

UNM FOUNDATION SPENDING DISTRIBUTION DONOR INTENT AUDIT

THE UNIVERSITY OF NEW MEXICO

Report 2013-08
October 17, 2013



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ABBREVIATIONS

COE.....	College of Education
F&A	Facilities and Administration
Foundation	University of New Mexico Foundation
FY	Fiscal Year
Internal Audit	University of New Mexico Internal Audit Department
SOM.....	University of New Mexico School of Medicine
University.....	The University of New Mexico
UNM	The University of New Mexico
UNM Gallup	The University of New Mexico Gallup Branch Campus

EXECUTIVE SUMMARY

Donor Intent Internal Audit procedures performed for:

- *College of Education*
- *SOM Surgery*
- *SOM Internal Medicine*
- *SOM Pathology*
- *SOM Dean's Office*
- *UNM Gallup*

FY 2013 Spending distributions:

- *COE – \$573,860*
- *SOM Surgery – \$152,617*
- *SOM Internal Medicine – \$143,492*
- *SOM Pathology – \$100,680*
- *SOM Deans Office – \$730,465*
- *UNM Gallup – \$22,240*

As part of the FY 2014 audit plan, the University of New Mexico Internal Audit Department (Internal Audit) conducted an audit of the University of New Mexico Foundation (Foundation) Spending Distribution process. Internal audit procedures included reviewing the spending distribution process, testing for compliance with donor intent, and reviewing spending distribution carry-forward reserve balances. All internal audit procedures were performed for the College of Education (COE), School of Medicine (SOM) Surgery Department, Internal Medicine Department, Pathology Department, and Dean's Office. A review of endowment reserve balances was the only procedure performed for UNM Gallup. The period covered in the review of Foundation Spending Distribution Donor Intent included July 1, 2012 through June 30, 2013.

Foundation Spending Distribution Process

The University of New Mexico Foundation transfers endowment spending distributions to approximately 1,500 endowment spending accounts at the University on a quarterly basis. The donor's intent is communicated to the departments, schools and colleges, and is verified by these areas prior to disbursement of the funds. The COE, SOM selected departments, and UNM Gallup received FY 2013 spending distribution amounts as noted to the left.

The COE and Gallup's spending distributions are primarily used for scholarships, while the SOM's spending distributions are primarily used for faculty and program support.

The COE, each SOM department, and UNM Gallup are responsible for ensuring compliance with donor intent.

The SOM Pathology department charged Foundation surcharges in the amount of \$15,133 to endowed spending distribution funds intended for faculty support.

Compliance with Donor Intent

The Foundation provides donor intent information to UNM departments, colleges and schools, each of which are responsible for ensuring that spending from endowed accounts complies with donor intent. The COE and SOM departments selected for review have a review and approval process for ensuring compliance with donor intent.

Internal Audit selected a sample of transactions from the COE and selected SOM departments, and completed test work to determine compliance with donor intent. Internal Audit did not note any instances of non-compliance in the sample selected.

Foundation Surcharge

The UNM President's Office imposed a Foundation surcharge on all University entities that benefit from the Foundation's work. The surcharge is to help support the University of New Mexico Foundation's operations. It consists of a 0.25% effective rate beginning FY 2013, and an additional 0.25% increase to a 0.50% effective rate for FY 2014, and subsequent years thereafter. During FY 2013 the SOM Pathology department charged its Foundation surcharge to endowed spending accounts in the amount of \$16,133. Of the Foundation Surcharge, \$15,133 was charged to endowed spending distribution funds intended for faculty support.

Endowment Reserve Balances

Endowment reserves are carry-over funds available for spending at the beginning of the next fiscal year. At the beginning of each fiscal year, departments/units should designate spending distribution reserve balances for

All endowment reserve balances are properly committed or dedicated at June 30, 2013.

Endowment reserve balances for UNM Gallup have steadily increased from \$144,815 in FY 2010 to \$198,509 in FY 2013, which is primarily due to scholarships not being awarded on an annual basis.

College/Department	Endowment Reserve Balances			
	FY 2010	FY 2011	FY 2012	FY 2013
College of Education	\$ 725,294	\$ 849,758	\$ 899,241	\$ 995,795
SOM Surgery	56,883	197,343	82,697	12,253
SOM Internal Medicine	404,102	324,806	252,638	263,464
SOM Pathology	327,908	358,375	390,727	212,704
SOM Dean's Office	1,829,004	2,048,552	2,173,268	1,947,130
UNM Gallup	144,815	169,049	183,519	198,509

Source: Banner Accounting System

specific purposes. Based on the nature of requirements imposed by donors, departments/units should designate reserves as “Committed” or “Dedicated.” Internal Audit noted that all endowment reserve balances are properly committed or dedicated at June 30, 2013. Since FY 2010, endowment reserve balances have remained consistent for the COE, and for each SOM department selected for the Donor Intent audit. However, endowment reserve balances for UNM Gallup have steadily increased from \$144,815 in FY 2010 to \$198,509 in FY 2013, which is primarily due to scholarships not being awarded on an annual basis. UNM Gallup did not budget or disburse any scholarships awards for seven out of its nine endowed spending distribution accounts intended for scholarships during FY 2013. The chart to the left presents year-end endowment reserve balances for FYs 2010-2013.

CONCLUSION

Overall, the COE and SOM departments including Surgery, Internal Medicine, Pathology and the Dean’s Office have adequate procedures in place to ensure compliance with donor intent for disbursements made from endowment spending distribution accounts. However, Internal Audit noted the Pathology department charged its FY 2013 Foundation surcharge to endowed spending distribution funds intended for faculty support. In addition, Foundation spending distributions for the majority of UNM Gallup endowments are not being spent. The following is a summary of recommendations made in the report.

Recommendations

- To ensure compliance with donor agreements (intent), the SOM

The Foundation surcharges charged to the Pathology department's endowed spending accounts should be reimbursed from another unrestricted funding source.

Foundation spending distributions made to UNM Gallup for scholarships should be budgeted and disbursed in a timely manner.

Applications and supporting documentation should be reviewed to ensure eligibility requirements are met for awarded scholarships.

Pathology department should charge its Foundation surcharge to an unrestricted funding source excluding endowed funding sources. In addition, the Foundation surcharge amounts that have been charged to the Pathology department's endowed spending accounts intended for faculty support should be reimbursed from another unrestricted funding source.

- Foundation spending distributions made to UNM Gallup for scholarships should be budgeted and disbursed in a timely manner. A scholarship committee should be in place that ensures scholarships are awarded on an annual basis, and that they are in compliance with donor requirements specified within donor agreements. The scholarship committee and department chairs should communicate to students the availability of scholarships, eligibility requirements, and deadlines for submitting scholarship applications. Applications and supporting documentation should be reviewed by the scholarship committee to ensure eligibility requirements are met for awarded scholarships. Scholarship recipients should then be notified of their awards, and funds should be distributed in a timely manner.

INTRODUCTION

BACKGROUND

Private support is extremely important to the teaching, research and public service mission of the University. Through private support, the University can enhance current programs and develop resources to support future programs. Endowments are a special type of private support whereby the donor designates that the principal is held for investment and the interest earned on the principal is spent as directed by the donor. Donor agreements specify requirements on how departments/units can spend endowed funds. The University is responsible for ensuring endowments are held and expended in accordance with the donors' wishes.

PURPOSE

The purpose of the audit is to:

- Determine compliance with donor intent related to the UNM Foundation's endowment spending distributions for the COE and SOM departments, including Surgery, Internal Medicine, Pathology, and the Dean's Office.
- Review endowment reserve carry-forward balances for the COE, SOM departments including Surgery, Internal Medicine, Pathology, and the Dean's Office, and UNM Gallup.

SCOPE

Our audit included reviewing and testing of compliance with donor intent for expenses charged to endowment spending accounts for the time period July 1, 2012 through June 30, 2013. Internal Audit procedures included:

- Reviewing the Foundation spending distribution process;
- Testing disbursements from endowed spending accounts for compliance with donor intent; and
- Reviewing endowment reserve balances.

OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

FOUNDATION SPENDING DISTRIBUTION PROCESS

The University of New Mexico Foundation transfers endowment spending distributions to approximately 1,500 endowment spending accounts at the University on a quarterly basis. Each college, school, or department that is the recipient of an endowment receives an annual statement from the Foundation. The statement lists the fund title, value at the beginning and end of the fiscal year, additions to the principal, total investment returns for the year, and the total spending distribution. The spending distribution (the amount that can be spent) that is transferred is based on predetermined percentages set forth by the “Regents' Endowment Investment Management Policy.” The COE, SOM Surgery, SOM Internal Medicine, SOM Pathology, SOM Dean’s Office, and UNM Gallup received the following spending distribution amounts during FY 2013:

- COE – \$573,860
- SOM Surgery – \$152,617
- SOM Internal Medicine – \$143,492
- SOM Pathology – \$100,680
- SOM Deans Office – \$730,465
- UNM Gallup – \$22,240

The COE and UNM Gallup’s spending distributions are primarily used for scholarships. Scholarship endowments have specific requirements, as students must meet certain eligibility requirements in order to be awarded a scholarship from endowed funds. The SOM spending distributions are primarily used for faculty and program support endowments, which have a broader purpose. Expenditures from faculty support endowments can be for salary and any job-related purpose. Expenditures from program support endowments can be for any purpose that is for the benefit of the department.

COMPLIANCE WITH DONOR INTENT

The Foundation provides donor intent information to UNM departments, colleges and schools, and to the UNM Unrestricted Accounting , each of which are responsible for ensuring that spending from endowed accounts complies with donor intent.

The College of Education has a scholarship committee that reviews student applications and awards scholarships to students that meet the requirements specified by donor agreements. The SOM departments selected for review each have a review and approval process for disbursements from endowed spending accounts. The SOM department initiates the spending process by submitting an appropriate payment request. Payment requests are carefully reviewed to ensure the request is in compliance with donor intent. The request is then forwarded to Unrestricted Accounting for proper approval as well. The COE and each SOM department also have procedures in place to track available endowment balances and spending activity.

To ensure disbursements from endowments were in compliance with donor intent, Internal Audit selected a sample of transactions from the COE and selected SOM departments, and completed test work to ensure compliance with donor intent. Internal Audit did not note any instances of non-compliance in the sample selected.

Foundation Surcharge

The UNM President's Office imposed a Foundation surcharge on all current University funds to broadly distribute the funding responsibility to all University entities that benefit from the Foundation's work. The Foundation Surcharge is to help support the University of New Mexico Foundation's operations.

The Surcharge consists of a 0.25% effective rate beginning FY 2013, and an additional 0.25% increase to a 0.50% effective rate for FY 2014, and subsequent years thereafter. The UNM Foundation surcharge is calculated on total expenditures from unrestricted expense account codes for UNM's Main Campus and Branches. The UNM Health Science Center's Foundation surcharge is calculated based upon the corpus balance of the endowments at fiscal year-end.

During FY 2013 the SOM Pathology department charged its Foundation surcharge to endowed spending accounts in the amount of \$16,133. Of the Foundation Surcharge, \$15,133 was charged to endowed spending distribution funds intended for faculty support. These charges do not meet donor requirements specified in donor agreements; hence, they should have been charged to unrestricted funding sources excluding the endowed spending accounts.

Recommendation #1:

To ensure compliance with donor agreements (intent), the SOM Pathology department should charge its Foundation surcharge to an unrestricted funding source excluding endowed funding sources. In addition, the Foundation surcharge amounts that have been charged to the Pathology department's endowed spending accounts intended for faculty support should be reimbursed from another unrestricted funding source.

Response from the Executive Vice-Dean of School of Medicine:

Action Items
<i>Targeted Completion Date: 10/31/2013</i>
<i>Assigned to: Cindy Browning</i>
<i>Corrective Action Planned: We concur. As recommended by the Audit Department, Pathology will reallocate the FY13 Foundation Surcharge to other unrestricted funding sources.</i>

ENDOWMENT RESERVE BALANCES

Endowment reserves are carry-over funds available for spending at the beginning of the next fiscal year. Internal Audit compiled an endowment reserve carry-forward for the COE, selected School of Medicine departments, and UNM Gallup. Transfers represent spending distributions for endowments that are made to the SOM Dean's Office for endowments that are administered by the Dean's office. These spending distributions are subsequently allocated to SOM departments based on their share of the distribution. The most significant endowment allocated to SOM departments is the Medical Trust Endowment, which provided approximately \$300,000 in FY 2013 for research program support. Spending distribution from the Medical Trust endowment supports two SOM programs including the Research Allocation Committee (RAC) program and the Bridge Program. The following schedule presents the endowment reserve carry-forward for FY 2013.

College/Department	July 1, 2012	Distributions	Transfers	Expenditures	June 30, 2013
College of Education	\$ 899,241	\$ 573,860	\$ -	\$ (477,306)	\$ 995,795
SOM Surgery	82,697	143,757	8,860	(223,061)	12,253
SOM Internal Medicine	252,638	68,774	74,718	(132,666)	263,464
SOM Pathology	390,727	50,619	50,000	(278,642)	212,704
SOM Dean's Office	2,173,268	730,465	(929,542)	(27,061)	1,947,130
Gallup Branch	183,519	22,240	-	(7,250)	198,509

Source: Banner Accounting System

At the beginning of each fiscal year, departments/units should designate spending distribution reserve balances carried from the prior year for specific purposes. Based on the nature of requirements imposed by donors, departments/units should designate reserves as "Committed" or "Dedicated." Endowment reserve balances for the COE, each SOM department, and UNM Gallup are properly committed or dedicated at June 30, 2013. Since FY 2010, endowment reserve balances have remained consistent for the COE and each SOM department selected for donor intent review. The following chart presents year-end endowment reserve balances for FYs 2010-2013.

College/Department	Endowment Reserve Balances			
	FY 2010	FY 2011	FY 2012	FY 2013
College of Education	\$ 725,294	\$ 849,758	\$ 899,241	\$ 995,795
SOM Surgery	56,883	197,343	82,697	12,253
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UNM Gallup	144,815	169,049	183,519	198,509

Source: Banner Accounting System

UNM Gallup

UNM Gallup Foundation spending distributions are primarily for scholarships. Endowment reserve balances for UNM Gallup have steadily increased from \$144,815 in FY 2010 to \$198,509 in FY

2013. The increase is primarily due to scholarships not being awarded on an annual basis. During FY's 2010 through FY 2013, UNM Gallup awarded 8 scholarships totaling approximately \$18,000 although spending distributions for the same time period totaled approximately \$65,000. UNM Gallup did not budget or disburse any scholarship awards for seven out of its nine endowed spending distribution accounts intended for scholarships during FY 2013.

Recommendation #2:

Foundation spending distributions made to UNM Gallup for scholarships should be budgeted and disbursed in a timely manner. A scholarship committee should be in place that ensures scholarships are awarded on an annual basis, and that they are in compliance with donor requirements specified within donor agreements. The scholarship committee and department chairs should communicate to students the availability of scholarships, eligibility requirements, and deadlines for submitting scholarship applications. Applications and supporting documentation should be reviewed by the scholarship committee to ensure eligibility requirements are met for awarded scholarships. Scholarship recipients should then be notified of their awards, and funds should be distributed in a timely manner.

Response from the UNM Gallup Director of Business Operations:

Action Items
Targeted Completion Date: <i>May 31, 2014</i>
Assigned to: <i>Interim Director for Student Services (Chair) (permanent director TBD); Director, Business Operations</i>
Corrective Action Planned: <i>We concur. The scholarship committee was reorganized in August 2013 to include the Interim Director of Public Affairs, Interim Director of Student Services, two faculty members, Financial Aid Manager, Operations Manager for Extended University and a community member. The committee has met twice during the fall semester and has awarded 25 scholarships totaling \$6,730. Scholarship applications for the Spring semester will be sent to the students on January 1, 2014. This communication will include available scholarships, eligibility requirements, and deadlines for submitting applications. Applications will be accepted and scholarships awarded on a rolling basis. The interim Director of Student Services will maintain all records and supporting documentation as it applies to recipients and non-recipients of the scholarships. In the Spring of 2014, UNM-Gallup will hold a Scholarship Donor Event where the donors will be invited to meet the recipients/students that have been the beneficiaries of their generous donation. During the FY15 budget process, the revenue and reserves from these endowments will be made available to the interim Director of Student Services, so that they can track the spending of the current year's distribution and the accumulated reserves.</i>

APPROVALS



Manu Patel, CPA
Director, Internal Audit Department

Approved for Publication



Chair, Audit Committee