

UC RIVERSIDE: AUDIT & ADVISORY SERVICES

March 8, 2012

To: Nathaniel Jones III, Assistant Dean & Chief Financial & Administrative Officer

Subject: CHASS - Financial Management

Ref: R2012-07

We have completed our internal audit of College of Humanities Arts & Social Sciences (CHASS) - Financial Management in accordance with the UC Riverside Audit Plan. Our report is attached for your review.

We will perform audit follow-up procedures in the future to review the status of management action. This follow-up may take the form of a discussion or a limited review. Audit R2012-07 will remain open until we have evaluated the actions taken.

We appreciate the cooperation and assistance provided by you and your staff. Should you have any questions concerning the report, please do not hesitate to contact me.

Michael R. Jenson
Director

xc: Audit Committee Members

UNIVERSITY OF CALIFORNIA AT RIVERSIDE
AUDIT & ADVISORY SERVICES
MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS
INTERNAL AUDIT REPORT R2012-07
COLLEGE OF HUMANITIES, ARTS & SOCIAL SCIENCES –
FINANCIAL MANAGEMENT
MARCH 2012

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UC RIVERSIDE
COLLEGE OF HUMANITIES, ARTS & SOCIAL SCIENCES
FINANCIAL MANAGEMENT
INTERNAL AUDIT REPORT R2012-07
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I. MANAGEMENT SUMMARY

Based upon the results of work performed within the scope of the limited review of the College of Humanities, Arts & Social Sciences (CHASS) Financial Management, it is our opinion that its deficit reduction plan, with the exception of the issues noted in the Observations section (Section III), is generally adequate, reasonable, and achievable.

CHASS Dean's Office management has taken a proactive approach in addressing its budget deficits as evidenced by the following positive observations:

- 1) The unit eliminated a \$2.2M deficit from Fiscal Year (FY) 2010 in the Unallocated Activity for the General (19900) Fund and had a surplus balance of \$638K by the end of FY2011.
- 2) Although the overall balance of the Unallocated Activity for the 19900 fund was a \$638K surplus at the end of FY2011, the unit had three budget categories (Academic Benefits \$2,379K, Staff Benefits \$538K and Staff Salaries \$136K) in deficit (totaling \$3,053K). The unit developed a budget and deficit reduction plan, which was approved by the Executive Vice Chancellor and Provost (EVC/P), to meet the FY2012 budget reduction and clear the deficit in the aforementioned budget categories by the end of FY2014.
- 3) The unit has developed comprehensive financial projections and determined that the causes for projected budget issues pertain mostly to unfunded mandates (e.g., underfunded benefits, salaries, Graduate Student Health Insurance Plan (GSHIP) and Fee Remission, etc.). Management continues to work proactively with Resource Planning & Budget (RPB) and EVC/P on funding solutions.
- 4) The unit developed a detailed plan to address their \$1.3M permanent State budget cut, which was part of the budget and deficit reduction plan approved by the EVC/P in October 2011, and implemented at the college level in December 2011 and for all departments by February 2012. (Observation III.C).
- 5) Three departments had significant (in excess of \$5,000) fund deficits for FY2011. The departments developed and the CHASS Dean's Office approved their respective deficit reduction plans. To date, two of the three deficits have been resolved. However, the Master of Fine Arts - Palm Desert program still has a material deficit, but CHASS management expects to cut its FY2011 closing deficit by 50% (\$120,000) by Fiscal Year Ending (FYE) 2012 and eliminate it by FYE2014.

However, we observed some areas that CHASS and campus management should address in a timely manner:

- 1) Impact on Operations of Staff Reductions (Observation III.A).
- 2) Formal CFAO Succession/Orientation Program (Observation III.B).

These items are discussed below. Minor items that were not of a magnitude to warrant inclusion in the report were discussed verbally with management.

II. INTRODUCTION

A. PURPOSE

UC Riverside Audit & Advisory Services (A&AS), as part of its Audit Plan, performed a limited review of CHASS Financial Management operations to determine the adequacy, reasonableness, and achievability of its deficit reduction plan.

B. BACKGROUND

CHASS is the largest college at UCR with approximately 300 ladder rank faculty and 30 administrative and academic departments. In recent years, it has seen increases in the number of undergraduates, faculty and staff workloads, student/faculty ratio, lecture and section sizes. CHASS is funded primarily with General Funds, State appropriations and endowment income and comprises 20% of the campus budget. In FY2010, CHASS received \$52M in permanent funding, \$6M in temporary funding for a total of \$58M; incurred expenditures of \$57M, and had a positive net operating balance in excess of \$1.3M. Their carry forward balances have been shrinking under budget pressures as follows:

- FY2006-FY2008 \$19M and over
- FY2009 \$11M
- FY2010 \$8.4M

The CHASS Unallocated Activity is a clearing account which funds the college's needs in temporary instruction, facilities, research support, etc. The budget pressures have created deficits in this Activity starting FY2009 as shown below:

CHASS Unallocated Activity (in thousands)

Fund/Budget Type	FY2008	FY2009	FY2010	FY2011
General (19900) Fund				
Academic Salaries	\$2,868	\$788	\$1,359	\$1,006
Academic Benefits	701	(574)	(2,205)	(2,379)
Staff Salaries	1	(112)	(559)	(136)
Staff Benefits	104	(220)	(539)	(538)
Other	1,731	(1,399)	(235)	2,685
Total General (19900) Fund	\$5,405	\$(1,517)	\$(2,179)	\$638
Other Non 19900 Funds	807	\$1,062	\$646	\$103
Total All Funds – Unallocated	\$6,212	\$(455)	\$(1,533)	\$741

The deficits were primarily caused by:

- Unfunded mandates: employee benefits, salary increases, Graduate Student Health Insurance Premiums (GSHIP), fee remission and Teaching Assistant salary increases.
- Reductions in permanent and temporary funding.
- Increased faculty hires to meet the academic mission as requested by campus management (CHASS had been using funding from open positions to cover unfunded mandates and other costs).
- Drawdown of carry forwards to meet the academic mission as requested by campus management.

C. SCOPE

1. Fund Carry Forward and Deficit Balances Review

We reviewed the Resource Planning & Budget (RPB) Carry Forward Analysis (CF) for FY2011 and FY2012 for CHASS to verify the accuracy of the analysis, look for unusual changes or deficits in core CF fund balances, core permanent budget beginning balances, endowment and gift balances, and Contract & Grants overdrafts.

2. Financial Management Review

We reviewed FY2011 CHASS management reports (which included Actual, Budget, and Projections through FY2013). We also reviewed budget cuts taken in FY2010 through FY2012. We reviewed deficit reduction plans and inquired with and/or reviewed correspondence with RBP and EVC/P regarding such deficit reductions plans. We reviewed the Academic Budget and financial processes and controls.

3. Fiscal Year 2012 Reduction and Expenditure Plan Review

We examined the letter dated October 26, 2011 from the EVC/P to the Dean of CHASS regarding the FY2012 Budget Reduction and

Expenditure Plan. We reviewed the attached 'Summary of Expenses with Non Funded Annual Increases' and evaluated whether the proposed college funding, commitments, and calculated variances are reasonable. Additionally, we evaluated whether the plan for covering such variances are reasonable.

OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

A. Impact on Operations of Staff Reductions

COMMENTS

For CHASS, both their FY2010 Unallocated Deficit Reduction Plan and the FY2012 State Budget Reduction Plan primarily call for the elimination and/or consolidation of a number of staff positions with expected savings of \$948K for Staff Salaries & Benefits (equivalent to 12.3 FTE). While this affects the Staff to Faculty and Teaching Assistant (TA) ratios, this is not the primary concern as ratios do not indicate whether job functions are effectively prioritized or assigned, staff are properly trained, or that the organization is optimally structured.

RECOMMENDATION

CHASS management should continue to assess the potential impact of potential staff reductions and, as needed, reprioritize staff job functions, reassign responsibilities for maximum efficiency and effectiveness, determine, implement, and monitor required training, update job descriptions, and determine whether further reorganizational changes may be beneficial.

In addition, CHASS management should continue to monitor implementation of the approved budget deficit reduction plan.

MANAGEMENT RESPONSE

CHASS has in the past and will continue to evaluate how best to allocate its limited and shrinking staff resources. We seek to align staff resources with those functions that relate highly to the fulfillment of our academic mission, meeting compliance requirements, and effectively managing risk.

B. Formal CFAO Succession/Orientation Program

COMMENTS

The CHASS CFAO's full time status ended on January 31, 2012 and he has agreed to work two days a week through the end of April 2012.

Currently, there is no formal campus CFAO succession or orientation program (including areas such as how UCR conducts business and UCR's information

systems). The hiring process to replace a CFAO is usually lengthy and it is likely that the new CHASS CFAO will not be in place until after April 2012, thus losing the opportunity for the outgoing CFAO to orient his successor.

The lack of a formal campus CFAO orientation program is an issue even when highly educated, trained, and skilled individuals with business or higher education experience are newly employed. The new CFAOs report to their respective college Deans or Vice Chancellors who did not necessarily obtain formal training and education in Finance and Accounting; and the Dean's positions turnover frequently also. The CFAOs have a dotted line reporting relationship to the Vice Chancellor of Finance & Business Operations (VCFBO). However, because of the breadth of the responsibility of the VCFBO, this position cannot provide the amount of support required if a CFAO position becomes vacant. While there is an informal mentoring program, it is through the initiative of the identified mentor and the new CFAO to make the process successful. While the VCFBO suggests possible resources to temporarily fill vacant CFAO positions, such decisions require approval of the affected units.

The departing CFAO was instrumental in managing the budget and finances of the unit, developing and executing deficit reduction plans and developing spending plans for the future that incorporate permanent state budget cuts, and dealing with unfunded mandates, etc. With his departure, it is now unclear how long it will take to replace the position and whether existing plans can be executed effectively without additional financial oversight.

RECOMMENDATION - EVC/P

Campus management should consider creating a formal CFAO succession and orientation program and resource manual/document.

A campus resource (perhaps on loan from another unit) may be assigned to temporarily fill the CHASS CFAO role until a full time replacement can be hired and trained.

MANAGEMENT RESPONSE

The audit comments concerning the issue of CFAO succession planning and training highlight a number of important issues. And, the ensuing recommendation that a formal CFAO succession and orientation program and resource manual/document be created is a nice idea. However, there are hurdles that stand in the way of operationalizing and implementing these recommendations. First and foremost are the budgetary resource issues: We just do not have funding to develop this type of program at this time. Second, CFAO positions vary from control unit to control unit on campus; academic units may require different sets of skills than central administrative units. It is not easy to predict which control units will need CFAO replacements with any degree of certainty; some CFAOs stay with a unit for perhaps a decade while

others may stick around for only a few years. Hence, aligning campus needs with succession plans can be difficult, even futile. Finally, it seems that the issue in CHASS is compounded by unique conditions: both the CFAO and the Director of Finance departed almost simultaneously. In other circumstances (which are more common), the Director may have been able to fill-in for the CFAO on an interim basis, and perhaps even permanently.

As a mitigating action, it seems that control units should engage in their own succession planning, ensuring that other higher-level staff have been adequately trained and informed to step-up when the need arises. In addition, we should encourage participation of management-caliber staff in programs such as the system-wide UC Management Development Program and certain training through the National Association of College and University Business Officers (NACUBO) and Western Association of College and University Business Officers (WACUBO). Our campus Human Resources Office also provides access to management training in HR issues.

Regarding the recommendation concerning temporary replacement of the CHASS CFAO, the EVC/Provost does not micromanage these types of actions. CHASS executive management should work with the Vice Chancellor for Finance and Business Operations to identify acceptable alternatives for administering the CHASS administrative operations.

C. Budget Reductions in CHASS Departments

The EVC/P approved the plan for the \$1.3M Permanent State Budget cut to CHASS for FY2012. The plan calls for the elimination of an equivalent of 12.3 staff FTEs across various departments (5 in the Dean's Office) with expected savings of \$948K in Staff Salaries & Benefits and \$384K in Supplies & Expenses for a total of \$1.3M, which was removed from the CHASS Unallocated Activity by the EVC/P in December 2011. As of February 2012, the budget reductions have taken effect for all departments (five of the seventeen departments received Salaries & Benefits cuts as per the plan, eleven have taken their respective reductions from previously vacated positions, and one took its cuts from Other S&E).

D. Additional Commitments

We reviewed the 'Summary of Expenses with Non Funded Annual Increases' included as part of CHASS' FY2012 Reduction and Expenditure Plan approved by the EVC/P on October 26, 2011. We noted that CHASS appears to have funds available to redirect and cover the majority of the variances identified. However, CHASS has remaining uncovered commitments of approximately \$400K. We understand that CHASS has considered possibly covering these commitments with summer session, Facilities & Administrative, and current year salary savings. This has been discussed with RPB.