

June 20, 2014

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0519

**Subject:       *Self-Supporting Graduate Programs – IR/PS  
Audit & Management Advisory Services Project 2014-01A***

The final audit report for Self-Support Graduate Programs, Audit Report 2014-01A, is attached. We would like to thank all members of the department for their cooperation and assistance during the audit.

The findings included in this report will be added to our follow-up system. We will contact your staff at the appropriate time to evaluate the status of the corrective actions. At that time, we may need to perform additional audit procedures to validate that actions have been taken prior to closing the audit findings.

UC wide policy requires that all draft audit reports, both printed (copied on tan paper for ease of identification) and electronic, be destroyed after the final report is issued. Because draft reports can contain sensitive information, please either return these documents to AMAS personnel or destroy them. We also request that draft reports not be photocopied or otherwise redistributed.

David Meier  
Director  
Audit & Management Advisory Services

Attachment

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## AUDIT & MANAGEMENT ADVISORY SERVICES

### Self-Supporting Graduate Programs – IR/PS June 2014

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Project Number: 2014-01A

*Self-Supporting Graduate Programs – IR/PS  
Audit & Management Advisory Services Project 2014-01A*

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ATTACHMENT B – AMAS Reconstruction of the 2012-13 MAS-IA Cost Analysis

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**I. Background**

Audit & Management Advisory Services (AMAS) has completed a review of Self-Supporting Graduate Programs in the Graduate School of International Relations/Pacific Studies (IR\PS) as part of the approved audit plan for Fiscal Year 2013-14. This report summarizes the results of our review.

The University of California operates approximately 60 self-supporting graduate degree programs (SSGDP), nine of which are offered and operated at UCSD. These programs are intended to provide alternative pathways for academically qualified adults to further their education, upgrade their skills, and obtain professional degrees. SSGDPs are expected to become fully self-sufficient within three years of inception, meaning that SSGDP student tuition and fees should be sufficient to cover all direct and indirect costs associated with the program. Any resulting program deficits must be covered by the campus using non-State funds, excluding tuition or fees revenue generated by other programs. Any excess revenue generated from SSGDPs is available to support University’s core academic mission.

IR/PS offers one of the nine UCSD SSGDPs: the Masters of Advanced Science in International Affairs (MAS-IA). MAS-IA is an executive master’s degree program that aims to prepare graduates to take their next steps in careers that will help mold the Pacific region’s economic growth, technological innovations, and environmental and security challenges into instruments of peace, prosperity, and democracy. Prospective students have the option to complete the program on a full-time or part-time basis, and can choose from one of five different program tracks: Environmental Policy and Sustainability, International Political Economy, International Public Policy, International Relations, and Security of the Asia-Pacific.

The MAS-IA program was initially offered in Fall 2011. MAS-IA program enrollment and financial activity for Fiscal Years 2010-11 through 2012-13 was as follows:

	FY2010/11	FY2011/12	FY2012/13
<b>Average FTE MAS-IA Student Enrolled<sup>1</sup></b>	19	36	31
<b>Average FTE IR\PS Student Enrolled<sup>1</sup></b>	259	274	297
<b>MAS-IA Program Fee (per unit)<sup>1</sup></b>	\$625	\$650	\$675
<b>MAS-IA Program Revenues<sup>2</sup></b>	\$587,500	\$835,900	\$924,750
<b>MAS-IA Program Fund Expenses<sup>2</sup></b>	\$383,738	\$690,447	\$1,074,270
<b>MAS-IA Program Fund Accumulated Net Balance</b>	\$203,762	\$349,215	\$199,694

<sup>1</sup> Source: Annual Cost Analysis Reports submitted to UCOP

<sup>2</sup> Source: MAS-IA program fund balances

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**II. Audit Objective, Scope, and Procedures**

The objective of our review was to evaluate IR/PS practices for the management of revenue generating graduate programs. In order to achieve our objectives we completed the following:

- Interviewed the IR/PS Assistant Dean for Operations-Administration, and the Assistant Dean for Special Initiatives;
- Interviewed the Campus Budget Office Assistant Budget Director;
- Reviewed the Cost Analysis templates that were included as part of the MAS-IA Self-Supporting Program Fee Proposals for the Fiscal Years 2010-11 through 2013-14;
- Examined the IR/PS reconciliation between financial activity posted to the MAS-IA Integrated Financial Information System (IFIS) fund and the Cost Analysis templates for Fiscal Year 2012-13;
- Evaluated the methodology used by IR/PS to allocate MAS-IA program costs to the appropriate IFIS fund; and
- Reviewed MAS-IA program financial accessibility goals and financial aid status.

**III. Conclusion**

We concluded that the IR/PS processes were generally adequate to manage MAS-IA program revenues, and that the program was fully self-supporting. However, we did identify opportunities to improve the IR/PS model for allocating MAS-IA salary costs to provide greater accountability. This observation is discussed in further detail in the balance of this report.

**IV. Observations and Management Corrective Actions**

**A. Program Salary Allocations**

**The IR/PS model for allocating salary costs could be improved to provide greater accountability.**

The UC Policy on Self –Supporting Graduate Degree Programs, dated September 2011, sets forth requirements designed to facilitate the establishment of self-supporting programs while ensuring that these programs do not use state resources. The following summarizes some of the requirements set forth by this policy:

1. Self-supporting programs must be self-sufficient within three years of inception;
2. State-supported and self-supporting programs separately account for their use of resources;

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3. Self-supported and state-supported students can be enrolled in the same courses so long as there is separate accounting for the self-supporting and state-funded course costs; and
4. Any excess revenue generated from the self-supporting programs is available to support the University’s core academic mission.

To demonstrate that the program tuition and fees are sufficient to cover direct and indirect expenses related to the program, the UC Office of the President (UCOP) requires that each self-supporting program submit a Cost Analysis to the Budget and Capital Resources office as part of annual program unit fee proposal submission.

Determining the MAS-IA program’s use of shared resources can be challenging. The curriculum includes 12 courses, three of which are MAS-IA specific courses, and nine of which are elective courses. The elective courses are not specific to the MAS-IA program, and are offered to the broader IR/PS student population. Most of the courses are state-funded.

During our review, IR/PS provided a reconciliation between the MAS-IA Fiscal Year 2012-2013 Cost Analysis submitted to UCOP, and the MAS-IA IFIS fund activity (**Attachment A**). Based on our review of this reconciliation, we identified some aspects of the IR/PS model for allocating salary costs that could be improved to provide greater accountability of MAS-IA program costs. The areas of potential improvement are summarized in the following table:

<b>Current Practice</b>	<b>Best Practice</b>
Faculty salary and benefits that are direct charged to the MAS-IA IFIS include costs that are primarily attributable to elective courses. Costs deemed unrelated to the program are deducted to generate the Cost Analysis submitted to UCOP.	Only the faculty salary and benefits associated with providing the three core MAS-IA courses should be direct charged to the MAS-IA IFIS fund. Costs associated with providing elective courses should be allocated (transferred into) the MAS-IA IFIS fund on a quarterly basis.
The methodology to estimate faculty salary and benefit costs associated with MAS-IA elective courses was not thoroughly documented and auditable.	The allocation methodology should have a logical basis and be well documented. Costs that are calculated using this methodology should be supportable with auditable calculations.

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<b>Current Practice</b>	<b>Best Practice</b>
Faculty salary and benefits estimated to be associated with elective courses were reported as “Indirect Charges Paid by Program to School” on the Cost Analysis submitted to UCOP.	Faculty salary and benefits determined to be associated with elective courses should be reported on the Cost Analysis as “Faculty Costs” and “Faculty and Staff Benefits,” respectively.
Staff salary and benefits that are direct charged to the MAS-IA IFIS fund far exceed the costs associated with the MAS-IA program. Costs deemed unrelated to the program are excluded from the Cost Analysis submitted to UCOP.	Only the staff salary and benefits associated with the MAS-IA program should be direct charged to the MAS-IA IFIS fund.

Despite the areas of potential improvement that are noted above, it appears that the MAS-IA program would have reported a surplus balance had the best practices been implemented during the Fiscal Year 2012-13. **Attachment B** provides our reconstruction of the MAS-IA 2012-13 Cost Analysis. Based on the reconstruction, it appears that total direct expenses were underreported by approximately \$141 thousand. Nonetheless, the total program revenues of approximately \$925 thousand exceeded total direct expenses, as well as indirect expenses that were estimated and reported by the Campus Budget Office.

IR/PS has advised that salary and benefits in excess of actual MAS-IA program costs were posted directly to the MAS-IA IFIS fund as they were incurred in order to utilize the program’s cumulative surplus balance. While self-supporting program surplus can be used to support the University’s core academic mission, charging expenses in this way makes it even more challenging to accurately account for true program costs. One alternative is to establish a separate index within the MAS-IA fund that can be used to account for the use of surplus balances in funding non-program related costs.

**Management Corrective Actions:**

In order to strengthen the accounting practices for the MAS-IA program, IR/PS will:

1. Direct charge to the MAS-IA IFIS fund only faculty costs that are related to the three core MAS-IA courses.
2. Develop an allocation methodology that can be used to calculate faculty salary and benefits related to the MAS-IA elective courses.

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3. Report all faculty salary and benefit costs associated with the MAS-IA program as “Faculty Costs” and “Faculty and Staff Benefits,” respectively, on Cost Analyses submitted to UCOP.
4. Direct charge to the MAS-IA IFIS fund only staff salary and benefits that are determined to be related to the MAS-IA program.
5. Establish a separate IFIS index that can be used to account for the use of surplus balances in funding non-program related costs.



**Self-Supporting Graduate Programs – IR/PS  
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Reconciliation of the 2012-13 Self -Supporting Graduate Program Fund**

	Per IFIS (Fund 20222A)	Expenses Reclassified as Indirect Charges paid to School	IFIS Sub-Account 63 Reclassifications			Expenses Unrelated to Program	Incorrect Posting/ Reporting (D)	Cost Analysis Report
			Financial Aid (A)	Indirect Charges paid to OGS (B)	Campus Assessments Paid to Campus (C)			
Faculty Salaries	\$409,180	(\$107,823)				(\$196,393)		\$104,964
Staff Salaries	369,839	(60,000)				(175,577)		134,262
Faculty and Staff Benefits	208,228	(50,347)				(101,800)		56,081
General Assistance	266							266
Supplies & Expenses	85,459		(\$17,676)	(\$10,820)	(\$28,308)		\$45,984	74,639
Travel	1,298						100	1,398
Financial Aid			17,676					17,676
Indirect Charges paid by Program to Campuswide Units (OGS)				10,820				10,820
Campus Assessment paid by Program to Campus (ASSA)					28,308			28,308
Indirect Charges paid by Program to School		218,170						218,170
<b>Total</b>	<b>\$1,074,270</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$473,770)</b>	<b>\$46,084</b>	<b>\$646,584</b>

## Footnotes:

(A) Financial Aid is accounted for under IFIS account 637566 (Tuition & Fees).

(B) Indirect Charges paid to OGS are accounted for under IFIS account 637693 (Office of Graduate Studies Recharges).

(C) Campus Assessments paid to Campus are accounted for under IFIS account 637258 (Campus Administrative Recharges).

(D) IR/PS double posted Financial Aid (\$17,676) and Campus Assessment paid to Campus (\$28,308) as Supplies & Expenses on the cost analysis report.

The \$100 incorrect posting to Travel was due to a typographical error.

Attachment B

**Self-Supporting Graduate Programs - IR/PS  
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AMAS Reconstruction of the 2012-13 MAS-IA Cost Analysis**

	<u>Recalculated Costs</u>	<u>Costs Reported by IR/PS</u>	<u>Estimated Costs Over/(Under) Reported</u>
Faculty Salaries for Core Courses	\$104,964	\$104,964	
Faculty Salaries for Elective Courses <sup>2</sup>	236,248	0	(\$236,248)
Staff Salaries <sup>3</sup>	169,859	134,262	(35,597)
Faculty and Staff Benefits <sup>1</sup>	189,568	56,081	(133,487)
General Assistance	266	266	
S&E	28,655	74,639	45,984
Travel	1,298	1,398	100
Financial Aid	17,676	17,676	
Indirect Charges paid by Program to School		218,170	218,170
Indirect Charges paid by Program to Campuswide Units (OGS)	10,820	10,820	
Campus Assessment paid by Program to Campus (ASSA)	28,308	28,308	
<b>Total Direct Expenses</b>	<u><u>\$787,662</u></u>	<u><u>\$646,584</u></u>	<u><u>(\$141,078)</u></u>

**Footnotes**

<sup>1</sup> Benefits were recalculated using the composite benefit rates for Fiscal Year 2012-13. Rates used were 34.5% of academic salaries, and 42.3% of staff salaries.

<sup>2</sup> Faculty salaries associated with elective courses were recalculated using a methodology in which 17% of the instructors salary (the percent of faculty salary related to instructing a single course) multiplied by the percentage of MAS-IA student enrollment in the course.

<sup>3</sup> Recalculated staff salaries include the Assistant Dean's salary, and the salary of one IR/PS program representative.