

February 12, 2019

PIERRE OUILLET
Vice Chancellor, Chief Financial Officer (CFO)
007

Subject: *Deficit Balance Reporting*
(Self-Supporting Activities and Clinical Practice Organization)
Report 2019-03

The final report for Deficit Balance Reporting (Self-Supporting Activities and Clinical Practice Organization) Report 2019-03, is attached. We would like to thank all members of the department for their cooperation and assistance during the review.

UC wide policy requires that all draft reports be destroyed after the final report is issued. We also request that draft reports not be photocopied or otherwise redistributed.

David Meier
Director
Audit & Management Advisory Services

Attachment

cc: Judith Bruner
 Alexander Bustamante
 William McCarroll
 Cheryl Ross

UC San Diego

AUDIT & MANAGEMENT ADVISORY SERVICES

Deficit Balance Reporting
(Self-Supporting Activities and Clinical Practice Organization)
Report No. 2019-03
FEBRUARY 2019

FINAL REPORT

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I. BACKGROUND

Audit & Management Advisory Services (AMAS) has completed a review of Deficit Balance Reporting for Self-Supporting Activities and Clinical Practice Organization (CPO) as part of the approved audit plan for Fiscal Year 2018-19. This project was a continuation of an earlier review (2017-01; May 2, 2017). This report summarizes the results of our review.

The prudent use of assets requires the monitoring of financial balances and taking prompt action when deficits arise. Responsible stewardship of University resources calls for an established deficit balance reporting function. At UC San Diego this process is addressed by Funds Management (Overdraft) Policy in Section 300-2 of the Policy & Procedure Manual (PPM), or PPM 300-2. The policy sets forth management's responsibilities for resolving and reporting overdrafts across the UCSD campus. It further indicates that an electronic deficit reporting system is available to help administrators meet their fund management responsibilities, although use of the tool is discretionary.

The "electronic deficit reporting system" referenced in policy is referred to on the UCSD Blink website as Deficit Balance Analytics (DBA). This site features links to PPM 300-2 and explains how General Accounting partnered with the Information Technology Services (ITS) Business Intelligence (BI) & Analytics team to deliver DBA reports, which are updated monthly after operating ledger close. The page contains links to three different DBA reports: Operating Fund, Sponsored Projects and Recharge Surplus/Deficits. The Operating Funds DBA report includes General Campus (GC) funds, Recharge for Federal (RF) funds, Recharge for Non-Federal (RN) funds and Auxiliary/Other (OA) funds. The second DBA report is for Sponsored Project (SP) funds.

While the Blink website contains a link to the Recharge Surplus/Deficits DBA report, that report is still undergoing changes, and should only be used for informational purposes as of the date of this report. The Blink website suggests that the Operating Fund DBA report be used to monitor deficit balances associated with approved recharge funds.

Upon running the Operating Funds DBA report, the user is presented with a high level summary schedule that includes cumulative deficit balances by VC area and the CPO, a VC level 1 organization that for the purpose of deficit balance management features only AO type funds¹. Users may drill down from the VC level into supporting schedules organized either by fund or organization number. The VC level data can also be exported for further analysis in Excel format.

When users drill down in the summary schedule "By Funds" level, they are presented with a report organized by funds and then further by organizational level, provided a fund is shared across more than one organization. If the "By Orgs" (by organization numbers) option is selected, the same data is presented, although sorted first by organization levels and then across fund numbers. Regardless of option selected, the data presented includes the organization number, organization title, fund title, fund number and report code, which indicates whether the fund is coded as GC, AO, RF or RN. For each fund, the budget, financial and balance totals are presented. Only funds that are in deficit will be

¹ As the header note on the Deficit Balance Analytics page indicates, funds 69920A and 69925A, being internal loan funds, are excluded from the summary schedule. Both are General Campus (GC) funds.

included in the report.

Both the Operating Fund and Sponsored Project DBA reports were evaluated for accuracy and completeness as part of our approved audit plan for Fiscal Year 2016-17 (AMAS Project 2017-01). However, at that time the Operating Fund DBA report only included GC funds. Also, the report did not contain a separate reporting line for the CPO, as those funds were rolled-up under the VC Health Sciences.

As mentioned above, the Recharge Surplus/Deficits DBA report was under production as of the date of this report, although it was made available to users for informational purposes only. This report features Recharge Funds designated as RF or RN type. Funds designated as RF are considered at higher risk for review by Federal Auditors and thus receive more scrutiny with respect to recharge rate changes. Only those funds where it is known that there are not Federal funds as customers are marked as RN and the default is RF.

This module is focused on recharge oversight. It is different from the other modules because recharge funds are listed regardless of deficit or surplus balances.

The Recharge Surplus/Deficits dashboard provides recharge funds oversight with information that is updated monthly to facilitate compliance with policy, which requires that “Recharge activities are operated on a no-gain/no-loss basis. Any surplus or deficit occurring in any one year shall be corrected by timely management of expenses or adjustment of rates in the succeeding year to achieve a break-even balance at the succeeding year end. Every effort should be made to ensure that year-end surpluses do not exceed two months of the recharging unit's activity.”² The Recharge Surplus/Deficits DBA report supports this requirement by listing for each fund/organization combination for Fiscal Year -To-Date (FYTD) data for Recharge Income, Expense, Net Activity and Balance (either Deficit or Surplus). When there is a surplus, it is further delineated by Allowable Surplus and Excess Surplus Balance. In addition, for each fund and org, there is a Review Required field which features an “Excess Surplus”, “Deficit” or “None” message if Fund and org balance is within guidelines.

Though recharge rates are reviewed annually, the Recharge Surplus/Deficit report provides more timely data, as it calculates these balance monthly based on the previous 12 months of expenditures. The most current dashboard and PDF reports are available to review by Tuesday following each month’s end ledger close.

II. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

The objective of our review was to evaluate the accuracy and completeness of the Recharge Surplus/Deficits Deficit DBA report, and the Operating Funds DBA report in respect to the information being presented for the CPO. In order to achieve our objective, we performed the following:

- Reviewed prior AMAS report 2017-01;
- Interviewed the following persons:
 - Associate Director Central Accounting,

² PPM 300-2, Section VI.B.i.

- Policy Manager, Financial Analysis Office, and
- Senior Accountant, General Accounting;
- Reviewed the following policies:
 - PPM 300-2 Funds Management (Overdraft) Policy,
 - BFB A-47: Director Costing Procedures,
 - BFB A-56: Academic Support Unit Cost and Billing Guidelines,
 - BFB A-59: Costing and Working Capital for Auxiliary and Service Enterprises, and
 - Service Enterprise Activities Policy on Blink;
- Within IFIS, reviewed the CPO Fund and Organization structure;
- Reconciled IFIS CPO Fund balances (at the Fund & Organization level) with the Operating Funds DBA report for September and October 2018;
- On a sample basis, validated the balances of 15 RF funds which at the Fund & Org level contained 17 deficit and 12 surplus balances;
- On a sample basis evaluated the balances on three RN funds appearing on EDRS;
- For recharge funds with a surplus, on a sample basis, recalculated the Allowable Surplus calculation on the Recharge Surplus/Deficit report;
- Reviewed the information from the Financial Analysis Office site on Blink to determine which funds are authorized recharge funds;
- Reviewed IFIS data to determine what funds feature a Deficit Report Attribute and which funds have used the recharge accounts within the current fiscal year to date; and
- Compared funds with authorized recharge rates with the list of funds that used recharge account code, with funds that feature a Deficit Report Attribute and those that appear on the Recharge Surplus/Deficit report.

III. CONCLUSION

Based on our review, we concluded that the Recharge Surplus/Deficits Deficit DBR reports, and the Operating Funds DBA report in respect to the information being presented for the CPO, appeared accurate and complete. Both reports appeared accurate when compared to financial balances from IFIS. The report for CPO appears complete based on our review of CPO funds in IFIS with input from General Accounting. We also found that the Surplus/Deficits Deficit DBR report was complete in respect to recharge activities that have been reviewed and approved by the Recharge Rate Review Committee and are known by the Financial Analyst Office.

With respect to the CPO funds that appear in the Operating Fund DBA report, we did identify a CPO GC fund (69925A) that had a deficit balances but did not appear in the DBA report. This fund, entitled "Internal Banking Clearing Fund," had a sizeable deficit as of December 31, 2018. However, based on information provided by General Accounting, it's our understanding that this fund, as well as fund 69920A, are considered internal loan funds that have been excluded from the report at the request of the Chief Financial Officer. This exclusion was appropriately disclosed in the DBA report header notes.

During our review we identified 89 funds with fiscal year to date balances that contained recharge income that were not listed on the Recharge Surplus/Deficits DBA report. This is because the Recharge Surplus/Deficits DBA report only lists data for funds which have recharge activity that has been

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approved by the Recharge Rate Review Committee and are on file with the Financial Analyst Office. Funds that occasionally use the recharge mechanism, but do not meet the definition of recharge activities, are not included in the DBA report. Similarly, any recharge activity that is occurring on campus that does not have an officially approved recharge rate on file with the FAO will not be included in the report. This limitation is disclosed in the DBA report header, which states: *“The data for these reports are funds identified as approved recharge facilities.”* However, these funds will appear in the Operating Fund DBA report if they have a cumulative deficit at month’s end.