

January 31, 2025

MERCEDES MUNOZ
Associate Vice Chancellor, Campus Budget Office
0936

**Subject: *Deficit Management and Reporting
Report 2025-02***

The final report for *Deficit Management and Reporting, 2025-02*, is attached. We would like to thank all members of the department for their cooperation and assistance during the review.

Because we were able to reach agreement regarding management action plans in response to the audit recommendations, a formal response to the report is not requested. The findings included in this report will be added to our follow-up system. We will contact you at the appropriate time to evaluate the status of the management action plans.

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.

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Director
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Attachment

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AUDIT & MANAGEMENT ADVISORY SERVICES

Deficit Management and Reporting
Report No. 2025-02
January 2025

FINAL REPORT

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ATTACHMENT A – Academic Affairs – Criteria for Assessing Level of Risk for Deficits

ATTACHMENT B – Vice Chancellor Health Sciences (VCHS) Quarterly Deficit Review Process

I. EXECUTIVE SUMMARY

Audit & Management Advisory Services (AMAS) has completed a review of Deficit Management and Reporting as part of the approved audit plan for Fiscal Year 2024-25. The objective of our review was to determine whether internal controls provide reasonable assurance that deficits are identified timely and resolved in accordance with policy and local practices. The review focused on evaluation of reports and processes used by Campus Budget Office (CBO) for monitoring and addressing financial balances, to determine whether there are any gaps that need to be addressed.

We concluded that internal controls provided reasonable assurance that deficits were generally identified timely, and actively tracked towards resolution. However, we noted that current practices adopted by CBO and Vice Chancellor (VC) areas were not fully aligned with the Financial Deficit Policy, and the policy should be updated to reflect effective practices and clearly define responsibilities to ensure deficits are consistently tracked and addressed timely. We also noted additional opportunities for improvement in current deficit monitoring practices for CBO to help improve transparency on the deficits that CBO monitors, document the explanation of the deficit, and identify a resolution plan, as applicable. In addition, we noted deficits in Campus Operations (FinU Level 2: 960000A) were not part of the CBO deficit monitoring process, and need to be evaluated further.

A. Financial Deficit Policy Revision

1. The AVC Campus Budget Operations (AVC CBO) will update the Financial Deficit Policy to reflect current practices and other requirements as appropriate that effectively address the risk of deficits being identified and resolved promptly. *Estimated Implementation Date: 7/1/2025.*
2. The AVC CBO will consider consulting and coordinating with Finance Administrative leadership in each VC area to discuss effective deficit monitoring requirements/responsibilities for the VC areas, to be incorporated into policy. *Estimated Implementation Date: 7/1/2025.*

B. CBO Deficit Monitoring Process

1. The AVC CBO will coordinate with CPA and utilize CPA's recharge financial reports to identify recharge activity deficits to include in CBO deficit reports. *Estimated Implementation Date: 7/1/2025.*
2. The AVC CBO has identified the opportunity for improvement with the BAH reports and is coordinating with their Business Intelligence contact to determine the feasibility of providing details on department and faculty portfolio project classifications for deficits captured on the BAH deficit reports. *Estimated Implementation Date: 7/1/2025.*
3. The AVC CBO will develop and document criteria for various deficit reports, and apply it consistently. *Estimated Implementation Date: 4/1/2025.*
4. The AVC CBO will distribute budget cycle reports to the VCs and Chancellor to improve transparency and avoid confusion over deficits that CBO is tracking. This could be accomplished by adding an Appendix to the Risk Registry. *Estimated Implementation Date: 4/1/2025.*
5. The AVC CBO will expand criteria for inclusion in budget cycle reports to include structural

deficits in each fund category for each VC area, taking into consideration the manageability of the deficits. *Estimated Implementation Date: 4/1/2025.*

6. The AVC CBO will include all deficits that meet the criteria for budget cycle reports for transparency. *Estimated Implementation Date: 4/1/2025.*
7. The AVC CBO will incorporate follow-up and confirmation for resolution plans and target resolution dates with VC areas into the CBO deficit monitoring process. *Estimated Implementation Date: 1/1/2026.*
8. The AVC CBO will reinitiate discussions with selected non-academic units, as appropriate, to revise their CCOA structure to improve their ability to accurately reflect the financial health of each FinU. *Estimated Implementation Date: 1/1/2026.*

C. Campus Operations Financial Unit Deficit Monitoring

1. The AVC CBO will coordinate with the CFO, Controller, and ICA, as appropriate, to develop a plan and determine responsibility for identifying and monitoring deficits in the Campus Operations entity, FinU UC San Diego (960000A). *Estimated Implementation Date: 10/1/2025.*

Observations, and related management action plans, are described in greater detail in Section V. of this report.

II. BACKGROUND

Audit & Management Advisory Services (AMAS) has completed a review of Deficit Management and Reporting as part of the approved audit plan for Fiscal Year 2024-25. This report summarizes the results of our review.

Effective fiscal management involves promptly identifying and addressing deficits, demonstrating accountability, and exercising responsible stewardship over University resources. Deficits occur when expenditures exceed the award or budget allocation. All financial units are expected to meet their financial needs within their overall available funding, and any deficits should be timely resolved.

University Policy (*Policy and Procedure Manual (PPM) 300-2, Financial Deficit Policy*) defines management responsibilities for the monitoring, reporting, and timely resolution of financial deficits. The policy defines a financial deficit as a "situation that exists when a Financial Unit spends more than is authorized or available in a particular Fund source." To support the financial deficit policy, Oracle-based Financial Deficit reports were made available on Business Analytics Hub (BAH) to help departments meet their fund management responsibilities, available as separate reports for operating funds and sponsored projects. The Financial Deficit – Operating Funds report displays deficit balances by accounting period for all campus funds (excluding contracts and grants) in four tabs: core funds, unrestricted funds, recharges, and restricted funds. Most funds display deficits at the Financial Unit (FinU)/Fund level only, while recharge funds (12100) include project numbers to allow identification of unique recharge activities.

The table below presents the financial deficits for select Vice Chancellor (VC) areas for the three Fiscal Years (FYs), 2022, 2023, and 2024¹, and shows an overall decrease in the total financial deficit balance over the last three years. Financial deficits reflect balances in overdraft based on the Fund- FinU level (with recharges captured at the project level). The balances below may include accounting deficits when a department/unit has a deficit balance in one Fund-FinU combination but has an available surplus balance in the same fund type in another FinU; or in the case of recharge activities, revenue for the activity may be captured under another project. A resource transfer or expense transfer can be done between the two to clear the deficit when the functional nature of the financial units is the same. Timing differences may also result in deficits if expenses are incurred before resources are posted/allocated.

Financial Unit (Level 2)	Total Financial Deficit – All Funds		
	Jun-22	Jun-23	Jun-24
Academic Affairs	(\$86,844,023.96)	(\$46,181,410.91)	(\$31,581,970.80)
Academic Senate	(\$6,565.19)	(\$6,164.04)	(\$6,164.04)
Advancement	(\$209,407.28)	(\$118,812.49)	(\$214,510.31)
Chancellor	(\$140,532.87)	(\$267,439.38)	(\$73,750.40)
Chief Financial Officer	(\$7,513,972.17)	(\$9,518,434.67)	(\$8,842,347.08)
Equity Diversity Inclusion	(\$80,866.02)	(\$85,874.88)	(\$99,670.07)
Health Science	(\$232,907,658.04)	(\$219,391,268.27)	(\$147,791,485.10)

¹ Based on financial deficit report for 13_June 2024, pulled on September 10, 2024

Financial Unit (Level 2)	Total Financial Deficit – All Funds		
	Jun-22	Jun-23	Jun-24
Marine Science	(\$17,727,829.64)	(\$20,095,866.98)	(\$21,419,914.25)
Office of the President	(\$292,597.37)	(\$295,607.88)	(\$298,152.60)
Research Affairs	(\$10,899,667.66)	(\$6,225,203.70)	(\$4,479,466.64)
Resource Management and Planning	(\$20,481,237.27)	(\$12,898,611.56)	(\$20,245,905.96)
Student Affairs	(\$7,106,622.43)	(\$12,653,419.18)	(\$16,041,982.09)
Grand Total	(\$384,210,979.90)	(\$327,738,113.94)	(\$251,095,319.34)

Campus Budget Office (CBO) Monitoring Process

The Financial Deficit policy was issued in 2017, but the process evolved after the policy was issued. CBO assumed responsibility for overdraft monitoring (which had previously been with the Controller), and ultimately a revised policy was issued in January 2021. The Financial Deficit policy requires: "All approved deficit resolution plans must be in place before the end of the third quarter of the fiscal year in order to be carried forward to the next fiscal year. All rollover plans must be formally submitted by March 31 to the CBO for initial review and approved by the Chief Financial Officer (CFO)." The CBO office had a process to collect annual Excel-based deficit rollover templates, which were submitted by each VC for FY2018, FY2019, FY2020, and FY2022².

However, CBO did not consider this monitoring process to be effective as departments appeared to be spending a lot of time completing the deficit rollover template and sometimes only provided a reason for the deficit, rather than focusing on executing deficit cleanup or providing a plan for resolution. There was a high volume of deficits of over \$25k, which also made monitoring unmanageable. Since the templates were not prompting resolution action, CBO modified the monitoring process to focus on structural deficits instead, making it part of the annual budget cycle process to create visibility to leadership, and prompt discussions on resolution action.

Structural deficits are different from the financial deficits reported on the BAH Financial Deficit report. Structural balances take into account the total balance for all core, unrestricted (including recharge fund), and restricted funds for each FinU, and not the deficit balance at the individual Fund-FinU level. This helped focus deficit monitoring to determine whether the department had adequate operating funds and appeared to be financially healthy overall. Currently, CBO has two reports that they prepare and distribute for monitoring deficits for operating funds as described below:

Budget Cycle Deficit Reports

CBO's annual budget process for the UCSD Campus begins in January of each year and concludes around mid-June. Beginning with the FY2024 budget planning cycle, in lieu of the annual CBO exercise involving collection of Excel-based deficit rollover templates for all departments to align with policy, CBO instead distributed a targeted report with a listing of units that were in a structural deficit position of \$250,000 or more at the end of FY2022, and still appeared to be in deficit as of the date of the report. CBO distributed this report to

² The overdraft policy was not enforced for FY2021 because of the challenges with Oracle Financial system transition and Covid/staff impacts, and deficit rollover requests were not requested.

department financial leadership for each VC area (Associate/Assistant VC financial administration, and Finance Directors) in the second quarter of the fiscal year, with a follow-up report at the end of the fiscal year.

Budget presentations were expected to specifically address these deficits, with a focus on corrective actions being taken and timeline for resolution, to aid in discussions occurring during the budget meetings with the CFO and Chancellor. After fiscal year close, an updated list of structural deficit balances as of fiscal year-end was sent to department finance administration, to monitor progress on deficit. Notes on each deficit are added by CBO based on internal meetings, quarterly deficit review documentation shared by VCs, discussions, and presentations from the budget cycle meetings.

Risk Registry

CBO has also developed a Risk Registry as a focused report identifying areas with deficits that are higher risk to the institution and part of active discussions between VC leadership and the Chancellor. The Risk Registry is distributed to the Chancellor, and VCs, along with the financial administrative leaders for each VC area.

The Risk Registry was developed quarterly, but recent versions have been distributed annually after fiscal year close. In the initial versions of the Risk Registry, deficit areas reported met one or several of the following criteria:

- Rapidly growing deficits;
- Activities affected by pandemic closures;
- Select research cores and other recharge deficits > \$500K; and
- Sponsored deficits on ended projects/awards.

Over the years, the Risk Registry included additional areas of concern brought up during budget meetings, and deeper analysis of balances for department portfolio³ and/or core funds.

Academic VC Deficit Monitoring Practices

Academic Affairs – Three years ago, Academic Affairs (AA) Finance and Administration Office initiated quarterly meetings with AA Schools to discuss budget and fiscal matters, and each meeting would include discussion on financial deficits for the unit, and planned resolution. Schools were requested to run the deficit report for their area, assess the risk of the deficit, and discuss resolution plans. AA shared the table used to categorize deficit risk (**Attachment A**). Usually, AA is already aware of deficits that will be carried forward to the new fiscal year. Although deficits were actively tracked, a written resolution plan was not necessarily developed for all deficits over \$25k for approval by VC/Deans (as defined in the policy). There are several cases of Schools actively working on deficit resolution plans with their units, and only in a few cases, a Memorandum of Understanding (MOU) may be executed through AA Executive Vice Chancellor (EVC) Office for deficits with some units, to formalize/document understanding of the resolution plan.

³ Department portfolio project classification used for resources whose use is directed by department leadership in accordance with any internal or external restrictions placed on those resources), excluding faculty portfolio (e.g. faculty start-up, faculty retention, etc.) for which resources use are generally directly by faculty.

Health Sciences – Starting in the third quarter of FY2023, the VC Health Sciences Controller's Office initiated a quarterly deficit monitoring process for VCHS deficits over \$25k. Deficits for each department were distributed to the department fiscal manager (with escalation to Department Management/Business Officer as needed), requesting an explanation of the deficit. The process and risk ranking criteria are summarized in **Attachment B**. After each quarter, a summary of the responses was sent to the VCHS Controller, and VCHS Finance Administrative leadership for follow up with the departments and action plan. Recently, VCHS Finance Administration appears to have initiated quarterly deficit reviews across HS, and developed an MOU for deficit resolution plans with the units.

Marine Sciences / Scripps Institution of Oceanography (SIO) – SIO monitors recharge activities quarterly, but the expectation is for each SIO unit to manage deficits, and it did not appear that a written resolution plan was requested and approved by the VC for all deficits over \$25k.

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

The objective of our review was to determine whether internal controls provide reasonable assurance that deficits are identified timely and resolved in accordance with policy and local practices. The review focused on evaluation of reports and processes used by CBO for monitoring and addressing financial balances, to determine whether there are any gaps that need to be addressed.

In order to achieve our objective, we performed the following:

- Reviewed related UC system-wide and UCSD campus policies, including PPM 300-2, Financial Deficit Policy;
- Interviewed or inquired with the following to get an understanding of deficit monitoring practices/deficit resolution plans in their areas:
 - AVC CBO;
 - Executive Director, Financial Management and University Treasurer, CBO;
 - Director, Budget and Financial Management, VC Academic Affairs;
 - Assistant VC, Finance and Operations, SIO;
 - Director, Budget and Finance, SIO;
 - Senior Accountants, VCHS Controllers Office;
 - Senior Director of Finance, VCHS; and
 - Director, Business Operations, Office of Research Affairs;
- Obtained and reviewed deficit reports, and other related documentation, including:
 - CBO deficit reports: Risk Registry (FY2021 – FY2023, draft version for FY2024), Budget Cycle Deficit reports FY2023 and FY2024);
 - Summary of CBO draft deficit monitoring procedures;
 - CBO campus budget guidelines for FY2024 and FY2025 budget cycle;
 - CBO detailed supporting reports for deficit monitoring, including Fund Summary report for FY2023, recharge fund balances, and Risk Registry supporting data;
 - VCHS Quarterly Deficit Review process documentation, and VCAA deficit risk rubric;
 - Budget cycle presentations for FY2024 and FY2025;
 - Recharge Operations Master Roster and balances as of June 2024; and
 - Other supporting documentation (e.g., correspondence/resolution plans/AA quarterly meeting notes, etc.) for the deficits;

- Obtained and analyzed the following financial reports from Business Activity Hub (BAH):
 - Financial Deficit Report – Operating Funds as of June 2022, June 2023, September 2023, December 2023, March 2024, and June 2024⁴;
 - Fund Summary Reports as of June 2023, September 2023, December 2023, March 2024, and June 2024;
- Selected a judgmental sample of 34 financial deficits of \$1M (or more) as of June 2024, and evaluated whether it appeared that they were being captured in CBO deficit monitoring process/reports;
- Evaluated accuracy of the BAH Financial Deficit Report (Operating Funds) by comparing a judgmental sample of 10 financial deficits from the report to balances per the Fund Summary to identify any discrepancies;
- Discussed recharge operations financial review (including deficits) process and reports with the Executive Director, Costing Policy and Analysis (CPA); and
- Discussed activity in financial units under the Campus Operations entity (FinU 960000A) with the Senior Director, Associate Directors, and Manager, Internal Controls and Accounting (ICA);

The scope of this review excludes non-campus entities such as Medical Center, Population Health, Health Physician Group, Sanford Consortium, UCSD MNTC Finance Co, U Holding Co, and Foundation. The review also excluded deficits relating to sponsored projects and balances in default accounts.

IV. CONCLUSION

Based on our review, we concluded that internal controls provided reasonable assurance that deficits were generally identified timely, and actively tracked towards resolution. However, we noted that current practices adopted by CBO and VC areas were not fully aligned with the Financial Deficit Policy, and the policy should be updated to reflect effective practices and clearly define responsibilities to ensure deficits are consistently tracked and addressed timely.

Starting with the FY2024 budget planning cycle, CBO has developed a process to monitor structural deficits (as opposed to financial deficits defined by policy) for VC areas over a certain threshold (\$250k) through budget cycle deficit reports, and identified deficits were discussed as part of the budget cycle development process. A Risk Registry was also developed as part of CBO's deficit monitoring process and as a means to highlight areas with deficits that were considered a higher risk to the institution. Although deficits were discussed as part of the annual budget cycle process, there was not a formal process to request a rollover of all deficits over \$25k to be submitted to CBO by the third quarter of the FY as required per the current policy, and instead, CBO focused monitoring on structural balances for units, and other areas of concern. Departments also had developed monitoring practices that did not fully align with policy. Although VC areas had generally developed processes to monitor deficits on a regular basis, they did not necessarily develop written resolution plans for all deficits over \$25k for approval by VC/Deans.

Evaluation of a sample of financial deficits of \$1M or more (as of June 2024), indicated that CBO's monitoring process through deficit reports (either Risk Registry or budget cycle), and annual budget

⁴ June 2024 deficit reports were based on 13_June 2024 accounting period pulled on 9/10/2024. The general ledger was cut off on 9/10/2024, but the ledger has not been closed for campus as of November 2024.

cycle presentations/discussions, did capture most of the units in deficit, and appeared to be an effective process to monitor higher risk deficits. Although all financial deficits as defined by policy were not being captured in CBO's deficit monitoring reports, CBO's process sought to identify whether the financial units have adequate financial resources for their operations, and it appeared to be a reasonable approach to monitoring the financial health of the units.

CBO's deficit monitoring process has evolved over the last two budget cycles, and they continue to refine their analysis to focus on structural balances, as the volume of deficits becomes more manageable over time. For example, CBO's monitoring may focus on structural deficits in certain core funds, or a deeper analysis of department portfolio core funds to identify instances when faculty portfolio may be masking deficits in that category. We also noted that CBO actively considers improvements to the BAH deficit report to meet the needs of the end users. For example, CBO will be coordinating with CPA on end-user needs to expand recharge license numbers to BAH reports to pull all financial data in relation to each unique recharge activity (which may consist of multiple projects).

However, we noted additional opportunities for improvement in current deficit monitoring practices for CBO to help improve transparency on the deficits that CBO monitors, document the explanation of the deficit, and identify a resolution plan, as applicable. We also noted deficits in Campus Operations (FinU Level 2: 960000A) were not part of the CBO deficit monitoring process, and need to be evaluated further. These observations are discussed further in the balance of this report.

V. OBSERVATIONS REQUIRING MANAGEMENT ACTION

A.	Financial Deficit Policy Revision
	Current deficit monitoring practices adopted by the CBO and VC areas do not fully comply with the Financial Deficit policy. The policy and the existing practices are misaligned and do not clearly define the responsibilities of the CBO, departments, and other relevant offices.
	Risk Statement/Effect
	A deficit policy is critical to ensure responsible financial management by setting guidelines to prevent excessive spending and accumulation of large debts, which could jeopardize the institution's ability to effectively run operations if not timely monitored and addressed.
	Management Action Plans
A.1	The AVC CBO will update the Financial Deficit Policy to reflect current practices and other requirements as appropriate that effectively address the risk of deficits being identified and resolved promptly. <i>Estimated Implementation Date: 7/1/2025.</i>
A.2	The AVC CBO will consider consulting and coordinating with Finance Administrative leadership in each VC area to discuss effective deficit monitoring requirements/responsibilities for the VC areas, to be incorporated into policy. <i>Estimated Implementation Date: 7/1/2025.</i>

A. Financial Deficit Policy Revision – Detailed Discussion

The Financial Deficit policy requires written plans to resolve deficits to be submitted to the Department Chair/Designee and Dean/Vice Chancellor (VC) for review and approval when deficit balances are larger than \$25,000. Financial deficits that cannot be resolved by fiscal year-end require the VC/Deans to forward written requests to roll over deficit to the subsequent fiscal year to the VC, CFO, via the CBO. The policy defines CBO's responsibility to review deficit rollover requests from VCs to make a recommendation for approval or disapproval to the VC-CFO as part of the annual budget development reviews for the upcoming budget year. CBO's responsibility also includes partnering with the appropriate department financial administrators to ensure that they have written resolution plans and corrective actions are progressing for deficits that remain unresolved after fiscal year-end.

There are additional policies/guidance that may apply to the fund type. Recharge activities are expected to be operated on a no-gain/no-loss basis. University policy (*Business & Finance Bulletin (BFB) A-56: Academic Support Unit Costing and Billing Guidelines*), states that: "Any surplus or deficit occurring in any one year shall be corrected by 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 or deficits do not exceed one month of the recharging unit's activity..." Advancement's UC San Diego Gift Acceptance and Processing Online Handbook states that "Gift funds should never be in deficit."

Although the Financial Deficit policy required an approved deficit resolution plan for all deficits over \$25k which are carried forward to the subsequent FY, this did not reflect the current practices adopted by CBO and VC areas. As described earlier, requesting explanations for each deficit over \$25k (by the third quarter of each FY) was not determined to be effective in resolving deficits, and therefore, CBO took a higher level approach to monitoring structural balances for a financial unit, and incorporated deficit resolution discussions in the annual budget cycle process.

Additionally, VC areas have developed processes to monitor deficits on a quarterly basis. However, these processes are not fully aligned with the current deficit policy, which requires developing written plans to resolve deficits over \$25k for approval by the Department Chair, Deans, and/or VCs. Ensuring a written, approved resolution plan for all deficits over \$25k may not be an effective process for each VC area, and a policy reflecting expectations from each VC area that are practical, but still address the risk that deficits are timely identified and resolved would be appropriate.

B. CBO Deficit Monitoring Process

CBO monitoring processes did not utilize consistent criteria on deficits being monitored, and there were other opportunities to increase transparency and provide fuller monitoring into other categories of funds to identify additional risk areas.

Risk Statement/Effect

Improving transparency and communication of deficits helps avoid confusion in the deficits being monitored and resolution plans.

Management Action Plans	
B.1	The AVC CBO will coordinate with CPA and utilize CPA's recharge financial reports to identify recharge activity deficits to include in CBO deficit reports. <i>Estimated Implementation Date:</i>
B.2	The AVC CBO has identified the opportunity for improvement with the BAH reports and is coordinating with their Business Intelligence contact to determine the feasibility of providing details on department and faculty portfolio project classifications for deficits captured on the BAH deficit reports. <i>Estimated Implementation Date: 7/1/2025.</i>
B.3	The AVC CBO will develop and document criteria for various deficit reports, and apply it consistently. <i>Estimated Implementation Date: 4/1/2025.</i>
B.4	The AVC CBO will distribute budget cycle reports to the VCs and Chancellor to improve transparency and avoid confusion over deficits that CBO is tracking. This could be accomplished by adding an Appendix to the Risk Registry. <i>Estimated Implementation Date: 4/1/2025.</i>
B.5	The AVC CBO will expand criteria for inclusion in budget cycle reports to include structural deficits in each fund category for each VC area, taking into consideration the manageability of the deficits. <i>Estimated Implementation Date: 4/1/2025.</i>
B.6	The AVC CBO will include all deficits that meet the criteria for budget cycle reports for transparency. <i>Estimated Implementation Date: 4/1/2025.</i>
B.7	The AVC CBO will incorporate follow-up and confirmation for resolution plans and target resolution dates with VC areas into the CBO deficit monitoring process. <i>Estimated Implementation Date: 1/1/2026.</i>
B.8	The AVC CBO will reinitiate discussions with selected non-academic units, as appropriate, to revise their CCOA structure to improve their ability to accurately reflect the financial health of each FinU. <i>Estimated Implementation Date: 1/1/2026.</i>

B. CBO Deficit Monitoring Process – Detailed Discussion

The Risk Registry developed by CBO sought to highlight departments/units with deficits at a higher risk to the institution, and the criteria for inclusion on the risk registry have evolved over the years. However, the criteria for inclusion of items in the risk registry was not fully defined or documented, which led to ambiguity regarding which deficits and amounts were added to the Risk Registry. Our review noted that structural deficit amounts captured on the report could vary, and balances captured were not consistent as they could reflect the total fund balances for FinU (Level 4), core funds only, and/or department portfolio funds. Data was presented in a manner that made sense for that unit to reflect the risk, but it was not clear which areas/amounts were being added to the Risk Registry for focused review.

Similarly, the budget cycle deficit reports have also been evolving. These reports include structural deficits over \$250k for all categories of funds (core/unrestricted/restricted), but recent iterations have also included deeper analysis into the core fund categories in structural deficits over \$250k for Academic Affairs. The budget cycle deficit report also includes any new structural deficits over \$250k

as of June 2024. However, since this was a new process, we noted that some structural deficits were not included in the report, although they would have been captured in future reports if these areas continued to be in deficit. Clearly defining the CBO process, including criteria for inclusion in reports, and applying it consistently would improve transparency.

In order to evaluate the effectiveness of CBO monitoring of significantly high deficits, we selected a sample of 34 financial deficits over \$1M as of June 2024, and evaluated whether the units in deficit were captured or monitored through CBO's deficit reports, or in budget cycle presentations. We noted that eight of the 34 deficits related to deficits that did not appear to be on the Risk Registry, budget presentations, or included in historical communications to the Chancellor. Three of the eight were captured on budget cycle deficit reports, and the remaining five were not in structural deficit across all fund categories, which resulted in them not being captured on the deficit reports. Some areas of improvement in the budget cycle deficit report/monitoring process we noted include:

- Budget Cycle Deficit Report Distribution: The budget cycle deficit reports were distributed to the VC finance administrative leadership, but VCs and Chancellors were not copied on these reports. Although the expectation was that budget cycle deficits would be included in budget presentations for discussion, this was not consistently done for all deficits, and there was a possibility that the Chancellor and VC may not be aware of all budget cycle deficits for the VC area. Distributing the budget cycle deficit reports to the Chancellor and VCs would improve transparency and avoid confusion over deficits that CBO is tracking.
- Deficits captured on CBO Budget Cycle Deficit Reports: We noted that some areas that had structural deficits over \$250K (for example, Ship Operations recharges, Deferred Maintenance, Campus Performances & Events Office, Transportation Strategic Energy Initiatives) were not being captured on the CBO deficit reports, but it appeared that the Chancellor was aware of these areas based on historical budget cycle discussions or presentations. The reasoning for excluding these areas was that leadership (Chancellor, VCs, and CFO) already understood the financial situation of those activities, which could have been caused by funding timing differences (rather than a true deficit), and adding these deficits to the reports was not considered necessary.

However, a follow up with SIO in relation to recharges in Ship Operations and Shipboard Technical Support identified that although deficits were primarily related to timing issues, there were also expenses that needed to be realigned to other funding sources, and contributed to the deficit. Similarly, upon follow up on the Deferred Maintenance deficit, it was unclear whether the deficit was due to timing issues since they receive funding in arrears, or was related to an older deficit still being resolved.

For improved transparency, it would be good practice to include such deficits on the CBO reports, along with an explanation on the deficit history/resolution. This would help confirm understanding and documentation that the deficit is being monitored, and aid with tracking to full resolution.

- Expanding Criteria for Budget Cycle Deficit Reports: Currently, structural deficits are determined by including the total fund balances across all fund categories (core, unrestricted,

and restricted). In June 2024, CBO performed a deeper analysis into structural deficits over \$250k for Academic Affairs for core funds (13991 only). This resulted in additional deficits captured on CBO deficit reports, and this deep dive analysis could be expanded to other VC areas, for each category of funds. This could help identify structural deficits in one category that may be masked by funds in other categories, particularly restricted funds, which may not be available to cover deficits in other fund categories. For example, the Center for Memory Recording and Research was captured on the CBO budget cycle deficit report but was considered mostly resolved as of FY2024 year-end because the overall structural balance was less than \$3k in deficit. However, a \$1.6M structural deficit in unrestricted funds was masked by a \$1.6M balance in restricted funds.

Another area where analysis could be improved would be recharge activity deficits. The recharge activity is captured within the overall unrestricted funds balance, but select recharges are singled out and added to the budget cycle reports. CPA has detailed reports on recharge balances that could be utilized to determine the total recharge balance for each unique recharge activity, not just by individual projects in the BAH Deficit report, which may not give the full financial health of the recharge activity. A consistent process for adding recharge deficits to CBO's budget cycle reports would be helpful, and there is an opportunity to use reports prepared by CPA to help in this analysis.

However, expanding the budget cycle reports criteria for a deeper analysis into each fund category for all VC areas may result in a large increase in the volume of deficits being monitored by CBO. Therefore, this deeper analysis could be added in phases, as the VC area makes progress in addressing the deficits currently being tracked.

- FY Close Budget Cycle Reports Resolution Plan and Target Dates: CBO sent an updated list of budget cycle deficits as of June 2024, with notes on progress/resolution of each deficit. Notes for each deficit were captured based on internal CBO meetings, documents shared with CBO by the VC areas, discussions and presentations during the budget cycle process. We observed that notes in the budget cycle report on the resolution plan may not always be updated if the deficit was not discussed or addressed in the annual budget cycle process. However, CBO did not generally request that units respond/confirm action plans, or provide resolution dates. Although CBO has recently been receiving updates from some of the VC areas with responses on each deficit, incorporating this into the deficit monitoring process – possibly for fiscal year-end would help confirm the resolution action. Additionally, target resolution dates could be requested to track whether actions are being taken per the plan.
- Department Portfolio vs. Faculty Portfolio funds in BAH Deficit Reports: In some cases, structural balances were in deficit if only the department portfolio was considered, since faculty portfolios were masking deficits in that category. CBO's deficit monitoring analysis for the Risk Registry considered such instances for core funds, and included some units that did not appear to be in significant deficit as per the BAH deficit report. For example, Chemistry and Biochemistry did not have significant financial deficits for core funds as of June 2024 (<\$5k) at the Fund-FinU level but when analyzed by structural balances for department portfolio funds only, revealed a structural deficit of \$3.5M in core funds as of June 2024. Other areas that had significantly higher structural deficits in core funds for department portfolio funds (as

compared to financial deficits at the overall Fund-FinU level) were Biological Sciences Research, and Economics. However, the BAH deficit reports did not distinguish between department portfolio and faculty portfolio funds. Having this additional detail in the deficit reports could provide insight into department portfolio project deficits that are being masked by balances in the faculty portfolio, which may represent a higher risk to the unit.

- **Common Chart of Accounts (CCOA) Realignment:** Some areas have structural balances measured at a higher FinU level, i.e., for non-academic areas such as Recreation and Housing Dining Hospitality (HDH), because of the way the Common Chart of Accounts (CCOA) was set up, and revenue or resources may be recorded in one FinU, and expenses posted to other FinUs. This distorts financial reports since it appears that the FinU is in deficit, and resources are not allocated to the FinU to effectively measure financial health. CBO is aware of these areas, and there have been past discussions with these units to consider revising their CCOA structure to better reflect operations, but this has not been prioritized. There could be a consideration to reinstate discussions with these units to revise their CCOA structure to improve their ability to accurately reflect the financial health of each FinU.

C.	Campus Operations Financial Unit Deficit Monitoring
	Deficits under Campus Operations (FinU Level 2: 960000A) were not part of the CBO deficit monitoring process, and need to be evaluated further to determine appropriate oversight and monitoring.
	Risk Statement/Effect
	There is risk that deficits are not being timely identified and addressed. Unresolved deficit poses a significant risk, potentially leading to reputational damage, operational disruptions, and an inability for units to meet their financial obligations.
	Management Action Plans
C.1	The AVC CBO will coordinate with the CFO, Controller, and ICA, as appropriate, to develop a plan and determine responsibility for identifying and monitoring deficits in the Campus Operations entity, FinU UC San Diego (960000A). <i>Estimated Implementation Date: 10/1/2025.</i>

C. Campus Operations Financial Unit Deficit Monitoring – Detailed Discussion

During our review, we identified financial deficits for FinU Level 2, 960000A, UC San Diego, with total deficit of \$7.5B as of June 2024. The total fund balance for the FinU as of June 2024 was \$5.5B in deficit (for core/unrestricted/restricted funds). CBO generally excluded this FinU from their monitoring as it was considered to relate to accounting entries for internal transfers but not reflective of operational activity. However, upon further discussion with Internal Controls and ICA, it was not clear whether the deficits were caused by accounting entries, or represent true deficits that need to be monitored and addressed.

There are multiple FinUs under 960000A that appear to have been set up for central offices (e.g., Payroll, General Accounting, Sponsored Projects Finance, Real Estate, CBO, etc.), but multiple units are posting to these FinUs. The financial units were set up in 2020 when UCSD adopted the new CCOA, but this structure may need to be revisited to determine whether this is still appropriate for how units function today. ICA was concerned that transactions may be posted to these FinUs for expenses that do not have adequate allocated resources, and therefore represent deficits that need to be addressed.

ICA has initiated a review of these accounts to improve understanding of activity in these financial units, including identifying owners for the activity to inquire about the transactions and accounting, and determine whether there is a risk of deficits in these accounts that need to be addressed. If deficits are identified that need resolution, then these would be considered part of CBO deficit monitoring.

Attachment A – Academic Affairs – Criteria for Assessing Level of Risk for Deficits

Level of Risk	Factors
High	Continued deficit carried over from 2 or more previous quarters No resolution plan or deficit cannot be covered by other funds Deficit over \$100k and/or indicator of structural deficit
Medium	Continued deficit carried over from previous quarter Deficit over \$100k Other funds available to cover deficit but no significant progress in resolution
Low	Recent deficit, fund had positive balance in previous quarter Other funds available to cover deficit Due to timing issues or accounting errors

Attachment B – VCHS Quarterly Deficit Review Process**Scope:**

Deficits in excess of \$25,000 require deficit resolution plans if not able to be resolved by fiscal close June 30th. The deficit data is based on the Campus report: Financial Resource Management Dashboard.

Non Contract and Grants Funds - Deficits are measured at Financial Unit & Fund combination level. Data is General Ledger Fund Balance.

- Other Unrestricted Funds category
 - Recharge Activity Projects – Deficits are measured at the Project level (General Ledger Fund Balance.)
- Core funds
- Gift funds are included in Restricted Fund Type
- Internal Loan Fund 13042 is excluded.

Sponsored Projects (mostly Contracts & Grants) – Deficits are measured at the Project level. Data is PPM balance.

Risk Levels:

- Low Risk – Deficit can be resolved by the end of the next quarter.
- Medium Risk – Deficit resolution plan currently in place, to be resolved by the end of the fiscal year. Submission of documentation required from either Campus level, VC level, or Department level to Controller's Office.
 - Campus level documentation is a written plan showing communication with CFO, Treasury Office, and Campus Budget Office.
 - VC level documentation is a written plan executed by the CFO, Vice Chancellor, and other VC Management members.
 - Department level documentation is a written plan providing assurance that the department head/DBO is informed and supports the resolution plan.
- High Risk – Deficit cannot be resolved through internal fund alignment or cost transfer from other existing funds by the end of the fiscal year (rollover). Department to provide a brief explanation on how deficit occurred, and the plan to address the resolution, including the anticipated date and/or timeline.

Procedures:

1. Controller's Office to distribute two files to each department in the subsequent month following each quarter close: Non Contract and Grants Funds template and Sponsored Projects template.
2. Departments to categorize the deficit areas based on the (3) risk levels with explanations, and submit back with approved documentation by the deadline, generally providing 2-3 weeks to complete.
3. Controller's Office to review, consolidate, and prepare a summary report to VC Budget and Financial Operations teams for their review and progress comments on the areas requiring resolutions and operational improvements. Review procedures will include comparing prior submissions to ascertain resolution progress.
4. The finalized rollover summary report based on Q2 templates to be also shared with CBO during the annual budget season.