Audit of Restricted Gifts

Report No. 14/15-11

June 8, 2015
Date: June 8, 2015
To: Howard Lipman, CEO of the FIU Foundation & Senior VP of Advancement
From: Allen Vann, Audit Director
Subject: Audit of Restricted Gifts, Report No. 14/15-11

Pursuant to our approved annual plan, we have completed an audit of Restricted Gifts. The primary objective of our audit was to ensure that funds received are properly classified as restricted, when applicable, and used as specified per the gift agreement stipulations and per University Foundation policies and procedures, Florida statutes, and Federal laws.

With total net assets approximating $312 million, the University Foundation received contributions in excess of $18 million during the 2013-2014 fiscal year.

Overall, our audit disclosed that the Foundation’s established controls and procedures over the recording and disbursement of revenue from restricted gifts awarded were generally satisfactory. Some controls need to be strengthened as it pertained to the review of disbursement, the classification of donations, and depositing procedures. We also reviewed the Foundation’s compliance with Payment Card Industry (PCI) Data Security Standards and found no exceptions.

I would like to take this opportunity to express our appreciation for the cooperation and courtesies extended to us during this audit.

Attachment

C: Albert Maury, Chair, FIU Board of Trustees
   Sukrit Agrawal, Chair, BOT Finance and Audit Committee and Committee Members
   Mark B. Rosenberg, University President
   Javier I. Marques, Chief of Staff, Office of the President
   Kenneth A. Jessell, Chief Financial Officer and Senior Vice President
   Kristina Raattama, General Counsel
   Gabriel Eszterhas, Assistant Vice President and Assistant Treasurer, Foundation
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OBJECTIVES, SCOPE, AND METHODOLOGY

Pursuant to our approved annual plan, we have completed an Audit of Restricted Gifts awarded during the period from July 1, 2013 through June 30, 2014 and disbursed from July 1, 2013 through December 31, 2014. The primary objective of our audit was to ensure that funds received are properly classified as restricted, when applicable, and used as specified per the gift agreement stipulations and per University Foundation policies and procedures, Florida statutes, and Federal laws.

Our audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing, and included tests of the accounting records and such other auditing procedures as we considered necessary under the circumstances. Audit fieldwork was conducted from January 2015 to April 2015.

During the audit, we reviewed University Foundation policies and procedures, Florida statutes, and Federal laws. We observed current practices and processing techniques, interviewed responsible personnel, reviewed supporting documentation, and tested selected transactions, including transactions classified as unrestricted. Sample sizes and transactions selected for testing were determined on a judgmental basis.

We also reviewed internal and external audit reports issued during the last three years to determine whether there were any prior recommendations related to the scope and objectives of this audit. There were no prior recommendations related to restricted gifts. Furthermore, the external financial statements audit for fiscal year ended June 30, 2014 issued by Marcum LLP issued reflected an unmodified opinion.
BACKGROUND

The Florida International University Foundation, Inc. (Foundation) was established as a non-profit corporation to encourage, solicit, receive, and administer gifts for scientific, educational, and charitable purposes for the advancement of Florida International University (University) and its objectives. It is registered by the State of Florida as a charitable organization and is approved by the Internal Revenue Service as a tax-exempt 501(c)(3) organization. The Foundation has also been certified as a Direct Support Organization (DSO) of Florida International University as defined in Florida Statute 1004.28.

There are various forms of contributions that can be made to the Foundation for the benefit of the University:

- Monetary Contributions
- Pledges
- Sponsorships
- In-Kind Gifts/Real Estate
- Grants
- Stocks

Our audit focused on restricted monetary contributions and their subsequent distribution. A monetary contribution is a voluntary, unconditional transfer of cash or other asset to the Foundation and is made without receiving, or expecting to receive, anything of equal value. The Foundation accepts monetary contributions in the forms of cash, checks, or credit cards. Conditional contributions are those in which a future and uncertain event must occur or the contribution must be returned to the donor. These are recorded as a refundable advance (liability) until the conditions have been substantially met. As of June 30, 2014, the Foundation had no refundable advances recorded on its financial statements.

As of June 30, 2014 the Foundation had a total net assets balance of $312 million composed of the following:

<table>
<thead>
<tr>
<th>Net Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>$36,473,761</td>
</tr>
<tr>
<td>Temporarily Restricted</td>
<td>75,751,823</td>
</tr>
<tr>
<td>Permanently Restricted</td>
<td>199,384,169</td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td><strong>$311,609,753</strong></td>
</tr>
</tbody>
</table>

A total of $18.5 million in contributions were awarded to the Foundation during the 2013-2014 fiscal year.

<table>
<thead>
<tr>
<th>Contributions</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>$4,345,564</td>
</tr>
<tr>
<td>Temporarily Restricted</td>
<td>8,924,339</td>
</tr>
<tr>
<td>Permanently Restricted</td>
<td>5,185,395</td>
</tr>
<tr>
<td><strong>Total Contributions</strong></td>
<td><strong>$18,455,298</strong></td>
</tr>
</tbody>
</table>
Restricted gifts are managed by three areas in the University: University Advancement (Advancement), the Foundation, and the unit/department designated as the beneficiary of the contribution. Advancement develops relationships with potential donors and enters into agreements with donors and the Foundation manages the depositing and distribution of contributions received. The unit/department determines the programmatic use of the contributed funds. The organizational structure can be found below.

*CEO Foundation reports to the Foundation's Board*
Responsibility of University Advancement

Once a prospective donor is contacted and a potential donation is arranged, the Development Office works with Writing and Editorial Services (WES) to draft and edit the proposal. The Development Office along with Advancement determines if the proposal needs to be reviewed by the following departments:

- Corporate and Foundation Relations
- Donor Relations & Stewardship
- Planned Giving
- FIU Foundation
- FIU Legal
- Provost & Executive Vice President

After the review process is complete a final proposal is submitted to the donor. Gifts under $25,000 with no special criteria or circumstances may be documented using a pledge transmittal form. If the gift is $25,000 or above or if the donor has imposed any restrictions then a gift agreement must be prepared. Once the agreement has been finalized, the Development Officers are responsible for getting fully executed copies of the final gift agreement, which are signed by the Senior Vice President (SVP) of Advancement, the dean or director, and finally the donor. Executed copies are retained by the donor, the unit, and Research & Prospect Management and a copy is sent to the Foundation.

Responsibility of the FIU Foundation

Contributions are recognized when the donor makes a promise to give to the University that is, in substance, unconditional. Contributions are categorized into one of three classifications: unrestricted, temporarily restricted or permanently restricted. Unrestricted contributions are those that are free from donor-imposed restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. Temporarily restricted contributions are those whose use is limited by donor-imposed stipulations that either expire by the passage of time or that can be fulfilled or removed by actions of the University pursuant to those stipulations. Permanently restricted contributions are those whose use is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the University. When a restriction expires, temporarily restricted net assets are transferred to unrestricted net assets.

The contributions are classified in the PantherSoft System by Fund:

- Fund 900 = Unrestricted Funds
- Fund 901 = Temporarily Restricted Funds
- Fund 902 = Temporarily Restricted Funds (yearly earnings on endowments)
- Fund 903 = Permanently Restricted Funds (endowments)

All disbursements of contributions received are processed and approved by Foundation personnel to ensure proper use per the donors' stipulations.
Responsibility of the University Unit/Department

Restricted contributions in excess of $2,000 are typically tracked projects in the general ledger, each project is assigned to one or more University schools or departments based on the donor restrictions. These units/departments make use of the funds to further the tax-exempt purposes of the University in accordance with donor-imposed restrictions. Deans and faculty members often work with Advancement during the solicitation of potential donors. The units/departments utilizing these funds are aware of donor-imposed restrictions and are responsible for not submitting expenses that do not adhere to donor-imposed restrictions.
FINDINGS AND RECOMMENDATIONS

Overall, our audit disclosed that the Foundation’s established controls and procedures over the recording and disbursement of revenue from restricted gifts awarded were satisfactory. The Foundation generally complied with its policies and procedures, applicable state laws, rules and regulations. We also reviewed the Foundation’s compliance with Payment Card Industry (PCI) Data Security Standards without any exception. Some controls need to be strengthened as it pertained to the review of disbursement, the classification of donations, and depositing procedures.

Our overall evaluation of internal controls is summarized in the table below.

<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>SATISFACTORY</th>
<th>FAIR</th>
<th>INADEQUATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process Controls</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policy &amp; Procedures Compliance</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Effect</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information Technology Risk</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>External Risk</td>
<td>X</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

INTERNAL CONTROLS LEGEND

<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>SATISFACTORY</th>
<th>FAIR</th>
<th>INADEQUATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process Controls</td>
<td>Effective</td>
<td>Opportunities exist to improve effectiveness</td>
<td>Do not exist or are not reliable</td>
</tr>
<tr>
<td>Policy &amp; Procedures Compliance</td>
<td>Non-compliance issues are minor</td>
<td>Some instances of non-compliance issues may be evident</td>
<td>Non-compliance issues are pervasive, significant, or have severe consequences</td>
</tr>
<tr>
<td>Effect</td>
<td>Not likely to impact operations or program outcomes</td>
<td>Impact on outcomes contained</td>
<td>Negative impact on outcomes</td>
</tr>
<tr>
<td>Information Technology Risk</td>
<td>Information systems are reliable</td>
<td>Data systems are mostly accurate but need to be improved</td>
<td>Systems produce incomplete or inaccurate data which may cause inappropriate financial and operational decisions</td>
</tr>
<tr>
<td>External Risk</td>
<td>None or low</td>
<td>Moderate</td>
<td>High</td>
</tr>
</tbody>
</table>
Detailed below are the areas identified by our audit testing where opportunities for improvement exist.

1. **Disbursement Procedures**

   We judgmentally selected 29 disbursements of restricted funds totaling $1.7 million from July 1, 2013 through December 31, 2014 for testing. We tested to ensure that funds are distributed per Foundation policies and procedures and per the donor’s stipulations. The transactions included scholarships, salaries, travel, and the purchase of goods and services. We found the following exceptions in 5 of the 29 transactions tested.

- Per the Foundation invoice approval form, Foundation management approval is required for payments. Invoices above $1,000 to $5,000 require the approval of the Foundation Controller and those invoices in excess of $5,000 require the approval of the Foundation CEO. Two of the 29 disbursement transactions tested totaling $21,823 were missing the required approval by the CEO.

- Per the Foundation **Travel Reimbursement Policy**, the meal/per diem allowed to be reimbursed is the lesser of the actual expense incurred or the specified limit. The Foundation per diem reimbursement allowance is $20 for breakfast, $30 for lunch, and/or $50 for dinner. The travel per diem cap rates are inclusive of food, beverages (alcoholic or non-alcoholic), snacks, and taxes. Tip is exclusive and shall not exceed 20% of the total bill.

   A dinner meeting was reimbursed at a rate of $50 per person plus an additional $10 for an alcoholic beverage. Per the Foundation policy, the $50 dinner per diem includes food and beverages, including alcoholic beverages.

- One transaction’s original supporting documentation did not support the payment. These transactions were a reimbursement to the University for monies paid out for the particular unit. The support originally included was the University’s "Trandata" file which reflected the line-item transactions paid for payroll, mileage and other expenses together with the payroll salary report and a copy of travel and expense reports.

   Upon review, we noted that the lines of the payroll salary report did not agree to the total amount reimbursed and found certain line items had been excluded and not detected by the Foundation. Upon request, we were provided with additional support not present at the time of invoice approval, which supported $37,492 in payroll expenditures, registration fees whose purpose had not been fully described, and other expenses whose support did not coincide with the invoice provided.

- As part of our testing, we ensured that the transactions were recorded in the corresponding account. We found one transaction, totaling $11,404, posted to the incorrect account in the PantherSoft system. The transaction was posted to travel, however $9,800 of the payment was for professional services.
Recommendation

1. The FIU Foundation should redouble its efforts to ensure that disbursement and accounting practices always adhere to prescribed policies.

Management Response/Action Plan:

In all instances under discussion, donor restrictions were met and the disbursements were for valid business purposes. There are however improvements to be made as follows:

1. Missing approval for disbursements greater than $5,000: The Foundation has been working with UTS to create an electronic invoice with workflow, similar to the University's unencumbered payment form. The workflow includes logic for approval routing that incorporates the greater than $5,000 test to ensure all approvals are obtained.

2. Business meal reimbursement in excess of policy: The business meal in question totaled $1,033 of which the Foundation reimbursed $864. Per Foundation policy the reimbursement should have been $720 (12 attendees time $50 plus 20% for gratuity/service charge) a difference of $144. Due to feedback from the user community, the Foundation is proposing to its Board in June a change to policy which will increase the per head reimbursement for business meals by $10.

3. Payroll reimbursement documentation. The Foundation has long recognized the difficulty in validating hundreds of paper attachments showing payroll totals each year. The Foundation has been planning for several months, and will implement in the second quarter of FY16 a new process for payroll reimbursements. Instead of waiting for units/departments to send in vouchers, the Foundation will run a payroll query in PantherSoft for Fund 604. Utilizing the query results and a spreadsheet program, the Foundation will disseminate the payroll actuals to units/departments for validation. Upon validation, the Foundation will process payroll reimbursement based on the query results. The new process will speed up reimbursement to the University and improve accuracy as the Foundation will no longer rely on unit provided paper documents. The error totaled $880.25 and has been corrected.

4. Misclassification of Professional Services. This was an error and management will work with staff to prevent recurrence. The expense was misinterpreted as a travel expense to a conference.

Implementation Date: December 31, 2015
2. Classification of Contributions

Contributions are classified as unrestricted, temporarily restricted, or permanently restricted in the Foundation’s financial reporting by Fund, as follows:

- Fund 900 = Unrestricted Funds
- Fund 901 = Temporarily Restricted Funds
- Fund 902 = Temporarily Restricted Funds (yearly earnings on endowments)
- Fund 903 = Permanently Restricted Funds (endowments)

One contribution of $60,000 was incorrectly posted to and commingled with unrestricted funds (Fund 900) even though the contribution was restrictive. Per the gift agreement between the University and the donor, the funds were to be used for salary and fringe benefits of the director and to support a specified program. Review of the funds disbursed found that the $60,000 was used as intended by the donor.

Recommendation

2. The FIU Foundation should ensure that all restricted funds are properly identified and recorded.

Management Response/Action Plan:

This was an error and management will work with staff to prevent recurrence. The Foundation will also investigate the possibility of deactivating speedtypes for the unrestricted fund for projects with restrictions.

Implementation Date: July 1, 2016
3. **Deposit Procedures**

Per the Foundation’s *Revenue Processing and Depositing Guideline*, deposits are to be recorded in the daily deposit log. All checks received and the deposit log are reviewed and reconciled by the next business day. After the checks have been reviewed and reconciled, the checks are submitted for deposit to the bank via a Remote Deposit system. We judgmentally selected a sample of 18 deposits, totaling $8 million, for testing and found the following exceptions:

- 8 of 18 deposits, totaling $2,913,240, tested were not posted to the deposit log and thus, we were unable to determine if deposits were made within the 2-day requirement. The log maintained prior to April 2014 was incomplete. Management informed us that a proper deposit log was implemented and maintained as of April 2014. 5 of the 18 deposits tested were in or after April 2014 and were all properly identified in the deposit log.

**Recommendation**

3. The FIU Foundation should ensure that prescribed policies and procedures for the receipt and deposit of all restricted funds are consistently followed.

**Management Response/Action Plan:**

Management was aware of this problem and reinstituted effective use of the deposit log in April 2014, a full year before the audit. The deposit log has been in existence for several years; however, due to Foundation offices temporarily moving to the Engineering Campus, the procedure was not maintained rigorously.

Implementation Date: Immediately