



Office of Internal Audit

August 10, 2015

Dr. Kirk A. Calhoun, President
UT Health Northeast
11937 U. S. Hwy 271
Tyler, TX 75708

Dear Dr. Calhoun:

The Office of Institutional Advancement communicated to Internal Audit that pursuant to UT System Board of Regents' (BOR) Rule 60102 "Fees for Endowment Administration and Management" UT Health Northeast will request from UT System an increase in the institution's endowment management and administrative (M&A) fees. When requesting an increase in these fees above .08%, the BOR Rule requires the institution's internal audit activity in coordination with the UT System Audit Office to verify these expenses. Our objective was to assess the reasonableness of the calculations and supporting documentation for the endowment M&A expenses incurred by UT Health Northeast. We found that the UT Health Northeast endowment M&A expenses are allowable, reasonable, and adequately supported.

This audit was conducted in accordance with guidelines set forth in The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. We appreciate the assistance provided by management and other personnel and hope the information presented in our report is helpful.

Sincerely,

Kris I. Kavasch
Chief Audit Executive

Enclosure

cc:

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Endowment Management and Administrative Fees Audit

August 10, 2015

**UT HEALTH NORTHEAST
OFFICE OF INTERNAL AUDIT
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**UT Health Northeast
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Audit Report

BACKGROUND

In the fall of 2007, The University of Texas (UT) System Board of Regents (BOR) approved a change to the existing fee for endowment compliance. Prior to the change, the fee was 0.08% of the market value of the institution's endowments held in the Long Term Fund (LTF). The approved change allows an increase of up to 0.20% of the market value of endowments held in the LTF, to cover management and administrative (M&A) expenses incurred by the institutions and System Administration. According to the Rules and Regulations of the Board of Regents No. 60102, in order to qualify for an increase in the M&A fee, UT System Administration or institutions must provide evidence of expenditures related to endowment M&A activities, based on guidance provided by the UT System Office of External Relations. BOR Rule 60102 also requires that evidence of M&A expenditures be verified by the institutional internal audit department in coordination with the System Audit Office.

Pursuant to BOR Rule 60102, UT Health Northeast is requesting an increase in its endowments' M&A fees from 0.08% to 0.20% of the market value of the institution's endowments held in the LTF. As required, the institution's Internal Audit Office has conducted an audit of the M&A expenses submitted by the Office of Institutional Advancement relating to the institution's endowments held at System Administration and related M&A activities.

Typical activities eligible for classification as M&A include those that are considered *indispensable* to the management and administration of endowment funds, and should not include fundraising or programmatic expenses. Typical M&A activities include the following:

- Record-keeping and planning
 - Drafting of endowment agreements
 - Holding internal consultations on unusual proposed endowment requirements
 - Obtaining administrative approval to set up, re-designate, or dissolve an endowment
 - Inputting endowment account information into a record-keeping system
 - Ensuring accurate transmittal of funds to UTIMCO
 - Ongoing maintenance of endowment records
 - Overseeing sale of non-cash assets or ongoing administration of those assets if *held-for-sale*
 - Sending payment reminders
 - Ensuring distributions are made accurately and timely
 - Sending gift acknowledgements
 - Preparing endowment donor correspondence
- Information systems related to endowments
- Publications specific to endowments
 - Publications on how to make gifts and the tax ramifications thereof
 - Preparing and distributing annual endowment compliance reports

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- Oversight and advisory activities, such as the Gift Planning Advisory Council
- Endowment compliance activities to ensure endowments are spent for intended purposes
- Annual endowment compliance training
- Overhead and fringe benefits associated with included direct expenses

In order to comply with BOR Rule 60102, the UT System Audit Office provided a template and guidance for determining allowable expenses, as well as suggested steps for auditing the expenses.

AUDIT OBJECTIVE

Our objective was to assess the reasonableness of the calculation and supporting documentation for the endowment M&A expenses incurred by UT Health Northeast.

AUDIT SCOPE AND METHODOLOGY

We audited expenses incurred during fiscal years 2014-2015 and accomplished our objective through:

- interviewing key personnel in the Office of Institutional Advancement and the Office of the Controller,
- testing of documentation supporting expenses and estimates,
- recalculating the expenses, and
- reviewing the method by which overhead and fringe benefit rates are calculated.

Our work is based on the following criteria:

- Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the State of Texas (Chapter 163 of the Texas Property Code, *Management, Investment, and Expenditure of Institutional Funds*), and
- American Institute of Certified Public Accountant's Statement of Position No. 98-2, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities that include Fund Raising* now at Financial Accounting Standards Codification 958-720.

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

RESULTS

Our audit produced the following results and recommendations:

Assessing Mathematical Accuracy

Based on the procedures performed, we determined that the total M&A expenses incurred by the UT Health Northeast Office for Institutional Advancement for endowments managed by The

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University of Texas Investment Management Company (UTIMCO) are approximately \$59,058, or 0.48%, of the market value of its endowments held in the LTF at May 31, 2015.

Assessing the Validity of Expenses

We determined that endowment expenses are based correctly on payroll and records from the institution's payroll and accounting systems and/or Office of Institutional Advancement records. It is important to note that due to the absence of cost accounting and effort reporting systems to capture full costs by event or activity, significant estimates and assumptions were used. For example:

- Overhead and benefit rates are based on estimates, which are conservative and reasonable.
- Detailed timekeeping records are not maintained, thus individuals' time spent performing M&A activities is based on good-faith estimates.
- Endowment and non-endowment activities are based on ratios, such as the value of endowments to total gifts, as there is no cost accounting system in place to perform the allocations.

Assessing the Reasonableness of Payroll Expense

The estimate of payroll expense includes a proposed salary adjustment for one employee and reassignment of endowment related duties projected to be effective September 1, 2015. These salary adjustments and proposed reassignment of duties have yet to be formally documented or approved. Should these proposed salary adjustments and reassignments not be completed, this calculation may need to be revisited in order to determine if the distribution rate is materially affected.

Charging fees to endowments should be done with prudence, and based upon legal interpretation of Section 163 of the Texas Property Code, which incorporates UPMIFA.

Recommendation 1:

The Office of Institutional Advancement should take steps to study the feasibility of implementing a time-tracking system in order to reduce the reliance on estimates in determining endowment-related payroll expense.

Management Response: The Associate Vice President, Institutional Advancement will ensure that a time-tracking system is implemented to identify employee time spent on endowment-related activities.

Implementation Date: September 1, 2015

Recommendation 2:

Job descriptions for personnel involved in endowment-related management and administrative activities should be reviewed and revised so that those activities are more clearly identified as part of their regular job duties.

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Management Response: The Associate Vice President, Institutional Advancement will ensure that job descriptions are properly updated to reflect endowment-related duties for key personnel who are responsible for endowments maintenance & administrative activities.

Implementation Date: September 1, 2015

CONCLUSION

We found that the UT Health Northeast endowment M&A expenses are allowable, reasonable, and adequately supported. UT Health Northeast computed an endowment M&A fee of 0.48% but will be limited to the maximum fee of 0.20% allowed by the Board.

We appreciate the assistance provided by the Office of Institutional Advancement throughout the audit process and hope our recommendations will be helpful to management.



Kris I. Kavasch
Chief Audit Executive

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SUMMARY OF PRIORITY FINDINGS

According to The University of Texas System, a priority finding is defined as “an issue identified by an 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. Standard factors for determining a priority finding have been established in three categories: namely, Organizational Controls, Quantitative Risks, and Qualitative Risks”.

In view of the above requirements, the Endowment Management and Administrative Fee Audit for FY 2015 had no priority findings.