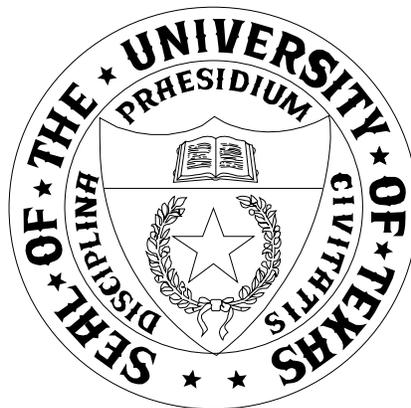


The University of Texas System Audit Office

**Audit of Development Activities at
The University of Texas Southwestern Medical Center
FY 2013**



May 2013

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EXECUTIVE SUMMARY

The University of Texas (UT) System Audit Office performed an audit of development activities at all UT institutions and UT System Administration. The objectives were to determine whether institutions are accurately recording and reporting development activity information and whether institutions consistently follow Council for Advancement and Support of Education (CASE) and Council for Aid to Education (CAE) counting and reporting standards. Additionally, the audit was intended to determine whether the institutions have adequate documentation of donor intent and appropriate receipting processes in place for those gifts accepted directly by the institution.

This report pertains to the work conducted at The University of Texas Southwestern Medical Center (UTSW) and only addresses the procedures performed at that institution. The results of the work performed at the other institutions will be reported as completed.

For UTSW, we reviewed a sample of 27 non-monetary donations valued at \$1,600,590 and 9 monetary donations valued at \$82,275,360. Based on the procedures performed, we found that 18 of our sample of 27 non-monetary gifts either needed more documentation to support the recorded value of the gift or should not have been counted as charitable gifts according to CASE reporting standards. Nine of these gifts had their charitable values recorded incorrectly (54.3% of the total value of the non-monetary sample) and nine gifts needed more documentation to substantiate the value recorded (29.2% of the total value of the non-monetary gift sample). Although there was a high rate of error for our sample of non-monetary gifts, non-monetary gifts make up only 0.19% of the institution's five year contributions total. We did not find any errors in our review of our sample of monetary donations and found that donors were consistently provided an acknowledgement from the President or appropriate staff for their gifts.

We also found that UTSW does not have approved policies for accepting certain gifts, as required by UTS138-*Gift Acceptance Procedures*, but is in the process of drafting new development policies.

BACKGROUND

UTSW has a centralized development function in the Office of Development. The office has been undergoing a reorganization and is currently under the direction of an interim Vice President for Development. The office is in the process of revising its gift policies and procedures, some of which have not been updated since 1998. For the five-year period we reviewed, UTSW received more than \$1 billion in donations.

The Council for Advancement and Support of Education (CASE), a professional association for development 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 Council for Aid to Education (CAE) Voluntary Support of Education (VSE) survey and the CASE Survey of Educational Fundraising Campaigns.



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The VSE survey collects data about charitable support, including the sources and purposes of gifts, and information on deferred giving and bequests, and uses the data to report on private support of education. According to CAE, many corporations and foundations review the information in the VSE report before making decisions about supporting particular institutions. The CASE Survey of Educational Fundraising Campaigns is a biennial survey of higher education institutions. Campaign statistics and key ratios are published in aggregate in the CASE Campaign Report, as well as in industry and other popular media venues.

AUDIT OBJECTIVES

The objectives of this audit were to determine whether:

1. UTSW is accurately recording and reporting information on its development activities;
2. UTSW is consistently following CASE and CAE counting and reporting standards; and
3. UTSW has adequate documentation of donor intent and appropriate receipting processes in place for those gifts accepted directly by the institution.

SCOPE AND METHODOLOGY

We obtained a list of gifts for the past five fiscal years from September 1, 2007 to August 31, 2012. The list included 46,116 monetary gifts totaling \$1,093,026,969 (99.81% of total gifts for the period) and 894 non-monetary gifts totaling \$2,106,603 (0.19% of total).

We selected a sample of all non-monetary gifts over \$10,000 (27 gifts) which totaled \$1,600,590 (76.0% of the total non-monetary gifts for the five year period). We did not include two non-monetary gifts over \$10,000 in the sample because they were recurring donations made by the same donor, of which one of the recurring donations was included in the sample. For the more easily quantifiable monetary donations, we randomly selected nine monetary gifts totaling \$82,275,360 (7.5% of the total monetary donations for the five-year period). The sample included at least one gift from each type of payment form (cash, check, wire transfer and other forms of monetary payments).

The sampled gifts were tested to determine whether they were accurately documented in the development system and were in compliance with UT System and institutional policies and *CASE Reporting Standards & Management Guidelines*. We also interviewed development staff and reviewed the institution's VSE report for 2012 and policies for gift acceptance to ensure UTSW has the required gift acceptance policies.

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*.



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AUDIT RESULTS

Recording and Reporting Information on Development Activities and CASE Compliance

We found that 18 gifts in our sample of 27 non-monetary gifts either were not countable as charitable gifts or needed more documentation to support the value of the gift. Nine of these gifts' charitable values (54.3% of the total value of the non-monetary sample) were recorded incorrectly. Eight of the 27 were gifts of a service (including advertising, air tickets, or other form of service). According to CASE standards and Internal Revenue Service (IRS) guidelines, gifts of services are not considered a charitable contribution and are not countable. The other gift was from a foreign government, which is also not countable according to CASE standards.

We also identified nine gifts (29.2% of the value of the non-monetary gift sample) that needed more documentation to substantiate the value recorded. Four of these gifts were of personal property valued over \$5,000 that did not have an independent appraisal to support the documented value. The remaining five gifts did not have adequate documentation to support the value recorded and counted. Of these five gifts, four gifts were valued internally without adequate documentation of recorded value, and one was a gift donated for auction that did not include documentation confirming the gift was actually sold as part of the auction. CASE standards require that gifts donated for auction purposes must be sold before they can be counted as a charitable gift.

Recommendation: UTSW should ensure that gifts of services are not included in the recorded charitable value and that gifts without appraisals have adequate documentation to support the value of the charitable donation. UTSW should restate any previous submissions that included donations of services or other uncountable gifts.

Management's Response: The audit cited nine gifts as not countable, and adjustments in the database have been completed. Another nine gifts required additional documentation to support the value. Of these, five have been adjusted to reflect the value obtained (one was reduced to zero, two were reduced to match the appraisal, and one was increased to match the appraisal). The documentation for the remaining four has been requested, and any necessary adjustments will be made prior to fiscal year end. Gift Records staff have been trained on CASE standards and IRS Guidelines, and moving forward, will ensure that gifts of services and gifts from foreign governments are not counted and that all gifts of \$5000 or more have adequate documentation to support the gift value.

Implementation Date: Ongoing through August 31, 2013

Institutional Development Policies

UTSW does not have approved policies for accepting certain gifts of intellectual property, retirement plan assets and life insurance. UT Systemwide policy UTS138 – Gift Acceptance Procedures requires that the president of the institution develop and implement policies for the review and acceptance of gifts for which responsibility for acceptance has been delegated to the presidents. These gifts include personal property, intellectual property, retirement plan assets and life insurance.



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Recommendation: UTSW should continue to develop policies for the operation of the development office and the acceptance of certain gifts for which the responsibility has been delegated to the institution.

Management's Response: We have recently completed an update of UT Southwestern's gift policies and procedures, which had not previously been updated since 1998. The revised policies do not yet include specific gift acceptance policies for personal property, intellectual property, retirement plan assets, and life insurance. Per a discussion with UT System auditors, we request that the UT System provide sample acceptance policies for these types of gifts that can be adapted and incorporated into UTSW's newly revised policy handbook.

Implementation Date: ASAP pending direction from UT System

Documentation of Donor Intent and Appropriate Receipting Processes

As part of the receipting process, we found that donors were consistently provided an acknowledgement from the president or appropriate staff for their gifts. For non-monetary gifts, this acknowledgement was in compliance with IRS regulations that require a statement explaining on goods or services were received in exchange for the gift.