA, CRMA, CPA, FACHE  
Chief Audit Executive

[www.utssystem.edu](http://www.utssystem.edu)

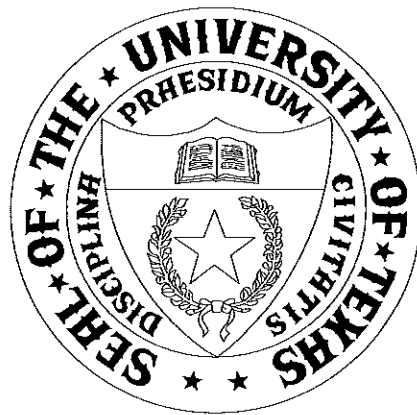
cc: Francisco Cigarroa, M.D., Chancellor, The University of Texas System

The University of Texas at Arlington  
The University of Texas at Austin  
The University of Texas at Brownsville  
The University of Texas at Dallas  
The University of Texas at El Paso  
The University of Texas - Pan American  
The University of Texas  
of the Permian Basin  
The University of Texas at San Antonio  
The University of Texas at Tyler

The University of Texas  
Southwestern Medical Center  
The University of Texas  
Medical Branch at Galveston  
The University of Texas  
Health Science Center at Houston  
The University of Texas  
Health Science Center at San Antonio  
The University of Texas  
M. D. Anderson Cancer Center  
The University of Texas  
Health Science Center at Tyler

**The University of Texas System Audit Office**

**Audit of Development Activities at  
The University of Texas System  
FY 2014**



**September 2013**

**THE UNIVERSITY OF TEXAS SYSTEM AUDIT OFFICE  
702 COLORADO STREET, CLB 3.100  
AUSTIN, TX 78701  
(512) 499-4390**



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**Fiscal Year 2014**

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**AUDIT REPORT**

September 2013

***EXECUTIVE SUMMARY***

The University of Texas (UT) System Audit Office performed an audit of development activities at all UT System institutions and UT System Administration. The objective of the audit was to determine whether the UT System institutions are accurately recording and reporting development activity information and whether the institutions consistently follow the Council for Advancement and Support of Education (CASE) and Council for Aid to Education (CAE) counting and reporting standards. To accomplish this objective, we selected samples of gifts from lists provided by the institutions and tested the samples for accuracy with the CASE and CAE counting and reporting standards.

We provided detailed audit results to each institution. This report is a summary of the issues identified at each institution and provides overall recommendations for the UT System Office of External Relations (OER) and Development and Gift Planning Services.

***BACKGROUND***

All UT System institutions have independent development offices and are engaged in all levels of fundraising. Some of the institutions are in the process of conducting, or have conducted in the last several years, comprehensive capital campaigns. The institutions follow counting and reporting standards published and maintained by CASE for the gifts received.

CASE, a professional association for advancement professionals at educational institutions, publishes Reporting Standards & Management Guidelines that provide common definitions and procedures for reporting fundraising activities at institutions. These standards are used for completing the CAE Voluntary Support of Education (VSE) survey and the CASE Survey of Educational Fundraising Campaigns. Often, CASE standards use Internal Revenue Service (IRS) standards (the Internal Revenue Code, or IRC) for taxpayer claims of charitable deductions to define a countable gift.

***OBJECTIVES, SCOPE, AND METHODOLOGY***

The objectives of the engagement were to determine whether institutions are accurately recording and reporting development activity information and whether the institutions consistently follow CASE and CAE counting and reporting standards. Additionally, the audit determined whether the institutions have adequate documentation of donor intent and appropriate receipting processes in place for those gifts accepted directly by the institution. The audit also determined if the institution's gift acceptance policies are in compliance with relevant UT System policies.

To select samples for testing of gift counting and reporting, we requested lists of gifts for the period selected for that institution, depending on whether or not that institution is currently involved in a capital campaign. For institutions involved in a campaign, we requested all gifts for the entire campaign. For the remaining institutions, we requested a list of gifts for Fiscal Years (FY) 2011 and 2012. We selected a sample of non-monetary and monetary gifts and



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reviewed the sample for compliance with UT System and institutional policies and CASE Reporting Standards & Management Guidelines. Additionally, we reviewed institutional gift acceptance policies for compliance with UT System policies related to gift acceptance.

This audit was conducted in accordance with the guidelines set forth in The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

***AUDIT RESULTS***

**Guidance on Counting and Reporting Gifts**

Although all of the development officers at the institutions were familiar with the CASE counting and reporting standards, some of the standards are more general and do not provide specific guidance on how to interpret and implement the standards. In addition, some non-monetary gifts are not easily valued. Based on our testing of gifts, the institutional development officers may need additional guidance in valuation for some types of gifts, including donations of software, services, and government funds.

Donation of Software

According to CASE standard 1.2.5, Gifts-in-kind, only irrevocable gifts of software are countable. Gifts of software licenses are considered a gift of partial interest, and thus are not countable. Documentation obtained for all gifts of software in our samples indicated the software gifts were licenses with defined periods of use, rather than an outright transfer of ownership. In circumstances where equipment was donated as part of a software donation, the value of equipment was appropriately counted, while the value of the licenses were not countable.

Donation of Services

Donations of services are not countable because, according to the IRS, they are not considered a charitable donation, as noted in CASE standard 1.2.5, Gifts-in-kind. Gifts of a person's time or service are not a charitable gift. If a donor would like to contribute services, the donor can perform the services and charge the institution for the services. The donor may then make a cash gift back to the institution, which would be a countable gift.

In addition, a donation of service by a company that regularly performs that service is not a charitable donation. For example, gifts of radio advertising from a radio station, hotel rooms from a hotel, and airline tickets from an airline are not charitable donations. The reason that gifts of services are not considered charitable donations is that charitable contributions involve the transfer of some sort of property from the donor to the charity. If the donor purchases or otherwise acquires a service and transfers that service to the charity, the gift is considered to have contributed a property interest in the service and would be considered a charitable donation.

Types of services encountered in our testing include:

*Donation of event services* – If donors want to host an event in order to raise donations and be credited for an in-kind gift, the donors should provide itemized and paid receipts for the costs of the event and the institution should confirm that the expenses are reasonable. The institution should ensure that the donor did not receive anything in exchange for the gift, such



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as alcoholic beverages left over after the event or a discount on the use of future services. This quid pro quo would reduce the amount of the gift.

*Donation of catering services* – Itemized receipts are important to differentiate the types of items being gifted: food items donated are countable, but catering services and sales taxes are not.

*Donation of services by restaurants* – As with the donation of catering services, restaurant donations may not include sales tax and should only include the cost of the food, and not the cost of services. The value of gift certificates for a restaurant purchased and donated by an individual are countable. However, if the restaurant is donating the gift certificates, the gift is not countable.

*Donation of printing services* – The value of the materials used to produce the item can be counted, but the charges for the service of printing cannot be counted.

*Donation of airline tickets* – Gifts of airline tickets from the airline are considered gifts of service, and a partial interest, and are not countable. Gifts of airline tickets from an individual are countable.

*Donation of hotel room stays* – Gifts of hotel room stays from a hotel are considered gifts of services and are not a charitable donation. As with airline tickets, hotel room stays purchased and donated by an individual are countable.

*Donation of warranty services* – Gifts of warranties or maintenance services are not countable.

#### Donation of Government Funds

According to CASE standard 1.1.3 Exclusions, gifts of government funds, including local, state, federal or foreign sources, are not countable. This exclusion applies to gifts from any government source.

Funding provided by government agencies at the federal, state, or local level, could be sponsored project funding. Where funding is being provided by corporations or foundations, the distinction between gifts and sponsored projects should be made based on the proposal, statement of work, and terms of the agreement, taking into consideration the intent of the donor. In some cases, the distinction between gift and a sponsored project can be difficult to determine. Donors may sometimes use the word “grant” when the donation qualifies as a “gift” or vice versa.

**Recommendation:** To ensure that gifts are counted consistently and accurately according to CASE standards, the OER should provide additional guidance on counting and recording the types of gifts listed above and on distinguishing between a gift and a sponsored research project. After providing the guidance, the OER should work with the



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institutions to ensure that they correct any errors and restate any VSE reports that may be inaccurate.

**Management Response:** The Office of Development and Gift Planning Services (DGPS) within OER contacted each UT institution to assist with correcting past VSE reports and to provide information regarding counting standards. DGPS will confirm corrections have been made with those institutions that are required to update past VSE reports. DGPS will also add applicable information to the UT System Gift Acceptance Procedures (UTS138) and to OER's Online Resource Guide (ORG), which is a secured SharePoint site that is accessible to all UT institutions.

**Implementation Date:** September 30, 2013

### **Assistance Valuing Gifts**

The value of some gifts, such as data and equipment used in highly specialized fields (e.g., geological core samples, seismic data) can be difficult to determine. In addition, donors may provide non-monetary gifts of real and personal property without an independent appraisal. Institutional development staff may lack the expertise or resources to determine an accurate value for these gifts.

**Recommendation:** The OER should consider developing a committee to assist institutional development offices in determining the value and appropriate counting method for complex or unusual gifts. The OER also should consider assisting institutions in valuing non-monetary gifts by providing information and resources on appraisal services.

**Management Response:** DGPS is creating an advancement services group composed of representatives from each UT institution to serve as a resource to determine counting methodology and guidelines. DGPS will offer suggestions to UT institutions regarding appraisal services and subject matter experts.

**Implementation Date:** September 30, 2013 (First in-person meeting of the Advancement Services Working Group will be held during the UT System Seminar, February 23 – 25, 2014.)

### **Gift Documentation**

Some of the gifts we reviewed as part of our testing at the institutions could have had better documentation to support the value of the charitable donation. Adequate supporting documentation includes, but is not limited to evidence of donor or internal valuation when appropriate, an independent appraiser's valuation, and a description of the gift.



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**Recommendation:** The OER should provide guidance on the amount and type of documentation that should be maintained for gifts. Documentation should be sufficient that an independent verifier can clearly identify the same value for a counted gift.

**Management Response:** DGPS will provide gift documentation guidance to all UT institutions via the above referenced Advancement Services Group, updates to UTS138 and OER's ORG.

**Implementation Date:** October 15, 2013

### **Donor Acknowledgement**

The institutions generally acknowledged the donor appropriately; however, there was some inconsistency in the information provided in the letters, such as the value or declared value of the gift, or statements of compliance with IRS standards. In addition, some institutions received gifts of vehicles, but did not appear to complete the required IRS form or include that information on the gift acknowledgement letter. IRS Form 8283 is required to be completed and filed by the donor if the donor claims a deduction of more than \$500 in total for a year, and a donee signature is required if the donated property exceeds \$5,000.

**Recommendation:** The OER should provide guidance on the appropriate information to include in the donor acknowledgement letter and the required IRS information to be provided to the donor.

**Management Response:** DGPS will update Sections 3.5 and 3.6 of UTS138 regarding Written Acknowledgment and Disclosure and Tax Filing. In addition, DGPS drafted gift acceptance policies for the UT institutions to add to their Handbook of Operating Procedures (HOPs), which also covers donor acknowledgement.

**Implementation Date:** September 30, 2013

### **Use of the UT Foundation**

Some donors may wish to make a donation to an organization that is tax-exempt under Internal Revenue Code (IRC) Section 501(c)(3). The University of Texas System institutions are not tax exempt under IRC Section 501(c)(3), but individuals can deduct contributions made to the University under IRC Section 170(c). If the donor wishes to make a donation directly to an IRC Section 501(c)(3) organization, the institution should coordinate the donation with the UT Foundation or other associated foundation, which qualify as tax-exempt under IRC Section 501(c)(3).

**Recommendation:** The OER should provide guidance on the appropriate use of the UT Foundation and the exempt status of the institutions.



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**Management Response:** DGPS will update UTS138 to include UT System and UT institution tax exempt information. DGPS will also expand Section 6.9 of UTS138 and incorporate additional information about the UT Foundation.

**Implementation Date:** September 30, 2013

**Gift Acceptance Policies**

We reviewed the institutions' policies related to gift acceptance for compliance with Regents' *Rules and Regulations* and UT System policies, specifically UTS138, *Gift Acceptance Procedures*. Not all institutions had policies related to the acceptance of personal property, intellectual property, retirement plan assets, and life insurance as required by UTS138, *Gift Acceptance Procedures*.

**Recommendation:** The OER should provide templates for the policies related to gift acceptance for personal property, intellectual property, retirement plan assets, and life insurance.

**Management Response:** DGPS drafted language regarding the above referenced asset types, which will be sent to the Office of General Counsel (OGC) for review. Once the OGC review is complete, the language will be provided to the UT institutions for inclusion in their individual HOPs. This information will also be added to UTS138.

**Implementation Date:** September 30, 2013

**CONCLUSION**

The OER should provide detailed guidance for the institutions to ensure they are accurately and appropriately counting and reporting their development activities in accordance with CASE standards. Improvements can be made to the processes surrounding valuation of certain gifts and the documentation of those valuations.