

The University of Texas
Rio Grande Valley

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Endowment Scholarship Awards Audit

Report No. 17-02

December 2016

Office of Audits & Consulting Services

December 16, 2016

Dr. Guy Bailey, President
The University of Texas Rio Grande Valley
1201 West University Drive
Edinburg, Texas 78539

Dear Dr. Bailey,

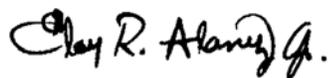
As part of our Audit Plan for fiscal year 2016, Audit & Consulting Services has completed the Endowment Scholarship Awards Audit at The University of Texas Rio Grande Valley (UTRGV). The objective of this audit was to determine if UTRGV endowment scholarships were awarded in compliance with the endowment agreements. The audit scope included endowment scholarships awarded during the fall and spring of FY2016 and current policies and procedures.

Our examination was conducted in accordance with guidelines set forth in The University of Texas System's Policies UTS 129 and the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing (Standards)*. The *Standards* set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance of audit work, and management of internal auditing department. UTS 129 requires that we adhere to the *Standards*.

Based on the audit work performed, we are reasonably certain that UTRGV endowment scholarships were awarded in compliance with the endowment agreements. However, we identified opportunities for improvement and the recommendations in this report represent, in our judgment, those most likely to provide a greater likelihood that management's objectives are achieved.

We appreciate the assistance provided by UTRGV's management and other personnel. We hope the information and analyses presented in our report are helpful.

Sincerely,



Eloy R. Alaniz, Jr., CPA, CIA, CISA
Chief Audit Executive

Office of Audits and Consulting Services
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cc: Dr. Kelly Scrivner Cronin, Vice President for Institutional Advancement
Ms. Lydia Aleman, Associate Vice President for Advancement Services
UTRGV Internal Audit Committee
UT System Audit Office
Governor's Office of Budget, Planning and Policy
Sunset Advisory Commission
State Auditor's Office
Legislative Budget Board

Office of Audits and Consulting Services

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Table of Contents

<i>Executive Summary</i>	2
<i>Background</i>	3
<i>Audit Objective</i>	3
<i>Scope of Work</i>	4
<i>Audit Results</i>	4
<i>Conclusion</i>	7

Executive Summary

The mission of the Division of Institutional Advancement (Division) is to foster the mission, vision and goals of The University of Texas Rio Grande Valley (UTRGV) through the private support of individuals, corporations, and foundations. Contributions from individuals, foundations, corporations and other entities are vitally important to the fulfillment of UTRGV's mission. They are needed to provide high-quality educational opportunities.

The Division has primary responsibility for cultivating and soliciting funds, as well as for stewarding donors. The Division acts as a resource and guide to donors and seeks to make the process of creating an endowment at UTRGV a fulfilling and satisfying philanthropic experience. Gifts to establish endowments for the benefit of UTRGV may also be made through the UTRGV Foundation, a separate 501(c) (3) organization.

Endowment gifts are long-term strategic investments in UTRGV. Endowments are permanent funds and exist in perpetuity; the corpus cannot be spent unless noted in the endowment agreement. An endowment agreement is a legal document that establishes the means by which funds distributed from an endowment will be used. The funds must be used as specified in the endowment agreement. During the fall and spring of FY2016, there were a total of 1,424 students who received a total of \$1,446,651 from 335 endowed scholarships.

The objective of this audit was to determine if UTRGV endowment scholarships were awarded in compliance with the endowment agreements. The audit scope included endowment scholarships awarded during the fall and spring of FY2016 and current policies and procedures.

Observations for improvements were identified in the following areas:

- Access has been provided to Advancement Services to review the criteria entered into the scholarship application system, but the review is not occurring.
- There was no set minimum award distribution amount. Many awards were less than \$100 and one was as low as \$6.

Based on the audit work performed, we are reasonably certain that UTRGV endowment scholarships were awarded in compliance with the endowment agreements.

Background

An endowment is a gift used to create a permanent fund to be utilized for a specific purpose. The gift, and any subsequent gifts made to the endowment, is invested. Only the distributions from the investment of the endowment's corpus may be expended. Endowments are permanent funds and exist in perpetuity; the corpus cannot be spent unless noted in the endowment agreement. An endowment agreement is a legal document that establishes the means by which funds distributed from an endowment will be used.

The University Of Texas System Board Of Regents (Board) has allowed an endowment management and administrative fee to be allocated from endowments held in the Long-Term Fund. The fee would support an endowment compliance program at each of the institutions. The mission of the endowment compliance program is to take a proactive approach to ensure all endowments are monitored and utilized within the parameters established by the donor. The program's work ensures students, faculty, and staff benefit from endowment distributions and allows them to be good stewards of the support provided by generous donors. It is UTRGV's policy that all endowments have either an endowment agreement or a gift agreement memorandum which outlines criteria for how funds are expended. Donors are not allowed to designate specific faculty members or students or to structure the criteria so narrowly that it limits selection to a small population comprised solely or primarily of individuals related to the donor or that the donor would choose without this restriction. The University of Texas System (UTS) policy prohibits impermissible discrimination against students being considered for a scholarship or fellowship award on the basis of race, color, national origin, religion, gender, age, veteran status, disability, or sexual orientation.

UT System has specific procedures for the acceptance of gifts to establish an endowment described in UTS138 *Gift Acceptance Procedures*. All new endowments must have a signed agreement that is presented to UTS Office of Development and Gift Planning Services (ODGPS). ODGPS then submits the endowment for consideration of acceptance by the Board. The Board issues UTRGV a Summary of Approval as a formal record of its acceptance of the endowment. Thereafter, the endowment will be considered official.

UTRGV has created an Endowment Compliance Committee (ECC) to provide the UTRGV endowment compliance program with oversight. In accordance with UTS117 *Endowment Compliance Plan System wide Standards and Guidelines*, the ECC has adopted an Endowment Compliance Plan to guide the use, monitoring and reporting of all UTRGV and UTRGV Foundation endowments.

Audit Objective

The objective of this audit was to determine if UTRGV endowment scholarships were awarded in compliance with the endowment agreements.

Scope of Work

The audit scope included endowment scholarships awarded during the fall and spring of FY2016 and current policies and procedures.

To accomplish our objectives, we performed the following:

- We interviewed the Endowment and Gift Services Manager, Director of Recruitment and Scholarships and the Associate Director of Scholarships and Communications.
- We reviewed rules, regulations, policies and procedures pertaining to endowments.
- We obtained a listing of UTRGV endowments and all students awarded endowment scholarships for the audit scope.
- We tested a sample of awards to determine that the student met the criteria outlined in the individual endowment agreements.

Our audit was conducted in accordance with guidelines set forth in The University of Texas System's Policies UTS129 and the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing (Standards)*. The *Standards* set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance of audit work, and management of the internal auditing department. UTS129 requires that we adhere to those *Standards*.

Audit Results

Endowed Scholarships

Advancement Services has an *Endowment Handbook* that contains guidelines to specify roles and responsibilities and facilitates the process for making gifts to establish endowments at UTRGV.

Once a new endowment is ready for award distributions the endowment agreement is sent to the Recruitment and Scholarships Department. They create an account and the criteria for the scholarships are entered into the scholarship application system, and into Banner, the University's student information system. Once the scholarship is created it is added to the website - www.utrgv.edu/applyscholarships so that individuals may apply.

The endowed scholarship process is centralized at UTRGV. This centralized method ensures all the selected individuals qualify for the endowments. Due to the transition from legacy institutions, the Recruitment and Scholarships Department had to enter criteria and create rules for all the UTRGV endowments in the scholarship application system and in Banner. This criteria was entered based on the endowment agreements received from Advancement Services. The criteria and rules are not reviewed by another person once they are developed and the risk of erroneous endowed scholarship criteria is possible. To address this, the Recruitment and

Scholarships Department created a Development Office access role for Advancement Services so that they may review the rules entered into the scholarship application system. However, this new role is currently not used.

Recommendation:

1. Advancement Services should verify all new endowment criteria when it is initially created and entered into the scholarship application system to ensure that the donor criteria is accurate and adheres to the endowment agreement.

Management Response:

1. Advancement Services and the Scholarship staff will collaborate to review endowed scholarship criteria. Once in agreement, the scholarship technical staff will enter criteria appropriately into Banner.

Implementation Date:

This process will be implemented for new scholarship endowments created December 1, 2016 forward. Review of Scholarship criteria for endowments created prior to December 1, 2016 will be completed by December 31, 2017.

A spreadsheet with projections and funds available is created to determine which scholarships will be awarded. The Associate Director of Scholarships and Communication works with the technical team to run applicant students through queries to select students for the scholarships. The queries are based on endowment criteria. Scholarships are then posted to Banner and award notifications are sent to the students. In the cases where endowments are for particular colleges, the Recruitment and Scholarships Department provides the colleges with a list of all candidates that qualify for the endowments. The colleges make the selections and inform them which individuals were selected. In the few cases that the college does not select an individual, the Recruitment and Scholarships Department awards the endowment based on the most qualified student from the generated query. The selection is based on the individual's financial aid package. If a student cannot be awarded more aid then the next student who may be awarded is selected.

There are awarding rules in Banner and this provides a 2nd check to ensure students qualify for the endowments. Additionally, on the disbursement date there are additional disbursement rules. For instance, if the student's grade point average and/or major has changed, this will be verified again before the funds are distributed.

Tests of Endowed Scholarships

We obtained a list of endowed scholarships from the Endowment and Gift Services Manager. UTRGV had a total of 393 Board approved endowed scholarships as of May 31, 2016.

We obtained a list of all the students awarded endowed scholarships during the fall and spring of FY2016 and current policies and procedures from the Associate Director of Scholarships and Communications. During the fall and spring of FY2016, there were a total of 1,424 students who received a total of \$1,446,651 from 335 endowed scholarships.

In reviewing the endowed scholarship awards list, we observed that small dollar distributions were awarded. One student received an award of \$6.46 and a total of 27 awards were below \$100. Currently, there is no set minimum award amount. The goal is to award all of funds available. Although this accomplishes the goal, it is not cost effective.

Recommendation:

2. The Recruitment and Scholarships Department along with Advancement Services should consider setting a minimum award amount.

Management Response:

2. The Recruitment and Scholarships Department along with Advancement Services will recommend a minimum award amount to the Endowment Compliance Committee. Approved amount will be incorporated into a written policy to be presented to endowed donor contacts and the department scholarship committees.

Implementation Date:

New minimum award policy will be implemented for the awarding cycle for Fiscal Year 2017-2018.

We tested a total of 43 students awarded endowed scholarships from 24 different endowments. We received copies of all the endowment agreements and reviewed award criteria. We performed testing to determine if the students met the individual endowment criteria. We used the information found in Banner and information obtained from the Recruitment and Scholarships Department to test the award criteria. Some, not all, of the criteria tested required major, GPA, citizenship, financial need and other specific criteria that were for the individual agreements selected.

Based on the students tested, and the corresponding endowment agreements all the scholarships awarded were in compliance with the endowment agreements.

Conclusion

Based on the audit work performed, we are reasonably certain that UTRGV endowment scholarships were awarded in compliance with the endowment agreements. However, we identified improvements to enhance the endowment scholarship awarding process.

Norma L. Ramos

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