



AUDIT AND ADVISORY SERVICES  
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July 8, 2022

To: Paolo Gardinali, Director of Operations  
Professional and Continuing Education

Re: **Professional and Continuing Education – Internal Control Review  
Audit Report No. 08-22-0009**

We have completed a limited review of the University of California Santa Barbara Professional and Continuing Education (PaCE) internal controls as part of the 2021-22 annual audit services plan. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Enclosed is the report detailing the results of our work.

We sincerely appreciate the cooperation and assistance provided by PaCE personnel during the review. If you have any questions, please contact me.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ashley Andersen".

Ashley Andersen  
Director  
Audit and Advisory Services

Enclosure

cc: Chancellor Henry Yang  
David Marshall, Executive Vice Chancellor  
Chuck Haines, Associate Chancellor  
Robert York, Dean Professional and Continuing Education  
UCSB Audit Committee  
Alexander Bustamante, Senior Vice President and Chief Compliance and Audit Officer

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UC **SANTA BARBARA**  
Audit & Advisory Services

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Audit Report

Professional and Continuing Education –  
Internal Control Review

July 8, 2022

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**Performed by:**

Antonio Mañas Meléndez, Associate Director  
Irene Camargo, Senior Auditor

**Approved by:**

Ashley Andersen, Audit Director

Report No. 08-22-0009

## **EXECUTIVE SUMMARY**

### **OBJECTIVE**

The primary purpose of the audit was to evaluate internal controls and procedures established by University of California Santa Barbara (UCSB) Professional and Continuing Education (PaCE)<sup>1</sup> to ensure sound business practices are in place to support operational effectiveness and efficiency, including compliance with University policies. The objective of our audit was to determine whether:

- PaCE operations are sustainable to support professional and continuing education programs.
- Financial reporting is accurate, reconciled, and approved by management.
- Administration of cash and cash equivalents are consistent with University policy.

### **CONCLUSION**

Based on the results of the work performed within the scope of the audit, we found that:

- PaCE has been operating in a deficit that requires attention to guarantee PaCE's financial sustainability.
- Revenue share agreements are not formally documented, including the methodology used to calculate contributions to the University.
- Financial reporting of monthly revenue and expense reconciliation totals are accurate. However, approval of refunds is not reviewed and management's review of expense reconciliations is not documented.
- Controls over the check handling process are not adequately managed to ensure funds are properly monitored, processed, and deposited on a timely basis.

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<sup>1</sup> UCSB University Extension, now known as Professional and Continuing Education.

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### 1. FINANCIAL SUSTAINABILITY

#### OBSERVATION

Our review of PaCE’s revenues and expenses over a three-year period have identified overdrafts<sup>2</sup> that require attention to guarantee PaCE’s financial sustainability. Additionally, PaCE’s contribution fees have not been formally documented in an agreement, including the methodology used to calculate contributions to the University and any exception process to the methodology.

A comparison of University of California (UC) systemwide continuing education programs revealed that UCSB could explore opportunities to expand grant funding.

#### *PaCE Revenues and Expenses*

We reviewed revenues and expenses comprised of eight PaCE programs from fiscal years 2017-18 to fiscal year 2019-20 and found that PaCE has been in deficit during our review period. We were informed that PaCE has been using a reserve account with a balance of approximately \$2.5 million to offset the deficits. Table 1 summarizes the three years in the scope.

<b>Table 1</b>		<b>PaCE Revenue and Expenses</b>		
<b>Fiscal Year</b>	<b>Revenue</b>	<b>Enrollment</b>	<b>Expenses*</b>	<b>Net Income</b>
2017-18	\$3,518,679	4983	\$3,661,395	(\$142,716)
2018-19	4,066,603	5271	4,269,003	(202,400)
2019-20	\$4,031,093	4972	\$4,071,429	(\$40,336)

Source: PaCE.

\*Contributions to the University (Revenue Share) are included in expenses.

Our work revealed that during the first two years there was an increase in expenses that contributed to an increase in deficit as shown in Table 1. In fiscal year 2019-20, revenue and enrollment margins were similar to fiscal year 2018-19, however there was a significant decrease in expenses that resulted in a lower deficit. This may have been due in part to PaCE’s reduced revenue share contribution to the University. PACE informed us that due to the sudden drop of most international students in the first quarter of the pandemic, PaCE took pre-emptive action decreasing its voluntary contribution to UCSB Departments to reduce the potential deficit. Because of the radical decrease of international students, variable costs also were reduced. See Table 2 for revenue share contributions.

#### *PaCE Program Revenue Share*

We found that there is not a documented agreement defining the methodology to calculate

<sup>2</sup> After transferring revenue shares to the campus.

the contribution to be shared with the University<sup>3</sup>. A notification letter is sent to the receiving parties acknowledging the amount of revenue share that will be distributed. We were informed that PaCE is currently assessing their revenue share strategy.

Our work further identified that the method used to calculate the contributions to the University is technically based on PaCE’s revenues. However, the calculation criteria are significantly complex, making it very difficult to estimate the contribution based on total revenues reported by PaCE. It has to be noted that revenue share is based only on programs operated in conjunction with campus, for example, Open University. Additionally, not all programs contribute in the same way. Some are based on a percentage amount of the total revenue of the program, and some are determined by the per-unit price of the campus courses within a program.

<b>Table 2</b>		<b>Revenue Share</b>	
<b>Fiscal Year</b>	<b>Revenue</b>	<b>Revenue Share</b>	<b>Revenue Share %</b>
2017-18	\$3,518,679	\$333,018	9.46%
2018-19	4,066,603	525,864	12.93%
2019-20	\$4,031,093	\$119,551	2.77%

Source: PaCE.

We reviewed the contribution shared with the University over the time period mentioned in the prior section and found that the revenue share decreased significantly in fiscal year 2019-20, yet there was a minimal decrease in PaCE revenue. PaCE informed us that to prevent a large deficit during the pandemic, PaCE reduced the percentile of its voluntary contribution to campus for the Open University. During the Pandemic, PaCE quickly pivoted its revenue model, pursuing a diverse portfolio of online courses which substantially increased non-international revenue in 2020-2021. Most of these new programs were not created in conjunction with campus departments and did not increase revenue share. Revenue share figures are represented in Table 2.

As a result, the campus received a 77% reduction in revenue share contribution from the prior fiscal year. Specifically, we found the revenue share represented approximately 13% of total PaCE revenue in fiscal year 2018-19 and approximately 3% in fiscal year 2019-20, with only a minimal decrease of 1% in PaCE revenue between both fiscal years. See Table 2 for revenue share amounts and percentages.

During fiscal year 2019-20, PaCE initiated a shift in the University Immersion Program<sup>4</sup> (UIP). This program is one of the major sources of revenue share, as international students are admitted into UCSB classes in the same way as with the Open University program, which participates in revenue shared with the University, UIP shifted from charging students a per-unit price of campus courses to a flat rate fee. This procedural change streamlined the student enrollment process and overhead. The revenue share passed onto the campus continues to be based on a per-unit contribution. This change has increased UIP revenues, while resulting in a shift in revenue from other programs.

<sup>3</sup> See background section for revenue share definition.

<sup>4</sup> Classes focusing on English language, professional, and academic coursework.

*UC Systemwide Professional and Continuing Education*

We reviewed financial and statistical data provided in an annual *University of California Extension and Statewide Programs – Statistical Report*<sup>5</sup> for fiscal years 2018-19 to 2020-21 and found UCSB was one of only two UC campuses that did not receive grant funding every year of the three years reviewed. Obtaining grants as an additional funding source would help PaCE to increase total revenues and to be more aligned with UC common practices. See Table 3 for campus grant funding.

<b>Table 3</b>		<b>UC Systemwide Grant Funding</b>		
<b>University of California</b>	<b>FY 2018-19</b>	<b>FY 2019-20</b>	<b>FY 2020-21</b>	
Berkley	\$ 64,897	\$208,323	\$43,274	
Davis	17,222,846	8,863,153	11,680,790	
Irvine	132,196	103,790	183,063	
Los Angeles	988,010	417,366	1,826,120	
Merced	99,809	-	-	
Riverside	105,603	105,603	166,247	
San Diego	1,875,140	1,083,254	945,300	
Santa Barbara	-	-	967,921	
Santa Cruz	\$ 3,409,523	\$3,551,968	\$3,893,396	

Source: University of California Extension and Statewide Programs – Statistical Report.

**RECOMMENDATION**

We recommend that PaCE:

- Document the revenue share agreement to properly reflect PaCE’s economical contribution to the campus. This agreement should include:
  - Detailed description of the revenue share, including all revenue sources and the calculation process.
  - Workflow processes to modify PaCE’s contribution to the University. This workflow should define the conditions to modify the contribution to the University and the approval process.
- Analyze PaCE grant programs in other UC campuses and explore opportunities to expand grant funding.
- Evaluate whether the PaCE should provide an annual financial report, that should include revenue share calculation details.

<sup>5</sup> UC Statistical Report: An annual report of each campuses financial data provided to University of California, Office of the President.

## MANAGEMENT RESPONSE

PaCE will:

- Document the revenue share agreement to properly reflect PaCE's economical contribution to the campus. This agreement should include:
  - Detailed description of the revenue share, including all revenue sources and the calculation process.
  - Workflow processes to modify PaCE's contribution to the University. This workflow should define the conditions to modify the contribution to the University and the approval process.
- Analyze PaCE grant programs in other UC campuses and explore opportunities to expand grant funding.
- Evaluate whether the PaCE should provide an annual financial report, that should include revenue share calculation details.

*Audit and Advisory Services will follow up on the status of these issues by December 31, 2022*

## 2. FINANCIAL REPORTING

### OBSERVATION

The department performs monthly revenue and expense reconciliations between departmental financial systems and the campus General Ledger (GL). However, we found approval of refunds is not reviewed and management's review of expense reconciliations are not documented.

Our review, of six monthly revenue reconciliations between the GL and the departmental enrollment system (Destiny<sup>6</sup>) and three monthly expense reconciliations between GL and the departmental financial system (FileMaker<sup>7</sup>), found that reconciliations were accurately performed. We verified that credit card transaction totals processed during enrollment were properly reviewed and approved by management. However, we did not find evidence that expense reconciliations were reviewed and approved by management.

Furthermore, we found that there was not a process in place to approve refunds. We reviewed nine refunds and found that there was no evidence to support management's approval of refunds/adjustments. According to UC Policy BUS-49 *Cash Handling and Cash Equivalents Received*, refunds must be explained and approved in writing at the time of the occurrence or when practical, but no later than the end of the day.

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<sup>6</sup> Destiny: Enrollment management system to track course enrollments.

<sup>7</sup> FileMaker: Custom database application used to record and track expenses by program.



### **3. CASH MANAGEMENT**

#### **OBSERVATION**

We found opportunities to improve check handling controls and monitoring procedures to ensure funds are properly processed and deposited on a timely basis.

We reviewed the process of check handling and found that checks were not made payable to the “UC Regents”, restrictively endorsed, and personal information was not redacted from scanned checks. Furthermore, the deposit slip was not properly numbered and a check was not deposited on a timely basis. During our audit, we were informed that the endorsement stamp had been misplaced and another stamp has been ordered.

We reviewed a deposit transaction report and support documentation with a date range from April 21, 2021 to May 26, 2021. We were informed that checks received for student enrollments are minimal and manually entered into the Destiny enrollment tracking system. Once the payment is accepted into the system, a receipt is automatically generated and sent to the student or company as proof of payment.

Our work revealed that the two checks received during the date range were not made payable to the UC Regents. We confirmed with management that checks were not restrictively endorsed and scanned without redacting personal information. We reviewed the dates of the checks received and verified that one check was made payable on January 9, 2021 and was not deposited until May 26, 2021. We found that deposit slips were signed by the preparer, however, the deposit slip was not properly numbered. Instead, a deposit date was used in lieu of a deposit number. Additionally, we verified that the deposit slip totals matched the general ledger deposit detail report and a cashier’s receipt was maintained.

We were informed by management that checks are kept in a locked bag prior to being deposited. UC Policy BUS-49 states that checks are to be transferred to the main cashier’s office to be deposited weekly or whenever collections exceed \$500 and recorded in the GL in a timely manner during the appropriate month.

It would be beneficial to maintain a check log with check number, date received, student name, amount of check, and date sent to cashier's office in order to adequately track deposits and ensure the deposit is recorded within the appropriate month. This would help provide a tracking method for financial management to create an adequate cash handling workflow process.

#### **RECOMMENDATION**

We recommend that PaCE update financial procedures. Departmental procedures should cover activities, such as:

- Reviews and approvals of refunds and expense reconciliations by management.
- Cash management controls and workflow processes to ensure checks are made payable to the “UC Regents”, restrictively endorsed, personal information is redacted, and deposit slips are appropriately numbered, deposited in a timely manner, and recorded to the GL during the appropriate month.

- Check log of deposits to ensure deposits are properly managed and tracked by financial management.

## **MANAGEMENT RESPONSE**

PaCE will update financial procedures. Departmental procedures will cover activities, such as:

- Reviews and approvals of refunds and expense reconciliations by management.
- Cash management controls and workflow processes to ensure checks are made payable to the “UC Regents”, restrictively endorsed, personal information is redacted, and deposit slips are appropriately numbered, deposited in a timely manner, and recorded to the GL during the appropriate month.
- Check log of deposits to ensure deposits are properly managed and tracked by financial management.

*Audit and Advisory Services will follow up on the status of these issues by September 30, 2022.*

## **GENERAL INFORMATION**

### **BACKGROUND<sup>8</sup>**

PaCE is committed to providing essential skills and expertise to compete in today's job market. PaCE is helping shape the future of the community, connecting UCSB with a fast-growing entrepreneurial base, and providing opportunities for career advancement and lifelong learning for students of all ages. PaCE offers professional courses and certificate programs to UCSB students getting them ready for the competitive job market after graduation. Their international programs enable visiting scholars and professionals from all over the world to experience instruction at the University.

There are two course study categories: Continuing Education and International Programs. Course subject area or programs include; Art and Humanities, Business and Management, Digital Technologies, Education and Healthcare, Language and Culture, Legal Studies and Mediation, and Science and Engineering.

The University Immersion Program allows international students to study side-by-side with U.S. students at UCSB. Options include: academic coursework to earn UC credit to transfer to their home university, professional coursework specialized in areas such as Business, Project Management and Marketing among other subjects, and English language coursework structured to improve skills in listening, speaking, reading, and writing.

### Revenue Share Criteria and Methodology

We were informed that there are four programs that regularly share revenues with the University that include, University Immersion Program, Open University, Science and Engineering, and Business Management and Law. Additional amounts are also shared with

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<sup>8</sup> UC Santa Barbara | Extension Professional and Continuing Education website.

Academic Departments that collaborate on programs. The methodology for contributions is as follows:

- The largest revenue source is from international students taking UCSB classes. Revenue share contributions are based on a \$126.50 per undergraduate unit and \$150.75 per graduate unit.
- Open University serves the local community and the same base price structure is used to fill empty seats for domestic students.
- Science and Engineering, in conjunction with the Technology Management Program, receives a profit share of 80%.
- Business Management and Law, in conjunction with UCSB Economics, receives 60% revenue share with their Certified Public Accounting (CPA) preparation program and Strategic Investment Program.

## SCOPE

The scope of our review was focused on PaCE internal controls during fiscal year 2020-21. To accomplish our objectives, our work included interviews, observations, review of support documentation, testing, and other steps. Specifically, we:

- Researched UC and UCSB policies, best practices, and other guidance related to PaCE.
- Conducted interviews with University personnel to gain an understanding of PACE's processes, policies, and procedures for administering and managing University assets.
- Performed a risk analysis that considered business related policy and procedures, financial reporting, cash handling, and financial stability.
- Evaluated PaCE's business best practices to determine whether they incorporated adequate internal controls and reviewed opportunities to enhance and improve operational efficiency.
- Reviewed whether PaCE programs are financially sustainable and compared UCSB to other UC program results.
- Reviewed a sample of financial reports to determine whether totals are accurate, reconciled, and approved by management.
- Reviewed the check handling processes to ensure compliance with UC Policy Bus 49, *Cash and Cash Equivalents Received*.

## CRITERIA

Our audit was based upon standards as set forth in the UC and UCSB policies, best practices, and other guidance relevant to the scope of the audit. This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

This review emphasized, but was not limited to, compliance with:

- University of California Business and Finance Bulletin BUS-49, *Policy for Cash and Cash Equivalents Received*. (UC Policy BUS-49)
- University of California Business and Finance Bulletin BUS 10, *Principles of Accountability with Respect to Financial Transactions*. (UC Policy BUS 10)

**AUDIT TEAM**

Ashley Andersen, Audit Director  
Antonio Mañas Meléndez, Associate Director  
Irene Camargo, Senior Auditor