14-302 Gift Compliance Review

Strategic Area: Financial/Operational
Risk Type: Financial, Operational, Reputational, Compliance
Audit Manager: Antoinetta Lovelady

Overview:
For fiscal year 2013, MD Anderson secured more than 116,000 gifts totaling approximately $248 million. These gifts came from various sources, with the majority coming from individuals and foundations.

The Development Office is primarily responsible for managing gifts. This includes ensuring the gifts are properly recorded and appropriately allocated. In addition, Development notifies faculty of the gift awards and communicates the terms and provisions for receipt of the funds. Research Finance assists with the process by conducting reviews of major gifts ($20,000 or more) and facilitating new fund account setup for gifts, as needed.

Expenditures of gift funds occur at the departmental level. The departments are responsible for ensuring the expenditures are made in accordance with donors’ provisions and institutional guidelines.

Audit Results Summary:
Internal Audit conducted a review to gain assurance about controls within Development and various institutional departments related to gift processing and the expenditure of gift funds. See Appendix A for objective, scope and methodology.

Based on our data analysis and testing of controls, it appears that gift expenditures are reasonable and incurred in accordance with donors’ provisions. In addition, controls are in place to ensure gifts are accurately recorded in Development’s gift database and allocated to the appropriate institutional fund accounts in PeopleSoft.
During the review, however, we identified opportunities for improvement related to recordkeeping for cash gifts received within the Development Office; the timeliness of gift processing; monitoring of gift accounts to ensure funds are expended timely; and communication to departments regarding gift details and the overall gift process.

**Management’s Summary Response:**

Management agreed with the observations and recommendations in this report and began to implement corrective actions prior to the release of this report.

**Number of Priority Findings to be monitored by UT System: None**

A Priority Finding is defined as “an issue identified by internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.”

We sincerely appreciate the courtesy and cooperation extended to us by the Development Office (including Stewardship), Research Finance and the various other departments we interviewed.

Sherri Magnus, CPA, CIA, CFE, CRMA
Vice President & Chief Audit Officer
June 26, 2014
Background

The gift process begins when funds are received by the Institution. Gifts come in primarily via checks and credit card payments. Occasionally, cash gifts are also received. All cash and check gifts are sent to the bank, along with donation coupons, donor letters and other supporting documentation. The bank deposits the gifts to the Institution’s cash clearing account and returns check copies and supporting documentation to Development. For credit card gifts, Development receives transaction reports from the credit card processing systems, which confirm the receipt of funds.

Using the supporting documentation from the bank and credit card transaction reports, Development staff manually enter details for each gift into the Millennium “Monroe” database. Details include the gift amount, gift purpose, donor contact information, and other information necessary for identifying the gift and allocating it to the appropriate institutional fund account. Staff review their entries for accuracy during the data entry process, and an independent quality assurance team within Development performs a final review once the data entry is complete.

For major gifts ($20,000 or more), Development coordinates with its Stewardship section to ensure faculty members are notified of the gifts and made aware of gift requirements, such as thank-you letters and progress reports. Development also coordinates with Research Finance to ensure these major gifts are appropriately classified as such. Research Finance also ensures that administrative overhead costs for the Institution are deducted from gifts $50,000 or more, as applicable, and helps to establish new fund accounts.

Once coordination between Development, Stewardship and Research Finance is complete, gifts for the institution’s priority projects and gifts without a designated faculty member are released to the Office of the Provost for oversight and allocation. All other gifts are released to designated faculty members for spending, in accordance with donors’ provisions. The process for releasing gifts could take from three days to six weeks, depending on the responsiveness of the parties involved in reviewing the gifts and establishing new gift fund accounts.

This diagram reflects the flow of information that must occur prior to gift release.

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Observation 1:  
**Improve Timeliness of Gift Processing**

Based on our analysis of processing times for the 25 gifts we reviewed, we determined that eight (32%) of the gifts were not processed timely, in accordance with departmental standards.

For gifts less than $20,000, we calculated processing time as the number of business days between recording the gift in the Monroe database and posting the gift to the general ledger. Per management, these gifts typically take three to five days to process if a new account setup is not required. For gifts greater than $20,000 or more, we calculated processing time as the number of business days between recording the gift in the Monroe database and completion of review processes by Stewardship and Research Finance. These gifts typically take five to six weeks to process because of the additional coordination that is often required among Development, Research Finance and other departments, particularly when new account setup is required.

Seven of the eight gifts that were not processed timely were less than $20,000 and took seven to 111 business days to process. Another gift was greater than $20,000 and took 47 days. According to management, some of these delays occurred because the gifts were processed during high-volume periods within Development. Other delays occurred because the gifts were processed during the early phase of the PeopleSoft implementation, when the creation of new fund accounts was halted for a period of time.

The timeliness of gift processing depends on certain variables that may be beyond Development’s control, such as faculty and departments’ responsiveness in providing requested information and the timing of various reviews and approvals that sometimes must occur by Research Finance, the Office of the Provost and other areas. However, when gifts are not processed timely, this could increase the risk that funds will not be available to support critical research programs when needed. In addition, it could impact the ability to spend funds timely and, thereby, increase the Institution’s reputational risk to donors with regard to progress reports on gift activity.

**Recommendation:**

Development (including Stewardship) and Research Finance to should revisit their standard gift processing timelines for reasonableness, given the impact of PeopleSoft on the account setup process and other factors. In addition, the standard timelines should be documented in departmental policies and procedures or guidelines. The departments should also coordinate to ensure appropriate tracking mechanisms are in place to facilitate timeliness and efficiency in the overall gift process.
Management’s Action Plan:
Responsible Executive: Dan Fontaine
Owner: Patrick Mulvey
Due Date: September 30, 2014

The Development Office will revisit internal gift processing timeframes and arrive at revised guidelines which provide standard processing times for routine gifts and an estimated timeframe for non-standard processing which takes into consideration fund setups, faculty visits by stewardship and coordination with the Provost’s Office. The Development Office will initiate an exploratory conversation with Research Finance and General Accounting to determine whether a tracking mechanism can be put in place to monitor the status of establishment of a gift fund. The Development Office plans to have the new timeframes documented and a response from Research Finance and General Accounting on a tracking mechanism by September 30, 2014.

Observation 2:
**Improve Controls for Cash Gifts**

For fiscal year 2013, approximately $163,000 in cash gifts were deposited with the Institution’s main cashier. This included gifts that were received directly within the Development Office. Development’s current practice for cash gifts is to prepare a memo to submit with the deposit to the main cashier. A copy of this memo and the cashier’s receipt are retained as part of Development's supporting documentation. During this review, we learned that Development does not maintain a log or receipt book to record all cash gifts received within the department.

In addition to other cash-handling guidelines, the institutional Cash Manual says that if it is necessary to process manual cash receipts, a department must use pre-numbered, properly controlled financial receipts or stationary. Without a record of cash received, we were unable to verify that all cash receipts were deposited and recorded.

**Recommendation:**

The Development Office should comply with the Institution’s Cash Handling Policy for processing manual cash receipts.
Management’s Action Plan:
Responsible Executive: Dan Fontaine  
Owner: Patrick Mulvey  
Due Date: August 31, 2014

The Development Office began using a cash receipt log/book effective June 1, 2014. When cash is received, a numbered receipt will be provided to the donor and the duplicate will be retained in the log. The cashier’s receipt will be reconciled to Development’s cash receipt log/book. Development’s internal procedure is in the process of being revised to document this new added control.

Observation 3:
**Consistently Monitor Gift Accounts In Accordance with Policy**

During our review, we identified two gift accounts with fund balances that exceeded or were approaching $100,000. According to management, the funds in these accounts were purposely being held by the faculty members to support future projects. There are no specific donor provisions or fund guidelines prohibiting faculty from holding the funds. However, there is an institutional *Philanthropic Funds for Research and Education Policy*, which states that all philanthropic funds will be monitored annually and departments will be notified and required to provide a justification for the accumulation of funds. We could not locate a documented justification for these two accounts. When funds are accumulated and not spent timely, our reputation with donors may be affected and our ability to secure future funding may be jeopardized.

Research Finance stated there is currently no consistent monitoring of all gift accounts in accordance with this policy. The department plans to coordinate with Development, the Office of Research Administration and Financial Controls to clarify their mutual roles and the extent to which they will engage faculty and departments regarding spending plans for accumulated gift funds.

**Recommendation:**

Research Finance should coordinate with appropriate parties to revisit the *Philanthropic Funds for Research and Education Policy* and determine whether a monitoring plan for all gift accounts should be instituted in accordance with the policy.
Management’s Action Plan:
Responsible Executive: Dr. Leon Leach
Owner: Govind Narasimhan
Due Date: August 31, 2014

Research Finance has initiated dialogue with the Office of Research Administration and the Office of the Provost to determine the need to institute a monitoring plan for all gift accounts including identifying the appropriate office responsible for enforcing the policy.

Research Finance expects to conclude deliberations with the Office of Research Administration, Office of the Provost and Development and communicate to Internal Audit the outcome of the above outlined discussions no later than August 31, 2014.

Observation 4:
**Improve Transparency of the Gift Process**

Overall, the departments we interviewed were complimentary of the Development Office and indicated that information was generally available when requested. However, some departments expressed a desire for more transparency and a better understanding of Development's gift process. For example:

- Some departments were unaware of the timeframe required for gift funds to be posted to their departmental accounts.
- In two instances, departments indicated a need to better understand the process for allocating gifts when faculty members have not been designated for the gifts.
- Departmental Administrators (DAs) are not consistently notified of major gifts ($20,000 or more).

When this observation was brought to management’s attention, they immediately began working on an action plan to improve communication with the DAs.

Recommendation:

The Development Office should provide an overview to departments detailing its role and standards for gift processing. As suggested by management, this information could be presented at the Research Council and/or Manager’s Forum. In addition, Development should continue its efforts to ensure Department Administrators and other key individuals within the departments are consistently informed of all gifts.
Management's Action Plan:
Responsible Executive: Dan Fontaine
Owner: Patrick Mulvey
Due Date: December 31, 2014

Development will request a slot on the Manager's Forum agenda to provide an overview of the functions of the Development Office along with key points such instructions on where to send gifts, cash and check handling of gifts, contact information, processing timeframes and how a gift that comes into the institution actually makes its way to a department. Development's goal is to get on the Forum agenda for a meeting before the end of the 2014 calendar year.
Appendix A

**Objective, Scope and Methodology:**
The objective of this review was to assess the controls related to gift processing and compliance with donors' provisions. The scope included non-personnel expenditures posted to 25 randomly-selected gift accounts during the period September 2012 through January 2014. The scope also included gift processes within the Development Office, Research Finance and 14 other institutional departments related to the gift accounts we selected. See Appendix B for a list of departments reviewed.

Audit procedures included, but were not limited to:

- Interviews and observations to understand gift processes and controls within Development, Research Finance and 14 institutional departments
- Review of relevant institutional policies and Development Office guidelines
- Analysis of expenditure data from PeopleSoft to determine the volume of expenditure activity for each selected gift account and identify the primary types of expenditures made from each account
- Analysis of gift information from Development’s gift database to calculate and assess the reasonableness of gift processing time
- Review of supporting documentation for the selected gifts to determine whether the gifts were accurately recorded in the gift database and allocated to the appropriate PeopleSoft account
- Review of a sample of expenditures for reasonableness and appropriateness based on donors’ provisions and the purpose of the gift funds

Our internal audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing.*
### Appendix B

**Additional Departments Reviewed During Gift Expenditure Testing**

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<th>Department</th>
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<td>Biochemistry and Molecular Biology</td>
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<td>Genitourinary Medical Oncology Research</td>
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<td>GI Medical Oncology</td>
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<td>Gynecology Oncology and Reproductive Medicine</td>
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<td>Integrative Medicine Program</td>
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<td>Integrative Medicine Research</td>
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<td>Leukemia Research</td>
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<td>Lymphoma/Myeloma Research</td>
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<td>Melanoma Medical Oncology Research</td>
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<td>Sarcoma Medical Oncology</td>
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<td>Surgical Oncology Research</td>
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<td>Thoracic Head and Neck Medical Oncology Research</td>
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