

**UNIVERSITY OF CALIFORNIA, DAVIS
INTERNAL AUDIT SERVICES**

**College of Agricultural and Environmental Sciences
Dean's Transition Review
Internal Audit Services Project #14-07**

February 2014

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**College of Agricultural and Environmental Sciences
Dean's Office Administrative Review
Internal Audit Services Project 14-07**

MANAGEMENT SUMMARY

Background

As part of the Internal Audit Services (IAS) audit plan for fiscal year (FY) 2014, IAS conducted an administrative review of the College of Agricultural and Environmental Sciences (CAES) Dean's Office.

The CAES was founded in 1905 as the University of California Farm. Since that time, the CAES has grown to become the number one ranked university in the world for teaching and research in the area of agriculture and forestry according to QS World University Rankings. The mission of the CAES is, "Solving real-world problems in the agricultural, environmental, and human sciences to produce a better world, healthier lives, and an improved standard of living for everyone".

In September 2013, the California legislature honored UC Davis' achievement and top rankings in agriculture teaching and research with a resolution (SCR70) that was unanimously passed by the state Senate and Assembly. The UC Davis World Food Center established in 2013 is positioned to make global changes in the food production and distribution, nutrition, research, national and international policy, and public private partnerships.

CAES operates 15 departments organized into three divisions: Agricultural Sciences, Environmental Sciences, and Human Sciences. In fall 2013, CAES had approximately 6,270 undergraduate and over 1,000 graduate students enrolled in 29 undergraduate majors and 45 graduate programs. CAES employs 330 faculty full time equivalent (FTE) positions, including cooperative extension program specialists, and 800 staff FTE. For administrative support purposes CAES departments, centers and institutes are divided into seven clusters. The cluster organizational structure was created in 2010 and allows for cost savings on shared services. Each cluster is managed by a Chief Administrative Office (CAO).

A portion of CAES funding is provided by the UC Division of Agriculture and Natural Resources (ANR) to support the cooperative extension portion of CAES's mission and activity. The CAES total operating expenses in FY 2013 were over \$237 million, with salaries and benefits (68%) and supplies, services and equipment (20%) representing the most significant categories. As of February 2014, the CAES carryforward fund balances totaled \$182.8 million including \$49 million in unrestricted funds and \$133.8 million in funds designated for a restricted purpose, i.e. contracts and grants¹.

¹ Carryforward balances are calculated by Budget and Institutional Analysis, and exclude financial aid funds, indirect costs, encumbrances and liens.

Purpose and Scope

The objectives of the review were to:

- Assess the financial performance of CAES over the past five years, including the availability of and commitments against carryforward and discretionary funds;
- Assess internal controls over accounting and administrative practices within the Dean's immediate office;
- Assess financial and budgetary reporting to the Dean for oversight of the CAES; and
- Analyze key operating metrics including numbers of faculty, staff, vacancies, and students that could impact financial performance.

To address the audit objectives, we interviewed faculty and administrative personnel from the CAES Dean's Office, as well as personnel from Budget and Institutional Analysis (BIA), Office of Research and the Office of Campus Counsel. We also reviewed key operational metrics and financial data, identified trends and obtained additional data as needed, and discussed issues noted with the appropriate personnel.

Our review incorporated financial information for the five fiscal years ended in FY 2013 as well as budgetary data through February 2014, and operating metrics for the five fiscal years ended in FY 2012.

Conclusions

Financial Results: Between FY 2010 and FY 2013, the CAES operating expense budget has grown from \$207 million to \$237 million, or over 14%. The growth has been fueled primarily by increases in research funding, with contracts and grants sources rising from \$199 million in FY 2010 to \$238 million in FY 2013. Contracts and grants expenses also grew by \$11 million to \$104 million in FY 2013. CAES has experienced cuts to the general fund budget, with the total available sources of \$123 million in FY 2009 falling to \$115 million in FY 2013. While these cuts have been offset by increased allocations of indirect cost recovery (ICR) funds, the nearly \$15 million increase in ICR fund balance has been allowed to accumulate over the years as part of the CAES unrestricted carryforward balances intended for faculty recruitments and start-up packages, as well as capital improvement projects.

Operating Statistical Trend: Both undergraduate majors and student credit hours have been trending upward between FY 2010 and FY 2013 (8% and 4% respectively) and the student faculty ratio has also risen 10%.

Carryforward Balances: As of July 1, 2013, BIA identified approximately \$49 million in unrestricted carryforward funds for the CAES, comprised primarily of state, tuition and ICR funds. CAES recorded approximately \$23 million in committed and known obligations within these unrestricted fund sources, setting aside funds for faculty start-up, recruitment and capital construction projects. The remaining balance of approximately \$26 million included approximately \$19 million in unrestricted fund sources residing at the department level, and approximately \$7 million in funds controlled by the Dean's Office. The CAES management indicated that the majority of the funds will be used for future faculty recruitment and start-up packages, student recruitment and outreach, and laboratory equipment, with nearly \$1 million set aside for contingencies.

In FY 2014, the core funds² sources managed through the campus-wide budget process were reported at \$138 million. As of February 2014, the CAES projected expenditures of these core funds to exceed related sources (excluding carryforward balances) by approximately \$825K. This was slightly lower than the FY 2013 projected shortfall of approximately \$1 million, with the gap being narrowed due to realized salary savings.

Faculty Recruitments: The FY 2014 budget assumptions were based on an aggressive strategy to hire 40 new faculty members over the two-year period (FY 2013 and FY 2014). In FY 2014, CAES has hired 8 faculty members and as of February 2014 reported a total of 36.9 vacant positions. As of April 2014, CAES reported progress on recruitments and new faculty hires. Three additional recruitments were completed with the new faculty planning to start before FY 2015; seven additional offers were pending acceptance; and, fourteen other recruitments were in process with a total of 21 vacant positions remaining.

According to the current projections, over 70 existing faculty are expected to retire by 2020, and over 100 new faculty members will need to be hired to accommodate the CAES expected enrollment. Going forward, CAES will continue re-assessing faculty requirements and administrative needs necessary to support the growth anticipated as part of the 2020 Initiative.

Areas for Improvement:

Financial Reporting to the Dean - Currently, the CAES does not prepare a standard financial and budgetary reporting package for the Dean on a regular schedule. Select financial information, including analyses of the base budget, carryforward balances and capital planning details are provided to the Dean bi-annually during the budget process. Other financial information is available on an ad hoc basis. To ensure that the Dean has a broad overview of the CAES finances, the CFO should work with the Dean and consult with university leadership to identify and develop a periodic (e.g., quarterly) financial reporting package that will give the Dean the necessary information to provide the CAES financial oversight.

Monitoring of Negative Fund Balances - Our review also found limited controls over the monitoring of account balances throughout the departments. Management and oversight of overdrawn account balances at the Dean's Office level could be enhanced.

Our observations and recommendations are presented in the body of this report along with corresponding management corrective actions.

² Core funds include general funds, tuition and indirect cost recovery allocations.

OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT CORRECTIVE ACTIONS

1. Financial Overview and Key Operating Metrics Trended

The CAES operating expense budget has grown by \$30 million, from \$207 million to \$237 million, or over 14%, between FY 2010 and FY 2013. Salaries and benefits increased by \$16 million, and subcontracting activity grew by \$11 million between FY 2010 and FY 2013, with supplies and computer software contributing an additional \$2 million. Subcontracting activity increased primarily due to growth in research funding, with contracts and grants sources rising from \$199 million in FY 2010 to \$238 million in FY 2013.

CAES has experienced cuts to the general fund budget, with the total available sources of \$123 million in FY 2009 falling to \$115 million in FY 2013, or nearly 10%. While these cuts have been offset by increased allocations of ICR funds, the nearly \$15 million increase in ICR fund balance has been allowed to accumulate over the years as part of the CAES unrestricted carryforward balances in order to be utilized for faculty recruitments and start-up packages, as well as capital improvement projects.

Between FY 2010 and FY 2013, student enrollment increased over 10%, and the number of faculty full time employees (FTEs) decreased from 353 to 330. As a result, the student to faculty ratio³ grew from 25 to 29 on average among all units. With the projections for future enrollment and the growing number of retirement age faculty at CAES, new faculty recruitment remains a high priority. The existing faculty demographics show over half of the entire CAES faculty being over 55 years old. The FY 2014 budget assumptions were based on an aggressive strategy to hire 40 new faculty members over a two-year period (FY 2013 and FY2014), with a planned investment of \$16.5 million in new hire start-up packages and recruitment efforts over the same two year period. Additionally, according to the existing projections, over 70 existing faculty are expected to retire by 2020, and over 100 new faculty members would need to be hired to accommodate the anticipated growth within CAES.

In its FY 2014 budget, CAES anticipated total revenue sources of over \$415 million, including \$138 million of core funds sources managed through the campus-wide budget process. Assuming that all budgeted positions were filled, in the beginning of FY 2014, the CAES projected expenditures of core funds to exceed related sources (excluding carryforward balances) by approximately \$825K. To meet the budget goal, CAES plans to utilize indirect cost funds, salary savings and some carryforward balances.

Salary savings are considered realized when positions are authorized but not filled, and when salary costs of the new hires are less than salary costs of employees being replaced. Since the beginning of FY 2014, CAES hired 8 of the planned 40 faculty members and reported a total of 36.9 vacant positions. As of April 2014, CAES reported progress on recruitments and new faculty hires. Three additional recruitments were completed with the new faculty planning to start before FY 2015; seven additional offers were pending acceptance; and, fourteen other recruitments were in process with a total of 21 vacant positions remaining.

³ Instructional faculty only.

Our analysis of the CAES sources and uses of funds for FY 2009 through FY 2013 showed consistently positive fund balances college-wide, with an average of \$3 million of operating surplus in core operating funds year-to-year. The surplus was in addition to any remaining total carryforward balances, averaging \$35 million⁴ per year between FY2009 and FY 2013 for the general, tuition and ICR funds.

Over the last 3 years, the CAES unrestricted carryforward balances grew by 7 million, or 17%, from \$42 million in FY 2012 to \$49 million in FY 2014, including the general fund carryforward balances showing approximately 22% growth. As of July 1, 2013, BIA identified approximately \$49 million in unrestricted carryforward funds for the CAES, comprising state funds, tuition, fees, ICR funds and other unrestricted fund sources. CAES recorded approximately \$23 million in committed and known obligations related primarily to faculty recruitment and start-up packages and capital improvement projects within these unrestricted fund sources, for a net available unrestricted carryforward balance of approximately \$26 million. Of the \$26 million, approximately \$19 million in unrestricted fund sources reside at the department level, and approximately \$7 million in funds are controlled by the Dean's Office. CAES management indicated that these funds will be used for faculty recruitment (both the Dean's office and departments contribute to start-up packages), student recruitment and outreach, laboratory equipment, and addressing future core funding shortfalls and other contingencies totaling approximately \$1 million.

In light of the projected student enrollment growth and the CAES emphasis on faculty recruitment, long term financial forecasting is critical to establishing operational goals and objectives. While long term budget projections were not available for CAES, financial forecasting will be addressed campus-wide as part of the new CFO initiative for UC Davis. On an ongoing basis, the financial impact of increasing enrollment and faculty recruitments and retirements will need to be monitored and reevaluated as projections change. The availability and use of CAES carryforward balances should be considered during this process.

Appendix A summarizes the BIA calculation of carryforward balances at June 30, 2013. Appendix B contains total CAES fund sources and expenditures by major category from FY 2010 to FY 2013, along with selected operating trends.

Recommendation

See the recommendation below under "Financial Reporting to the Dean".

2. Financial Reporting to the Dean

As part of our review, we assessed the existing financial reporting and oversight practices. We interviewed the CAES management, and evaluated the accuracy, availability and format of the financial reports prepared for the Dean, as well as the reports used by the administrative staff on a regular basis.

⁴ Includes designated and undesignated funds.

As part of the budget development process, the Dean was provided with and reviewed a preliminary permanent budget summary, carryforward balances and a budget analysis based on projected revenues and expenditures. The Dean's Office submitted the same materials to the Provost for budget approval.

While the newly appointed Dean and former interim Dean work closely with the Executive Assistant Dean/Chief Financial Officer (CFO) on all financial matters, no standard reporting package has been established specifically for the Dean to provide her with an overview of the CAES financial status on a periodic basis. Financial data is instead compiled on as needed basis, with financial oversight provided primarily through the Policy Council and Dean's Council meetings.

In addition to the ad hoc financial data and budgetary information currently provided to the Dean, the Dean needs regular reporting on status of funds college-wide and budget related concerns to provide the appropriate level of fiscal oversight for CAES. This is especially important given the need to plan for increasing enrollment and faculty retirements and recruitments associated with the Campus' 2020 Initiative. A more standardized reporting practice will help ensure that the appropriate level of financial data is captured and communicated to the Dean.

Recommendations

- a. The CFO should work with the new Dean and consult with university leadership to identify and develop a periodic (e.g., quarterly) financial reporting package that will give the Dean the necessary financial data to provide the CAES financial oversight. Consideration should be given to including a statement of fund balances by department, actual versus budgeted sources and uses, analysis of carryforward balances at the Dean's Office and department level, status of faculty recruitment efforts and their impact on budget projections, and significant overdrafts at the department level.

Management Corrective Actions

1. By October 15, 2014, the CAES Dean will consult with other university leadership including the CAES CFO to identify for the CAES CFO the types of reports most useful for her and the desired frequency for receipt of the reports. The CAES CFO and his staff will produce those reports on the regular schedule specified by the Dean.

3. Negative Fund Balances Require Closer Monitoring

As of June 30, 2013, CAES reported negative balances in both extramural and non-extramural accounts and funds, with the negative balances carried far into the next fiscal year. The deficit balances were noted at the account level and UC Fund level, with over \$2 million in overdrafts in accounts reported under the Dean's Office purview.

At the Dean's Office level, negative balances were noted at the program fund level where, according to CAES Management, operational fund deficits were anticipated for several self-supporting centers, such as the Olive Center and the Analytical Laboratory. In addition, a large fund deficit was noted in a federally sponsored program, *Food Stamp Nutrition Education Program (FSNEP)*⁵, with negative \$780K reported at year-end. Subsequent to our review, the CAES management resolved to clear the account and transferred the loss to the Dean's Office funds. As of January 2014, the negative balance in that account was cleared.

At the department level, we noted several accounts with growing deficit balances that appeared to have been left unmonitored for several months, falling further into the overdraft status. For example, in the Department of Nutrition we found an instance where a \$30K account deficit as of June 2013 grew to \$530K by December 2013. By February 2014 the deficit had been reduced slightly, but was part of a total of \$848K in overdrafts reported by the Department of Nutrition, including \$440K in overdrawn extramural accounts, \$350K in overdrawn general fund accounts and \$58K of overdrafts in all other accounts. Our review identified other department level accounts in overdraft status, though the largest overdrafts were noted in the Department of Nutrition.

While the Dean's Office Chief Administrative Officer (CAO) and CFO reviewed the CAES fund balances as part of the year-end closing and budget planning process, additional controls over account and fund management appears to be needed.

Generally, extramural accounts were reviewed monthly by Dean's Office personnel, as part of the Extramural Funds Accounting monthly process to notify the Dean's Office of account overdrafts. However, account overdrafts in the general funds or other gifts and unrestricted funds were not considered as part of the monthly review. Further, there was no process in place to report on status of funds at a program level to ensure that any operational issues are resolved to address fund deficit.

PPM 330-65, *Fiscal Closing*, requires departmental administrators to analyze account/fund activities, and to clear any fund deficit before the year-end close. Additionally, UC Davis Policy and Procedure Manual (PPM) 330-31, *Administration of Contract and Grant Projects* states that Deans are responsible for maintaining accountability for all funds administered by units under their control and identifying appropriate unrestricted fund sources to cover cost overruns or disallowances that the department has not been able to cover with funds under their jurisdiction.

While the CAES maintained that overall funds were available to cover the deficit balances in the accounts in question, closer monitoring of overdrafts is imperative to prevent funds overdraft at the school level and drive accountability at the department level. Although some of the negative balances may be explained by the timing differences between the actual recording for the funds received (i.e. grant/gift) and the use of funds, closer monitoring of fund balances will ensure solvency at the program level.

⁵ FSNEP is now known as the CalFresh program.

Recommendations

- a. The Dean's Office should develop a process to identify, analyze and report to the Dean no less than quarterly the status of fund balances, as well as the overdrawn account balances greater than a threshold set by the Dean in consultation with the CFO. This can be part of the financial reporting package described in the recommendation "Financial Reporting to the Dean" above.
- b. The Dean's Office should ensure that fund deficit issues are timely resolved and ensure that account balances are reviewed by the departments on a regular basis.

Management Corrective Actions

1. Beginning with September 15, 2014, the CFO and his staff will work with CAES administrative cluster CAOs and account managers to identify CAES accounts in overdraft greater than \$100,000 (i.e. appropriation minus expense account balances that are greater than \$100,000 overdraft) on a quarterly basis and to clear these overdrafts as quickly as possible. This information will be reported to the CAES Dean quarterly.
2. In the periodic training sessions provided to CAES administrative cluster CAOs and account managers, the CFO and his staff will highlight the importance of addressing overdrafts on a timely basis. This training will occur by September 15, 2014.

Appendix A -Carryforward Balances, FY 2012 to FY 2014⁶

Campus Carryforward and Reserve Balances (amounts in 000's)					
	2011-12	2012-13	2013-14	2013-14	2013-14
	Carryforward As of July 1, 2011	Carryforward As of July 1, 2012	Carryforward As of July 1, 2013	Committed Obligations COBL	Known Obligations KOBBL
State Funds/Tuition/Fees					
General Funds and Tuition	\$ 22,056	\$ 23,070	\$ 21,894	\$ (2,011)	\$ (6,129)
Summer Session Fees	\$ 541	\$ 712	\$ 823	\$ (10)	
Professional Degree Fees	\$ 0	\$ 0	\$ 0		
Student Services Fee	\$ 7	\$ 3	\$ (0)		
Course Material Fees	\$ 37	\$ 38	\$ 38		
Campus-Based and Other Student Fees ¹	\$ 33	\$ 17	\$ 32		
Sub-Total, State Funds/Tuition/Fees	\$ 22,674	\$ 23,841	\$ 22,787	\$ (2,021)	\$ (6,129)
Indirect Cost Recovery	\$ 16,608	\$ 17,956	\$ 19,263	\$ (13,063)	\$ (584)
Sub-Total, Indirect Cost Recovery	\$ 16,608	\$ 17,956	\$ 19,263	\$ (13,063)	\$ (584)
Other Unrestricted Funds					
Private Unrestricted Gifts	\$ 25	\$ 25	\$ 45		
Other Funds ²	\$ 1,849	\$ 2,397	\$ 6,017	\$ (744)	\$ (229)
Unrestricted Endowment/FFE Earnings	\$ 44	\$ 30	\$ 25		
UNEX Reserves	\$ 829	\$ 1,008	\$ 991		
Self-Supporting Degree Fees					
Application Fees	\$ 12	\$ 8	\$ 11		
Sub-Total, Other Unrestricted Funds	\$ 2,758	\$ 3,467	\$ 7,089	\$ (744)	\$ (229)
Sub-Total, ICR/Other Unrestricted	\$ 19,367	\$ 21,423	\$ 26,351	\$ (13,807)	\$ (813)
Total Unrestricted	\$42,041	\$45,264	\$49,138	\$ (15,828)	\$ (6,942)
Restricted and Designated Funds (all remaining funds)	\$ 114,013	\$ 136,534	\$ 133,650	(7)	
All Funds Total	\$ 156,054	\$ 181,798	\$ 182,788	(8)	
Select Fund Types -- State Funds/Tuition/Fees					
Prior Year Expenditures	\$ 76,897	\$ 80,958	\$ 85,104	\$ 85,104	
CF as a % of Expenditures	29%	29%	27%	24%	
Select Fund Types -- ICR/Other Unrestricted					
Prior Year Expenditures	\$ 3,846	\$ 3,840	\$ 7,334	\$ 7,334	
CF as a % of Expenditures	504%	558%	359%	171%	
Restricted and Designated Funds (all remaining funds)					
Prior Year Expenditures	\$ 114,364	\$ 121,253	\$ 125,397		
CF as a % of Expenditures	100%	113%	107%		
All Fund Types					
Prior Year Expenditures	\$ 195,107	\$ 206,051	\$ 217,836	(9)	
CF as a % of Expenditures	80%	88%	84%		
Selected Funds -- Dean - Departmental/Other:					
Carryforward held by Dean's Office	54%	52%	51%		
Carryforward held by Departments/Other	46%	48%	49%		

¹ Campus-Based and Other Student Fees category is almost 90% student referendum funds on a campus-wide basis.

² Other Funds category is 90% STIP and patent revenue on a campus-wide basis.

⁶ System-wide data (Chart "L") is not included.

⁷ Includes contracts & grants, gifts and endowments, and self-supporting funds.

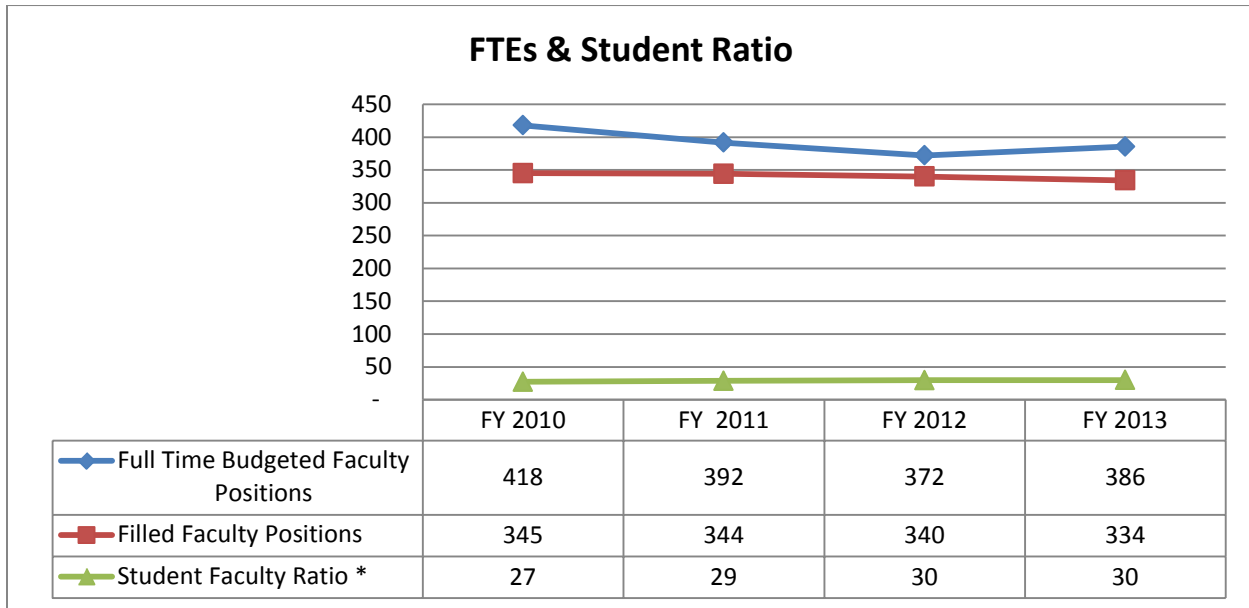
⁸ Carryforward balance is calculated by Budget and Institutional Analysis, and excludes financial aid funds, indirect costs, encumbrances and liens.

⁹ Total expenditures exclude system-wide (Chart "L"), financial aid funds, indirect costs, encumbrances and liens.

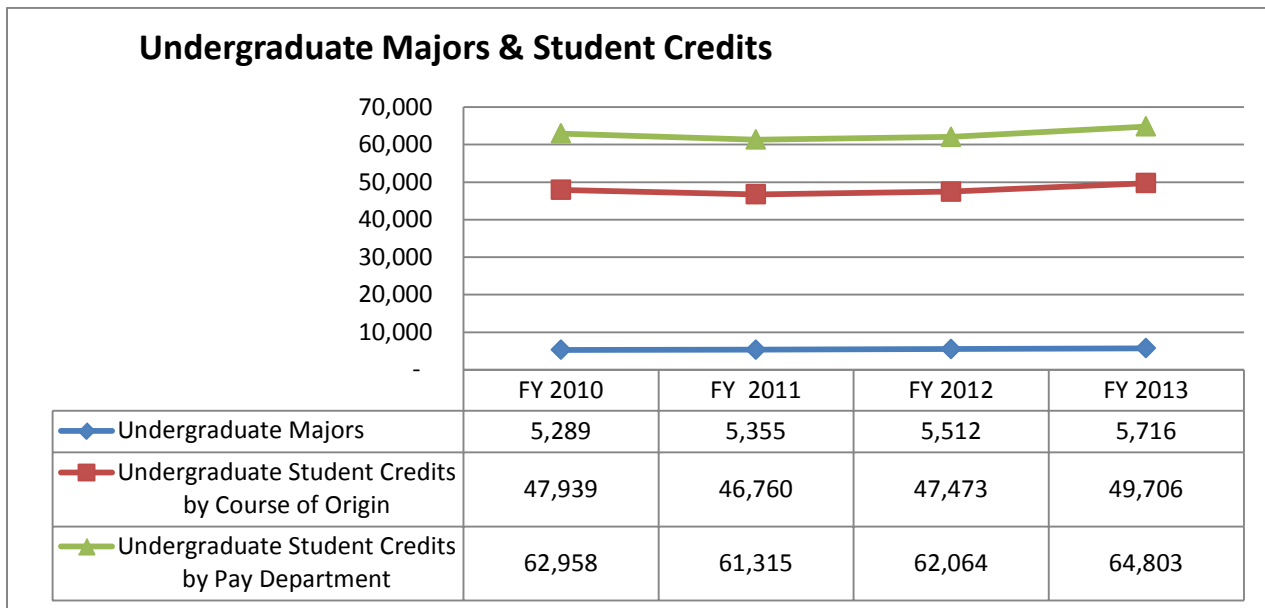
Appendix B-1. Operating Trends, Total Sources, Expenditures & Funds Available

	FY 2010	FY 2011	FY 2012	FY 2013
OPERATING TRENDS				
Full Time Budgeted Faculty Positions	418	392	372	386
Filled Faculty Positions	345	344	340	334
Student Faculty Ratio *	27	29	30	30
Undergraduate Majors	5,289	5,355	5,512	5,716
Undergraduate Student Credits by Course of Origin	47,939	46,760	47,473	49,706
Undergraduate Student Credits by Pay Department	62,958	61,315	62,064	64,803
* includes instruction & research faculty only				
<i>\$, in thousands</i>				
FUND SOURCES				
Carryforward	\$ 162,122	\$ 177,849	\$ 190,321	\$ 217,469
July 1 Base Budget	79,796	78,001	77,189	96,363
Current Year Adjustments	131,057	135,055	161,884	127,403
Income	9,004	9,388	10,043	13,164
Recharge	3,116	2,945	3,203	3,216
Total Sources	385,095	403,239	442,639	457,614
EXPENDITURES				
Salaries and Benefits:				
Academic Salaries	74,762	77,396	79,613	79,591
Staff Salaries	35,293	36,034	40,992	41,134
Benefits	34,422	38,780	37,760	40,955
Scholarships & Fellowships	1,700	1,657	1,918	2,139
Other Expenditures:				
Subcontracts	13,474	15,719	19,627	24,540
Supplies	13,277	13,774	14,077	14,389
Services	11,026	10,242	10,659	10,857
Travel	5,298	6,266	6,689	6,311
Equipment	6,815	3,767	3,890	4,613
UCOP assessment	-	-	-	2,943
Communication resources	1,654	1,525	1,555	1,651
Entertainment	1,297	1,108	1,173	1,183
Computer software and supplies	585	663	1,016	1,173
Rent	775	825	899	943
Miscellaneous	6,469	5,890	5,030	4,822
Total Expenditures	206,847	213,645	224,898	237,244
Estimated system-wide (Chart "L"), financial aid funds, indirects, encumbrances & liens	(39,214)	(41,711)	(61,688)	(38,571)
FUNDS AVAILABLE	\$ 139,033	\$ 147,883	\$ 156,054	\$ 181,798
Restricted	\$ 102,884	\$ 109,433	\$ 114,013	\$ 136,534
Unrestricted	\$ 36,149	\$ 38,450	\$ 42,041	\$ 45,264

Appendix B-2. Operating Trends¹⁰



* includes instruction & research faculty only



¹⁰ Source: The Provost's Dashboard & the Student Information System Decision Support (SIS DS)

