The University of Texas Medical Branch
Audit Services

Audit Report
Endowment Compliance
Audit Control Number 2013-024
August 2013
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Audit Control Number: 2013-024

Background
Financial contributions from individuals, foundations, corporations, and other entities are vitally important to the fulfillment of the institution's mission and to the provision of high-quality educational opportunities. The University of Texas (UT) Board of Regents provides guidance to UT institutions through the promulgation of System-wide policies related to the acceptance and management of charitable gifts.

A gift common to academic institutions is the establishment of endowments. An endowment may come with stipulations or restrictions regarding its usage. In some circumstances, an endowment may be required to be spent in a certain way or for a defined time period. The University of Texas Medical Branch’s (UMTB Health’s) fiscal year (FY) 2012 Endowment Compliance Annual Report indicated a total of 711 endowments with a total market value of $444,038,055 held by UT System for the benefit of UMB Health.

At the most basic level, a donor expects donated funds to be expended to the fullest extent possible. UT System guidance advises its institutions to maintain no more than two years’ worth of accumulated income (fund balances) for each endowment. In FY 2012, UMB Health reported 133 endowments (16%) with no expenditures, while 328 (46%) had excessive accumulated fund balances of more than twice the annual distribution. As a result, during FY 2013 executive institutional leadership, in collaboration with the Development Office, began a concerted effort to improve processes and oversight to enhance endowment expenditure management and reduce current excessive endowment fund balances.

While approval of expenditure of endowment funds resides at the holder or departmental level, UMB Health has established additional governance and monitoring activities that include an engaged monthly Endowment Compliance Committee meeting with multi-discipline representation and monthly endowment operating reports.

Audit Objectives
The primary objective of the audit is to assess the effectiveness of processes in place to expend endowment income in compliance with donor agreements and institutional guidance.

Scope of Work and Methodology
The scope of work encompasses September 1, 2012 to fieldwork date activities and expenditures. Our methodology includes interviews, data analysis, and limited expenditure testing. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing as promulgated by the Institute of Internal Auditors.

Audit Results
Endowment Expenditure Guidance
UMTB Health’s Handbook of Operating Procedures Policy 6.6.0 Endowment Compliance Plan established the governance and basic tenets for ensuring appropriate expenditure of endowment income in accordance with the requirements of the donor’s gift agreement. Additionally, in the annually prepared Endowment Compliance Report for UT System, UMB Health considers any endowment operating account with more than two years of accumulated earnings to have
excessive accumulations. The number of endowments meeting this criterion has grown in recent years, resulting in the current initiative to reduce accumulated earnings by spending the funds in accordance with the gift agreement. Approximately 86% of the endowments with excessive equity balances reside within the Academic Enterprise. In early FY 2013, the Office of the Provost established and communicated guidelines regarding the expenditure expectation of endowment funds for the year. These expectations included directives to spend 100% of the total annual distribution of endowment funds during the FY earned and to reduce the past years’ accumulations spending a portion of these accumulations by August 31, 2013.

To achieve this goal, the Office of the Provost required its academic departments develop and implement plans to expend funds in accordance with donor requirements and guiding tenets. Audit Services selected a random sample of 10 endowments with excessive accumulations to determine whether spending plans were submitted and approved. Spending plans were identified for the selected sample; however, Audit Services noted the plans generally lacked standardization, adequate detail for monitoring, and evidence of approval by the Office of the Provost. Office of the Provost personnel indicated only general, verbal guidance was provided to department administrators regarding plan preparation and a very limited time for submission. Best practice would suggest providing more guidance related to plan development and details would allow for improved monitoring of their execution.

**Recommendation 2013-024-01-R:**
The Vice Provost and Vice President and Chief Operating Officer for the Academic Enterprise should develop, implement, and communicate written expenditure management plan guidance to support expenditure efforts and facilitate oversight and monitoring.

**Management’s Response:**
The Office of the Provost agrees with this recommendation and will ensure that a detailed spending plan by endowment is in place across the Academic Enterprise and will be appropriately monitored for Fiscal Year 2014. The Office of the Provost will implement written guidance for departments to follow if a department deviates from their originally submitted endowment plan. Additional, guidelines will be established to appropriately elevate concerns regarding the management of a specific(s) endowment(s) to the Vice Provost and/or EVP and Provost for review and immediate action.

**Implementation Date:** September 30, 2013

Additionally, Audit Services selected a random sample of 10 restricted and 10 unrestricted endowments with excessive fund balances having no expenditures as of May 2, 2013. Our interviews with the associated department directors indicated the majority intended to meet the key guiding tenets; however, as of July 17, 2013, only four (20%) of the 20 sampled endowments had expenditures. Although it is possible that some departments may meet their spending goals, the lack of progress thus far appears to reflect a combination of unrealistic goals and accountability at the departmental level and insufficient monitoring and oversight at the Office of the Provost level.
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Recommendation 2013-024-02-R:
The Vice Provost and Vice President and Chief Operating Officer for the Academic Enterprise should intensify current monitoring efforts in terms of frequency and feedback to the departments to help ensure expenditure goals are met or adjusted as needed.

Management’s Response:
The Office of the Provost agrees with this recommendation. We will implement monthly monitoring processes based on the endowment spending plans and the monthly financial performance of the Academic Enterprise endowments.

Implementation Date: September 30, 2013

Expenditure Testing
Non-Salary Expenditures
Audit Services selected a random sample of 100 non-salary expenditures from 10 restricted and 13 unrestricted endowments. Comparison of the endowment agreements with expenditure supporting documentation indicated all expenditures tested were in compliance with the respective donor's intent and institutional guidance.

Salary Expenditures
Additionally, Audit Services tested FY 2013 salary expenditures charged to 16 restricted and 11 unrestricted endowments. Audit Services noted approximately $78,000 in FY 2013 Orthopaedic departmental salaries were charged to the E. Burke Evans Orthopaedic Research Fund which prohibits use of its income for salaries. Our discussions with Office of the Provost personnel indicated that prior to his death, Dr. Evans verbally approved the use of funds for salaries. Subsequent discussion with the Development Office indicated Dr. Evans was not the sole contributor to the endowment, thus, he could not direct the expenditure of funds beyond the restrictions documented in the gift agreement. The Orthopedic Department is currently taking steps to transfer the salaries to more appropriate accounts. All other salary expenditures tested were in compliance with donor intent and institutional guidance.

Timeliness of Expenditures
During the engagement, Audit Services noted several instances where the Academic Enterprise planned to move, during the final months of the fiscal year, eligible expenditures previously paid from other funds to be paid from endowment funds. This practice of moving a large number of expenditures at year end rather than recording them appropriately in endowment accounts as they are incurred results in both inefficiency and potential financial reporting inaccuracy at the fund level.

Recommendation 2013-024-03-R:
The Vice Provost and Vice President and Chief Operating Officer for the Academic Enterprise should reconsider the approach of moving eligible expenditures to endowments late in the fiscal year, charging expenditures to endowment funds as incurred.
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Management’s Response:
The Office of the Provost agrees with this recommendation and some corrective actions were instituted in fiscal year 2013. A process has been implemented to place at least 50% of an endowment holder’s salary onto the endowment. Going forward, salaries and benefits will be treated as permanent funding source managed within PeopleSoft. Additionally, monthly monitoring of expenditures will avoid large expense transfers at the end of the fiscal year.

Implementation Date: September 30, 2013

Scholarships
Audit Services selected a sample of 20 endowed scholarships and reviewed available departmental documentation related to the awarding process and/or the subsequent recipients. The support documentation provided varied widely from formal letters to the recipients to brief emails and copies of commencement programs. According to UTMB Health’s Financial Aid Officer, the responsibility for maintaining supporting documentation related to scholarship awards will transition from the schools and related departments to Enrollment Services for the calendar 2014-15 academic years.

Recommendation 2013-024-04-P:
The Associate Vice President, Student Services, should ensure Enrollment Services develops guidance for communicating scholarship awards to students and maintaining appropriate supporting documentation.

Management’s Response:
An initiative was implemented to Fiscal Year 2013 to create a centralization Office for Student Scholarships and Grants in Fiscal Year 2013. The Office for Student Scholarships and Grants will continue to develop centralized processes for student scholarship application, determination of scholarship eligibility determination, budget accountability, appropriate scholarship awarding, scholarship/grant account reconciliation, and effective communications with scholarship recipients, donors, and School Scholarship Committees throughout the academic year. The ongoing development of these processes will occur during the upcoming school year.

Implementation Date: February 28, 2014

Conclusion
Based on the procedures performed, Audit Services noted expenditures of endowment income were generally in accordance with donor agreements and institutional guidance. Opportunities for improvement exist related to expenditure management, oversight and monitoring, and maintenance of scholarship supporting documentation.
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We greatly appreciate the assistance provided by the Office of the Provost, Academic Enterprise, and Development Services staff and hope that the information presented in our report is beneficial.

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