

June 21, 2024

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DEAN, DIVISION OF EXTENDED STUDIES
0170P

**Subject: *Division of Extended Studies
Report 2024-06***

The final report for Division of Extended Studies Report 2024-06, is attached. We would like to thank all members of the division 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.

Christa Perkins
Director
Audit & Management Advisory Services

Attachment

cc: Anna Altman
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UC San Diego

AUDIT & MANAGEMENT ADVISORY SERVICES

Division of Extended Studies
Report No. 2024-06
June 2024

FINAL REPORT

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TABLE OF CONTENTS

I. EXECUTIVE SUMMARY	1
II. BACKGROUND.....	3
III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES	4
IV. CONCLUSION.....	5
V. OBSERVATIONS REQUIRING MANAGEMENT ACTION	6
A. Park & Market	6
B. Service Agreement Administration	10
C. Operational and Financial Management.....	12
D. CANRA Administration	14
E. Procurement Card Reviews.....	15

ATTACHMENT A – Audit Results by Business Office Functional Process

I. EXECUTIVE SUMMARY

Audit & Management Advisory Services (AMAS) has completed a review of the Division of Extended Studies (Extended Studies) as part of the approved audit plan for Fiscal Year 2023-24. The objective of our review was to perform an overall assessment of Extended Studies' administrative internal control environment and determine whether internal controls provide a reasonable assurance that operations are effective, in compliance with University policy, and result in accurate financial reporting.

Based on our review, we concluded that internal controls for Extended Studies were adequate to provide reasonable assurance that operations were effective, performed in compliance with University policy, and resulted in accurate financial reporting. However, opportunities for improvement were identified related to UC San Diego Park & Market (Park & Market); Service Agreements Administration; Operational and Financial Management; CANRA Administration; and Procurement Card Reviews.

For Park & Market, we noted that internal financial reporting did not fully agree to financial reports from Oracle Financials Cloud (OFC). Also, the Park & Market-related Financial Unit (FinUnit) representing the operating activities of the facility had a \$2 million deficit on the Financial Deficit Report as of March 2024 which did not have a documented deficit reduction plan. Further, certain financial transactions and activity were not recorded consistent with policy, with opportunities identified related to the proper recognition of rental revenues and facility expenditures, revenue accounts used, the posting of rental revenue payments and expenditure refunds, and financial reporting utilized.

We also noted an opportunity to improve Extended Studies' management of service agreements, as this process was maintained in an Excel spreadsheet with summary level information and performed internally by a single key employee within the division. The reliance on an Excel spreadsheet maintained by one employee creates risk due to lack of contingencies, restricts University visibility into contractual agreements with business partners, and limits management's ability to monitor contract terms and end dates. In some cases this condition hinders the University's ability to report on key compliance requirements.

Other noted opportunities included the continued development of Extended Studies' overall operational and financial management processes; full compliance with the Mandated Reporter requirements of the University of California's Child Abuse and Neglect Reporting Act (CANRA) policy; and the review and approval of the Dean's procurement and travel card transactions by the appropriate authority in compliance with applicable policy and program guidelines. These observations are discussed in greater detail in the balance of this report.

A. Park & Market

1. Management will ensure that their internal financial reporting agrees to OFC, with the creation of just one realignment journal entry and the use of one account code going forward.
2. Management will work with the Executive Vice Chancellor of Academic Affairs (EVCAA) and Campus Budget Office (CBO) to document the required deficit resolution plan for Park & Market, and confirm that the deficit resolution plan is ultimately approved.
3. Management will collaborate with Real Estate and ICA to recognize trust account payments consistent with University policy and ensure the accurate recording of pre-payments as an increase in a short-term asset with monthly adjusting journal entries per the property manager's expenditure types mapped to OFC, as appropriate.

4. Management will collaborate with Real Estate and ICA to recognize rental revenue as earned consistent with University policy, to include estimating and timely accrual of rental revenue based on documented lease agreements.
5. Management will collaborate with the Controller's Office and/or ICA to establish a revenue account or accounts more consistent with a revenue account that records tenant and event income.
6. Management will develop an internal procedure or desk reference regarding Park & Market accounting processes, including revenue recognition, expense reconciliation, expenditures review with the Property Manager and payment and refund posting.

B. Service Agreement Administration

1. Management will conduct a review of current contract administration practices and develop an action plan and timeline to align them with University-wide processes, including the implementation of available contract management systems.
2. Management will ensure that contract details are routinely made available to appropriate staff to timely validate contract invoicing.

C. Operational and Financial Management

1. Management will update equipment records to be fully compliant with University policies and document the equipment inventory process.
2. Management will regularly remind Extended Studies staff and approvers at divisional meetings and through other employee communications about reimbursement request requirements, including submission deadlines and the documentation of an event's business purpose and attendee list(s) and the potential tax impact for non-compliance.
3. Management has requested that Advancement evaluate and either modify the purpose or establish additional donor funds for the noted gift, and then transfer gift expenditures as appropriate.

D. CANRA Administration

1. Management will work to bring all Extended Studies Mandated Reporters into compliance with CANRA requirements, including signing the acknowledgement form, completing a background check and/or completing training.
2. Management will document the Mandated Reporter designation criteria and compliance oversight processes for Extended Studies personnel.

E. Procurement Card Reviews

1. Management will direct all procurement and/or travel card transactions for the Dean of Extended Studies to the Executive Vice Chancellor of Academic Affairs' (EVCAA) office for review and approval.
2. Management will perform a review of their FinUnit Approvers to ensure they are not assigned to review transactions incurred by purchasers to whom they directly or indirectly report. This review should include all members of management including the Dean.
3. Management will evaluate procurement and travel cards assignments and determine if they are appropriate given workload, volume, and other factors, and are consistent with policy.

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 the Division of Extended Studies as part of the approved audit plan for Fiscal Year 2023-24. This report summarizes the results of our review.

The Division of Extended Studies¹ was founded in 1966 as a self-funded program with offerings that have an entrepreneurial mindset and are aimed at meeting community needs, personal growth, and career development goals. Extended Studies' mission is to serve the critical lifelong learning and skill development needs of individuals, organizations, and the community. These goals are addressed through continuing education; certificate and degree-related programs; community initiatives that support economic and social development; and a wide array of public-service lectures, forums and special events delivered both on and off campus and through print, internet, radio, and television.

Extended Studies offers education in 20 areas of interest, with 4,700 courses and over 100 certificates. Courses are delivered online, at the UCSD campus, and at two off-campus locations. The diverse offerings are facilitated by 22 Financial Units² organized under Extended Studies, which itself reports directly to the Executive Vice Chancellor Academic Affairs (EVCAA). A new Dean of Extended Studies (Dean) was selected with a term beginning on July 1, 2021, replacing the prior Dean who retired after 42 years in the position.

According to the UCSD Financial Reports³ for Fiscal Year (FY) 2022-2023, Extension had approximately \$50.8 million in total revenues, with total expenses and transfers of \$52.5 million and a net loss of \$1.8 million, ending with total resources of \$17.2 million. Total revenues, expenses and transfers and a comparison to the FY 2021-2022 financial results are summarized in the following table. These amounts exclude Park & Market operations.

Description	FY 2021-2022	FY 2022-2023
Total Resources	\$47,435,745	\$50,762,445
Less: Total Expenses & Transfers	(\$45,680,647)	(\$52,540,077)
Change in Net Position	<u>\$1,755,098</u>	<u>(\$1,777,632)</u>
Beginning Net Position	\$17,210,129	\$18,965,227
Ending Net Position	<u>\$18,965,227</u>	<u>\$17,187,595</u>
Less: Capitalization in Progress	\$82,875	\$0
Resources Available	<u>\$18,882,227</u>	<u>\$17,187,595</u>

Source: OFC Net Operating Results and Fund Balance Report

The wide range of program offerings requires flexibility in the deployment of human resources. Program delivery is achieved with the combined effort of about 200 staff positions and approximately

¹ The unit was named University Extension until May 2022, at which time it was re-titled Division of Extended Studies.

² Under VCAA, Extension has 23 Financial Units, one of which is not operational. In addition there are two separate financial units, each within their own entity in the chart of accounts, that encompass newly established operations for the recently opened Park & Market facility.

³ OFC Net Operating Results and Fund Balance Report.

1,200 by-agreement positions for instructors contracted to teach a specific course for a given term. There are other arrangements which are driven by programmatic needs. An example of this arrangement is the Financial Unit for Masters of Advanced Studies (MAS), which handles courses for School of Medicine & the Skaggs School of Pharmacy and Pharmaceutical Sciences. The instructors for these programs are the contracted department's faculty and paid by Extended Studies from program revenues. The arrangement makes use of Extended Studies' expertise in coordinating the delivery of a specialized education program that enhances offerings at other departments.

Park & Market

The new downtown Extended Studies location, Park & Market, was opened in May 2022 aiming to be an intellectual hub for all ages and levels of society. The effort resulted in a New Markets Tax Credits (NMTC⁴) financing agreement that partially offset tenant improvement costs and reimbursed a portion of the acquisition costs of the approximate 66,750 square foot four-story build-to-suit commercial building located in downtown San Diego. The University of California (UC) Regents approved the project in June 2017.

The NMTC program approaches each deal holistically using a "triple bottom-line" approach that also considers a project's prospects for job creation, employment retention, essential community services, regional economic development, and environmental sustainability. Other key project components are strong economic development and/or community impact (direct or indirect), such as helping to create or retain permanent, well-paying jobs; acting as the catalyst for larger or additional development or redevelopment, infusing sources of new investment capital into an underserved, low-income area; targeting particularly challenged constituencies for employment training and mentoring; and creating new access to programs for minority youth and under-resourced community members. Extended Studies' has assumed responsibility for operating and managing the Park & Market facility for the purpose of offering diverse academic, workforce training, and cultural programs for the benefit of low-income and underserved communities in San Diego.

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

The objective of our review was to perform an overall assessment of Extended Studies' administrative internal control environment and determine whether internal controls provide a reasonable assurance that operations are effective, in compliance with University policy, and result in accurate financial reporting. The scope of our review consisted of financial activities between July 1, 2021 and June 30, 2023. To achieve our objective, we performed the following:

- Reviewed division business documentation and information including the Extended Studies website, organizational structure, and financial reports;
- Reviewed applicable federal regulations, requirements and UC policies relating to core business operations, including selected Business & Financial Bulletins and others;
- Interviewed the following personnel from Extended Studies:
 - Director of Business Operations;

⁴ The federal NMTC Program attracts private capital into low-income communities by permitting individual and corporate investors to receive a federal tax credit in exchange for making equity investments in specialized financial intermediaries.

- Chief Administrative Officer;
- Computer Services Manager;
- Assistant Director of Finance;
- Assistant Director of Business Affairs;
- Accounts Receivable Manager; and
- Human Resources Generalist;
- Consulted with personnel from other UCSD administrative units:
 - Assistant Vice Chancellor, UCSD Office of Contract & Grants Administration (OCGA);
 - Senior Director, UCSD OCGA;
 - Strategic Policy Coordinator, UCSD Human Resources;
 - Senior Director, Financial & Business Operations, Real Estate Department (Real Estate);
 - Accounting Manager, Real Estate;
 - Associate Controller, Internal Controls & Accounting (ICA);
 - Senior Director, Campus Accounting and General Ledger, ICA; and
 - Manager, Capital / Fixed Assets Accounting, ICA.
- Reviewed and evaluated the following:
 - Financial reports from the Oracle Financials Cloud (OFC) system or Business Activity Hub;
 - Division-prepared internal financial reports;
 - Financial management procedures;
 - Cash and accounts receivable processing, including Park & Market;
 - Reimbursement documentation for travel, entertainment, purchases and training expenditures;
 - Gift fund expenditures;
 - Service agreement administration and invoicing;
 - Park & Market property management contract and amendment(s);
 - Campus Asset Management System (CAMS) reports;
 - Computer environment; and
 - California's Child Abuse and Neglect Reporting Act (CANRA) reporting and documentation;
- Evaluated division internal controls for key business processes and procedures, and traced transactions to supporting documentation for selected processes.

IV. CONCLUSION

Based on our review, we concluded that internal controls for Extended Studies were adequate to provide reasonable assurance that operations were effective, performed in compliance with University policy, and resulted in accurate financial reporting. However, opportunities for improvement were identified related to Park & Market; Service Agreements Administration; Operational and Financial Management; CANRA Administration; and Procurement Card Reviews.

For Park & Market, we noted that internal financial reporting did not fully agree to financial reports from OFC. Also, the Park & Market-related FinUnit representing the operating activities of the facility had a \$2 million deficit on the Financial Deficit Report as of March 2024 which did not have a documented deficit reduction plan. Further, certain financial transactions and activity were not recorded consistent with policy, with opportunities identified related to the proper recognition of rental revenues and facility expenditures, revenue accounts used, the posting of rental revenue payments and expenditure refunds, and financial reporting utilized.

We also noted an opportunity to improve Extended Studies’ management of service agreements, as this process was maintained in an Excel spreadsheet with summary level information and performed internally by a single key employee within the division. The reliance on an Excel spreadsheet maintained by one employee creates risk due to lack of contingencies, restricts University visibility into contractual agreements with business partners, and limits management’s ability to monitor contract terms and end dates. In some cases this condition hinders the University’s ability to report on key compliance requirements.

Other noted opportunities included the continued development of Extended Studies’ overall operational and financial management processes; full compliance with the Mandated Reporter requirements of the University of California’s Child Abuse and Neglect Reporting Act (CANRA) policy; and the review and approval of the Dean’s procurement and travel card transactions by the appropriate authority in compliance with applicable policy and program guidelines. These observations are discussed in greater detail in the balance of this report.

Our business process review, as summarized in **Attachment A**, illustrates effective operations in multiple areas including accounts receivable, default account monitoring, and others.

V. OBSERVATIONS REQUIRING MANAGEMENT ACTION

A.	Park & Market
<p>Extended Studies’ internal financial reporting for Park & Market did not agree with OFC reporting, and there was no documented deficit resolution plan to address current and budgeted deficits for the facility. Also, the timely and accurate recognition of Park & Market-related rental revenues and facility expenditures, revenue accounts used, and the posting of rental revenue payment and expenditure refunds was not in strict compliance with policy.</p>	
Risk Statement/Effect	
<p>Adequate financial oversight is necessary to ensure that Extended Studies demonstrates stewardship of funds. Delays in the review of financial information increases the risk of overspending and unfunded costs, as well as errors/irregularities that could remain undetected for extended periods of time.</p>	
Management Action Plans	
A.1	Management will ensure that their internal financial reporting agrees to OFC, with the creation of just one realignment journal entry and the use of one account code going forward.
A.2	Management will work with the Executive Vice Chancellor of Academic Affairs (EVCAA) and Campus Budget Office (CBO) to document the required deficit resolution plan for Park & Market, and confirm that the deficit resolution plan is ultimately approved.
A.3	Management will collaborate with Real Estate and ICA to recognize trust account payments consistent with University policy and ensure the accurate recording of pre-payments as an

	increase in a short-term asset with monthly adjusting journal entries per the property manager’s expenditure types mapped to OFC, as appropriate.
A.4	Management will collaborate with Real Estate and ICA to recognize rental revenue as earned consistent with University policy, to include estimating and timely accrual of rental revenue based on documented lease agreements.
A.5	Management will collaborate with the Controller’s Office and/or ICA to establish a revenue account or accounts more consistent with a revenue account that records tenant and event income.
A.6	Management will develop an internal procedure or desk reference regarding Park & Market accounting processes, including revenue recognition, expense reconciliation, expenditures review with the Property Manager and payment and refund posting.

A. Park & Market – Detailed Discussion

Park & Market Financial Reporting and Deficits

Extended Studies utilizes a process for producing custom internal financial statements using a FileMaker system with data sourced from OFC. However, we identified that the internal financial statements run for Park & Market to capture the fiscal year 2022 and 2023 operations did not agree with OFC reporting. Management indicated this is a result of post-closing adjusting journal entries after fiscal year-end⁵, which are not reflected in OFC.

Prior to Park & Market, Extended Studies chart of accounts was contained exclusively under the Academic Affairs (AA) entity number. Since Park & Market was established with two separate and distinct entities, running a report on Park & Market operations and related activities requires using FinUnits 1800001 and 1900001, which are named “NMTC Finance Co LLC” and “The U Holding Co”, respectively, and are separate from the Extension operational FinUnits in the Academic Affairs organization.

Below is a summary schedule listing Park & Market financial operations as sourced from OFC and Extended Studies’ internally generated FileMaker financial reports for comparative purposes. The adjusting journal entries only reflected in the internal FileMaker reports are not reflected in OFC for the same fiscal period.

OFC Net Operating Results and Fund Balance Reporting for Park & Market⁶			
Description	FY 2021-2022	FY 2022-2023	FY 2023-2024 through Q1
Total Resources	\$713,436	\$7,287,356	\$257,266
Less: Total Expenses & Transfers	(\$960,556)	(\$1,510,124)	(\$1,362,480)
Change in Net Position	<u>(\$247,120)</u>	<u>\$5,777,232</u>	<u>(\$1,105,214)</u>

⁵ Within OFC, there is an option to run reports as of June for each fiscal year, and another to run reports including end of year adjusting entries, which is referred to as “period 13”.

⁶ In OFC, Park & Market includes FinUnits 1800001 and 1900001.

Beginning Net Position	\$167,302	(\$79,818)	\$5,697,413
Ending Net Position	(\$79,818)	\$5,697,413	\$4,592,199
Capitalization in Progress	\$31,886	\$1,886	\$17,820
Resources Available	(\$111,704)	\$5,695,528	\$4,574,379

Source: OFC Net Operating Results and Fund Balance Report

Extended Studies Internal Reporting for Park & Market			
Description	FY 2021-2022	FY 2022-2023 ⁷	FY 2023-2024 through Q1
Total Revenues	\$713,436	\$7,287,356	\$257,266
Less: Total Expenses & ASSA ⁸	(\$2,764,337)	(\$2,975,248)	(\$1,258,197)
Less: Transfers To University	(\$1,395,899)	(\$1,240,895)	(\$104,283)
Net Income (Loss)	(\$3,446,800)	\$3,071,213	(\$1,105,214)
Net Balance Carryforward	\$137,803	(\$79,818)	\$5,697,413
Net Income (Loss) with Carryforwards	(\$3,308,997)	\$2,991,395	\$4,592,199

Source: Division of Extended Studies reporting

As part of this analysis, we noted that the Park & Market-related The U Holding Co FinUnit 1900001, which represents the operating activities of the facility, has a \$2 million deficit on the Financial Deficit Report as of March 2024. University Policy (*PPM 300-2, Financial Deficit Policy*), states that departments will not be permitted to carry over financial deficits exceeding \$25,000 without a deficit resolution plan that is approved by the Department Chair/Designee and Dean/Vice Chancellor. It specifies financial standards, criteria, and qualifications for individuals and units. Financial deficits that cannot be resolved by fiscal year-end are rare. In such rare cases, departments forward written and well justified requests to roll over the deficit to the next fiscal year to the Controller's Office via the CBO. Division administrators should monitor and resolve deficits in accordance with the Financial Deficit Policy, including obtaining and documenting approval of deficit resolution plans. Extended Studies did not have a formalized deficit reduction plan documented to address the operational deficit, but have met with Campus leadership in April 2024 to discuss the DES budget, including absorbing and subsidizing Park & Market costs in the future.

Park & Market Accounting for Rental Revenues and Facility Expenditures

University Policy (*Policy & Procedure Manual (PPM) 300-12*) defines the proper timing and recording of revenues and expenses. The policy states that the University reports its revenues and expenses using the accrual basis of accounting according to Generally Accepted Accounting Principles (GAAP) and the Government Accounting Standards Board (GASB). It requires that all revenues be recorded when earned and that expenses be recorded when incurred. Also, to be in compliance with the accrual policy, prepaid expenses should be assets until expended.

Park & Market's revenue sources consist of revenues generated by the facility primarily from hosting events plus tenant rental income since opening. Extended Studies has contracted with CBRE to provide property management services at the Park & Market building. The agreement, which went into effect

⁷ This FY reporting incorporates the year-end adjusting journal entry in OFC that recognized \$6 million of NMTC inflows as revenues for FY 2022-2023. This inflow is not expected to be repeated in the future.

⁸ ASSA represents Administrative Overhead Rates.

in October 2021, required the establishment of a trust account by the owner, the University, with the owner's tax identification number. CBRE as property manager has authority to collect rental payments from tenants, deposit receipts into and pay property-related expenditures from the trust account. All funds and interest earned by the trust account are the property of the University and it has concurrent interest in the account. CBRE may deduct monthly fees for its services.

The initial funding of the trust account was per an invoice that CBRE prepared. Subsequent trust account payments have been made according to Extended Studies staff-prepared statements that project expenditures two to six months in the future. As with the initial payment, all trust account transfers have been expensed upon payment to account 530200 - Property Management Services. As new leases have come online, CBRE has processed more incoming payments from external (non-UCSD) tenants and deposits to the trust account have been increasing. Per the property management contract, Extended Studies management meets with CBRE monthly to report on and discuss lease collections and trust account expenditures.

During our review of Park & Market accounting activity and financial reporting processes, we made the following observations related to revenue and expense accounting transactions which were not compliant with policy:

- **Revenue Recognition** – Current and future lease revenue estimates are indirectly recognized to the extent that they reduce the balance that Extended Studies funds into the trust account by decreasing the projected expenses. Monthly lease revenues based on the space leased out to external parties at the Park & Market facility is only directly recognized at fiscal year-end with an adjusting journal entry posted by the Internal Controls and Accounting (ICA) department. At minimum, monthly estimated revenues should be accrued based on the documented tenant leases.
- **Prepaid Expenses** – By expensing all trust account replenishments upon payment, each transaction is not recognized as an asset transfer and is not compliant with policy. As noted above, prepaid expenses should be assets until expended.
- **Expense Types** – Detailed Park & Market-specific expenses for security, parking, utilities, maintenance, and repairs, among various other types, paid by CBRE through the trust account are not recorded in OFC consistent with their specific expense type⁹. Real Estate and ICA have confirmed that current practices are not compliant with policy; however current resources are limited and they do not have the capacity to adjust these transactions to be consistent with policy, which was the practice before the OFC implementation. Real Estate and ICA expect to review these processes to address the non-compliance with University policy during this fiscal year.
- **Revenue Account Classification** – In addition to tenant leases, Extended Studies' Park & Market operations and resulting revenues are based on hosting events at the facility. However, during our review we noted in over 100 transactions totaling approximately \$580K classified as Student Tuition and Fees¹⁰ but there are no tuition or fee revenues received from students related to operating this facility. Although there are no specific policies on naming accounts,

⁹ All CBRE-managed expenses paid go to account 530200 - Property Management Services at the time of funding to the trust account.

¹⁰ External Revenues, Student Tuition and Fees, (account) 402004: ESPS-Miscellaneous Income

University policy (*PPM 300-14 Chart of Accounts Policy*) requires consistency in the creation and maintenance in how the chart of accounts segments are used. Also, GAAP and best practices indicate that account names should be accurate and representative of the activity. Event revenue should be posted to a more applicable account such as Sales and Services of Educational Activities, (account) 410370 Conference/Events/Production Revenue or Other Sources Revenue, (account) 440000: Other Sources Revenue as alternative options, which, along with tenant revenues, should be further evaluated with ICA.

- Revenue Payment Posting** – On one occasion Park & Market received a payment for approximately \$23K that was without a matching receivable. Since it was not expected, and without a revenue account where payments could be posted until investigated, the payment was credited to an expense account. The transaction was determined to be a misdirected payment that was intended for CBRE and the aforementioned trust account, but the University deposited it on behalf of Extended Studies. This payment posting was subsequently corrected, and we did not note any additional payment mispostings of this type. University policy (*PPM 300-12 Revenue & Expense Recognition*) requires that credits be posted to the original expense. Posting receipts as a credit to an expense account changes the nature of the transaction since it implies a refund of a payment as opposed to external revenue. A separate miscellaneous revenue account, one for which a review is triggered if there is a balance would ensure that inflows are identified and transfers are made to the appropriate destination, could instead be established.
- Expenditure Refund** – A separate transaction that resulted in a credit to expense account 530200 Property Management Services for an approximate \$1K refund paid to an office furniture vendor was noted. In addition to not being compliant with policy, the two expense accounts differ since one is related to lease activities, and the other is office furniture and general in nature. We did not note any additional transaction mispostings of this type.

Overall, we noted that the financial review and approval processes of significant Park & Market transactions with supporting documentation are not formally documented by Extended Studies. Also, all payments into the trust account are expensed, and the trust account has not been reconciled within OFC. Monthly reconciliation of the trust account to the balance in OFC will validate that expenditures and revenues are accurately reported. Due to the complex nature of transactions related to the Park & Market facility, a departmental accounting or finance procedure may serve as a helpful reference to ensure accounting practices are consistent with GAAP and compliant with University policy, including guidance on Park & Market-specific transactions, such as the recording, adjustment to and reconciliation of rental revenues, facility expenditures, refunds and financial reporting.

B.	Service Agreement Administration
Service agreements were managed by a single individual in a spreadsheet and the available information was not used within Extended Studies to effectively monitor rates charged to contractual customers.	
Risk Statement/Effect	
Having Extended Studies’ service agreements managed by a single individual in a spreadsheet rather than an enterprise system reduces visibility of University agreements, and increases risk that	

management oversight is impaired or federal or other required reporting agencies may not be complete.	
Management Action Plans	
B.1	Management will conduct a review of current contract administration practices and develop an action plan and timeline to align them with University-wide processes, including the implementation of available contract management systems.
B.2	Management will ensure that contract details are routinely made available to appropriate staff to timely validate contract invoicing.

B. Service Agreement Administration – Detailed Discussion

Extended Studies has authority to enter contracts with external parties via delegated signature authority to the Dean and the Director of Business Operations to sign contracts.

Extended Studies’ inventory of service agreements was maintained in an Excel spreadsheet which was managed by one employee. The summary level information including the contracted entity name, contract term (start and end dates), and the related Extended Studies’-specific department and project number for their contracts is included. Also, although the development of each contract is unique and the division will call on Campus Counsel or other departments to assist if warranted, the overall contract development, management and compliance oversight processes are performed internally by that single key employee within Extended Studies and are not formally documented.

The reliance on an Excel spreadsheet maintained by one employee creates risk due to lack of contingencies, restricts University visibility into contractual agreements with business partners, and limits management’s ability to monitor contract terms and end dates. In some cases this condition hinders the University’s ability to report on key compliance requirements.

The University has available systems which can serve as a contract management system. For example, in January 2020, UCSD implemented the Kuali Research Sponsored Programs (KR) module. UCSD’s KR is a campus enterprise system and serves as the official institutional record of proposals, awards, and subawards. The system includes functionality to manage service agreements, as agreements for other Academic Affairs units are tracked in this system.

Utilizing the KR system would also facilitate University compliance reporting with the Higher Education Act (HEA) of 1965, Section 117¹¹. Currently this process is managed by OCGA. Because Extended Studies maintains their own Excel-based list of their contracts, this requires a separate manual spreadsheet to be completed and submitted to OCGA. Increased usage of KR would enable automatic retrieval of this data. The current contract management practice increases the risk with University federal reporting requirements compliance.

¹¹ HEA 117 requires that higher education institutions report gifts or contracts from foreign sources that are valued at \$250,000 or more in a calendar year in a semi-annual disclosure to the Department of Education.

Our review included an examination of seven haphazardly and judgmentally selected service agreements active over the two fiscal years scope period. We noted that one contract was incorrectly invoiced¹², and at first the contractual documents provided by Extended Studies did not align with the rates in the invoices being reviewed. The first service agreement with this service provider for the covered 12 months was provided with terms including a \$1,250 per student rate. The review of the accounts indicated that three invoices were created during this period and all at a rate of \$1,200 per student. Upon further inquiry, the division shared a second contract that was a continuation of the first, but with a \$1,200 per student rate. The disclosure was made after all costs and invoices for another sampled agreement that shares the same project code were reconciled.

C. Operational and Financial Management	
Financial and operational management could be improved with timely review and approval of transactions related to event reimbursement, travel expenditure reimbursement, and gift fund expenditures, as well as the reconciliation of equipment inventory.	
Risk Statement/Effect	
Accountability is maintained when transactions are reviewed, authorized, and approved. Lack of timely review and reconciliation increases risk of errors or misstatements, unauthorized charges and non-compliance with applicable policies.	
Management Action Plans	
C.1	Management will update equipment records to be fully compliant with University policies and document the equipment inventory process.
C.2	Management will regularly remind Extended Studies staff and approvers at divisional meetings and through other employee communications about reimbursement request requirements, including submission deadlines and the documentation of an event’s business purpose and attendee list(s) and the potential tax impact for non-compliance.
C.3	Management has requested that Advancement evaluate and either modify the purpose or establish additional donor funds for the noted gift, and then transfer gift expenditures as appropriate.

C. Operational and Financial Management – Detailed Discussion

Equipment Inventory

University policy (*BUS-29: Management and Control of University Equipment (BUS-29)*) states that the head of the custodial department and the Principal Investigator have primary responsibility for the care, maintenance, control and disposition of physical inventorial equipment. Compliance with these responsibilities is most effective if the manufacturer, model number and serial numbers (where present) are recorded in the equipment record as required by policy. CAMS is the official system of record for property, including inventorial equipment, at the University.

¹² These invoices resulted in an overall net difference of \$150 for amounts not collected by Extended Studies.

Our review comparing Park & Market's equipment purchases with CAMS noted one inventorial asset that is not listed in CAMS. Also, the only other Park & Market inventorial asset purchased was included in CAMS, but was missing a serial number. Furthermore, in our CAMS review for all other Extended Studies financial units, we identified 19 incomplete equipment inventory records in CAMS without unique serial numbers. These include 15 microscopes purchased in July 2016 with a blank serial number field, and four others, including a grand piano purchased in May 2022, with a serial number field that states "PLEASE INPUT". We also noted that Extended Studies does not have the comprehensive equipment inventory process documented, including properly recording complete identification information for equipment acquisitions.

Event Documentation

University policy (*BFB BUS-79: Expenditures for Business Meetings, Entertainment, and Other Occasions*) permits the payment for meals or light refreshments served to visitors, guests, member of the community, or employees, on the condition that the underlying business purpose is in support of the University's mission. In alignment with Internal Revenue Service (IRS) rules, the policy requires that the business purpose be documented for each event. Other requirements include a headcount or an attendee list so that the per person expense may be considered with respect to the per person limits in the policy.

Initially one event for \$18,252 was approved without the business purpose, headcount or attendee list documented. The same procurement card user had four additional events approved for payment where the business purpose was the event title which itself was an acronym and a date. Brief and incomplete business purpose entries are not compliant with policy and should have been noted by the reviewer. Incomplete documentation may expose attendees to income tax liability on the value of the services they received. Further, without a headcount or an attendee list it is not possible to determine compliance with per person expenditure limits outlined in UC policy and brings into question the effectiveness of these reviews.

Delayed Travel Expense Report Submission

University policy (*G-28 – Travel Regulations*) outlines a reasonable amount of time not to exceed 45 days after the expenses were paid or incurred for the submission of expense reports. The expenditure may be considered income upon reimbursement for the travel and applicable income taxes may be withheld if filed beyond that specified time period.

We noted that three of the seven reviewed travel reimbursements were not timely filed. Potential travelers should be reminded of policy deadlines and the potential economic impacts of a late filing. The topic should also be addressed in divisional meetings to create broad awareness.

Gift Fund Expenditures

The University has various policies to ensure that gift funds are expended in compliance with donor requirements, including *PPM 410-6 Policy on Financial Stewardship of Donor Gift Funds and Reporting to Donors* and the fiduciary aspects of donor stewardship.

During our review, we noted that a gift fund intended to support student scholarships in a specific program was used for student support in two unrelated programs. The gift fund RM487 titled “Various Donors – Student Support” with the fund purpose - “(T)o be used for Student Scholarships entering the Facilities Management Certifications Program” was used to support student scholarships in two other unrelated educational programs.

Extended Studies’ business office staff are knowledgeable about gift funds use and accounting system controls. In this instance, the fund title mentions neither a program nor a restriction resulting in a conflict between the open nature of the gift fund title and restriction in the fund’s purpose. Furthermore, the fund’s title appears inconsistent with the purpose that it is restricted for Student Scholarships entering the Facilities Management Certifications Program.

Per management, prior staff had documented that the fund’s actual purpose was broader than the fund title indicates. Based on that guidance, Extended Studies business office staff did not follow up with a request for clarification from Advancement, the office overseeing gift administration. Due to misinterpretation, staff also authorized expenditures on a particular gift fund that were outside of the donor’s wishes as documented in documentation available through OFC.

Upon bringing the matter to Extended Studies’ attention, the Assistant Director of Finance sought clarification from Advancement. Upon review, Advancement determined that the gift fund settings within OFC should be reviewed.

D.	CANRA Administration
Extended Studies was not fully compliant with the Mandated Reporter requirements of the University of California’s Child Abuse and Neglect Reporting Act (CANRA) policy.	
Risk Statement/Effect	
Non-compliance with the Mandated Reporter requirements could result in possible fines, penalties, lawsuits and an increase in risk to organizational reputation.	
Management Action Plans	
D.1	Management will work to bring all Extended Studies Mandated Reporters into compliance with CANRA requirements, including signing the acknowledgement form, completing a background check and/or completing training.
D.2	Management will document the Mandated Reporter designation criteria and compliance oversight processes for Extended Studies personnel.

D. CANRA Administration – Detailed Discussion

University policy (*PPM 200 -26 Reporting Child Abuse and Neglect Procedures*) requires that departments assist Human Resources with the creation and maintenance of a list of jobs that qualify as Mandated Reporters. Departments are responsible for informing the selected personnel of their Mandated Reporter status and securing their signature on the CANRA Acknowledgement Form within

30 days. A background check and CANRA-related training is also required of all Mandated Reporters. The staff member is not permitted to work with children until the completion of the form, the background check and assigned training. Responsible offices, which are the employee’s home department and Human Resources, are required to monitor that assigned training is completed.

During fiscal years 2022 and 2023, Extended Studies’ position was that all staff were Mandated Reporters. In response to an August 2023 University-wide initiative to refine the staff members who are CANRA designated, Extended Studies’ Human Resources submitted an updated list to Campus Human Resources upon consideration of work environment with respect to minors. The list identified 112 staff in the following areas:

Reference #	Functional Area	CANRA Designation
1	Adult Continuing Education	None
2	Community Outreach	All
3	Early Childhood Education	All
4	Human Resources	All
5	International Programs	All
6	Park & Market	None
7	Research	None
8	Student Services	All

Upon further review in 2023, Human Resources identified that approximately half of the identified 112 updated reporters were considered compliant at that time, and represents a compliance risk related to CANRA Mandated Reporter requirements to Extended Studies and the University. We did note that during the course of our review, Extended Studies Human Resources was refining the processes for verifying Mandated Reporter selection and compliance monitoring. As of March 2024, there are 104 identified Mandated Reporters and 75% (78 employees) in compliance with the requirements, with 16 and 14 employees still requiring background checks and training, respectively¹³.

We also noted that part of the policy requirement is the identification of instructors contracted to teach specific courses for a given term. Administrative actions such as the completion of forms, and the completion of initial and updated training should be documented and completed proactively to maintain compliance.

E.	Procurement Card Reviews
Expenditure review and approval processes for the Dean’s procurement and travel card transactions could be improved to ensure approval is obtained by the appropriate authority, and completed in compliance with applicable policy and program guidelines.	
Risk Statement/Effect	

¹³ Four employees still require both background checks and training, resulting in a total of 26 employees not in full compliance.

Weaknesses in expenditure review processes could increase the risk of expenses or reimbursements that are excessive, unauthorized, inappropriate reimbursements, or otherwise non-compliant with policy.

Management Action Plans

E.1	Management will direct all procurement and/or travel card transactions for the Dean of Extended Studies to the Executive Vice Chancellor of Academic Affairs’ (EVCAA) office for review and approval.
E.2	Management will perform a review of their FinUnit Approvers to ensure they are not assigned to review transactions incurred by purchasers to whom they directly or indirectly report. This review should include all members of management including the Dean.
E.3	Management will evaluate procurement and travel cards assignments and determine if they are appropriate given workload, volume, and other factors, and are consistent with policy.

E. Purchasing Card Approvals – Detailed Discussion

University policy (*BFB-BUS-43 Purchases of Goods and Services; Supply Chain Management*) states that purchasing expense claims should not be reviewed and/or approved by a person who reports directly or indirectly to the procurement cardholder. The establishment of appropriate approval responsibilities helps ensure the segregation of responsibilities within the procurement processes, and increases assurance that expenditure reimbursements are bona fide University expenses that comply with applicable policy. For department heads who hold travel or Procurement cards, the transactions should be reviewed by the responsible Vice Chancellor’s office. Beginning July 1, 2020, UCSD transitioned to a new travel and expense system, Concur. With the implementation of Concur, travel expense reports are routed to a Financial Unit (FinUnit) Approver for review and approval.

We reviewed the division’s expense approval responsibilities and tested a sample of expense report transactions for individuals in Extended Studies leadership roles. Based on this review, we noted that expense reports for the Dean were approved by the Assistant Director, Finance, who was subordinate to this individual.

We also noted that the Dean retained two separate departmental credit cards, including a procurement (p-card) and a travel card. Divisional staff reviewed transactions from both cards. The Dean’s purchases should be reviewed by staff who are outside of Extended Studies, such as the EVCAA’s office, to be compliant with policy.

Extended Studies should ensure that FinUnit Approvers do not review expenses incurred by purchasers to whom they directly or indirectly report.

Attachment A – Audit Results by Business Office Process

Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion ¹	Comments
	Analytical Review of Financial Data	ICQ / SOD Matrix / Interviews	Process Walk-through	Transaction Testing (Sample Basis)			
Park & Market Revenues & Expenditures	√		√	Reviewed invoices related to five events and aged Accounts Receivables (AR) at three separate months.	No	Improvement Needed	Events-based AR was well managed, however lease rental revenues and trust account expenditures were not recorded consistent with policy and processes were not documented. Report Finding A
Service Agreement Administration	√	√	√	Reviewed a sample consisting of six randomly selected agreements and the sole agreement with a foreign entity.	No	Improvement Needed	Summary contract information was maintained by a single employee on a spreadsheet, not available throughout the organization, and not readily available to the University for tracking and reporting purposes. Services for one contract were billed at less than the agreed upon amount. Report Finding B
Operational and Financial Management - Equipment	√	√		Reviewed General Ledger for equipment purchases for comparison to CAMS records.	No	Improvement Needed	Inventory records were incomplete as one asset is not listed whereas other records are missing serial numbers. The inventory process was not documented. Report Finding C
Operational and Financial Management – Events Documentation	√	√	√	Reviewed six reimbursement requests for entertainment.	No	Improvement Needed	Business purpose and attendee list was not documented for five events as required by policy BUS-79. Report Finding C

¹ Scale: Satisfactory - Improvement Suggested - Improvement Needed - Unsatisfactory

Attachment A – Audit Results by Business Office Process

Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion ¹	Comments
	Analytical Review of Financial Data	ICQ / SOD Matrix / Interviews	Process Walk-through	Transaction Testing (Sample Basis)			
Operational and Financial Management – Delayed Reimbursement Submission / Travel	√	√		For the five Financial Units with the most travel expenditures, reviewed seven randomly selected travel reimbursement requests.	No	Improvement Needed	Expense reports were not timely filed for three reports submitted as required per policy G-28. Report Finding C
Operational and Financial Management – Gift Fund Expenditures	√	√	√	One of two gift funds reviewed is intended to support students. The other supports Park & Market.	No	Improvement Needed	One gift fund’s usage was not in strict compliance with the student support fund’s purpose. Report Finding C
CANRA Administration		√	√	Reviewed CANRA procedures with Human Resources.	No	Improvement Needed	Extended Studies was not fully compliant with the Mandated Reporter requirements of the University of California’s Child Abuse and Neglect Reporting Act (CANRA) policy. As of March 2024, 25% were not fully compliant. Report Finding D
Purchase Card Reviews	√	√	√	The Dean’s Purchase card expenditures were reviewed in addition to ten randomly selected transactions. The Dean did not have travel card expenditures during scope, though scope was extended given purchase card observation. Travel card expenditures were scanned for approvals.	No	Improvement Needed	The Dean’s expenditures were approved by a subordinate employee. Report Finding E.

Attachment A – Audit Results by Business Office Process

Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion ¹	Comments
	Analytical Review of Financial Data	ICQ / SOD Matrix / Interviews	Process Walk-through	Transaction Testing (Sample Basis)			
Accounts Receivable Management	√	√	√	Reviewed AR aging report with Director of Business Operations. Park & Market AR reviewed at Fiscal Year-end 2023 for subsequent collection.	No	Improvement Suggested	Overall AR was well managed and minimal at the Extended Studies level (outside of Park & Market). The monitoring effort was not documented as a business process.
Cash & Receivables Processing	√	√	√	Walked through the receivables processes with AR Manager.	Yes	Satisfactory	Two separate petty cash accounts were expected to terminate. Having one staff member present at the opening of cash receipts was not policy compliant (BUS-49), but a Covid-19 accommodation that was expected to cease with the move to the new building in Spring of 2024.
Contracts & Grants	√	√		Award management tasks is distributed across Extended Studies' Business Office. Reviewed the process and assignment with Assistant Director of Finance.	Yes	Satisfactory	Financial Analysts, who have Research Administrator training, oversaw the contracts and grants within their assigned area.
Default Account Monitoring	√	√	√	Reviewed department's default accounts activity on UC-Path. Monthly default account monitoring initiated upon receipt of VCAA's office default report. Reviewed one month's adjustments.	Yes	Satisfactory	Extended Studies was unlikely to find resources to complete retroactive adjustments dating back to 2021 at the time of UC-Path and OFC implementations. Extended Studies was staying current with monthly adjustment notices.

Attachment A – Audit Results by Business Office Process

Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion ¹	Comments
	Analytical Review of Financial Data	ICQ / SOD Matrix / Interviews	Process Walk-through	Transaction Testing (Sample Basis)			
Equity, Diversity and Inclusion (EDI)		√	√	Contacted the Chair, Dean's Council on Equity, Diversity, and Inclusion and reviewed the SharePoint website and events calendar.	Yes	Satisfactory	The Division had an extensive EDI effort via the Dean's Council on EDI that was well documented and engaged with the community through multiple channels. The Council was comprised of staff from a variety of departments and positions across Extended Studies.
Financial Management and Oversight	√	√		Reviewed financial oversight process, available OFC financial reports and departmental P/L statement for clinical and academic operations.	Yes	Satisfactory	The Business Officer had weekly leadership meeting with the Chair to review financial results and budgetary decisions.
IT & Information Systems		√	√	Reviewed the computer environment questionnaire and interviewed Computer Services Manager.	Yes	Satisfactory	Extended Studies' student information system was encrypted and Extended Studies systems contained no Payment Card Industry (PCI) data.
Ledger Review	√	√		Reviewed the overall process documentation. Sampled each expenditure type as noted elsewhere in the grid.	Yes	Satisfactory	The process was well documented and references the UCSD Blink website.
Operational and Financial Management – Training Expenditure Reimbursement	√		√	All reimbursements requests were reviewed for timeliness of submission and reimbursement.	No	Satisfactory	Processes were generally satisfactory. On one occasion an employee's training request had been approved by a Director with less than full authority to do so.