

September 17, 2018

SYLVIA LEPE  
Assistant Vice Chancellor  
Campus Budget Office  
0936

**Subject:        *Simplified Operating Fund Initiative (SOFI) Allocations  
Report 2018-02***

The final report for Simplified Operating Fund Initiative (SOFI) Allocations, Report 2018-02, is attached. We would like to thank all members of the department for their cooperation and assistance during the review.

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

UC wide policy requires that all draft reports be destroyed after the final report is issued. We also request that draft reports not be photocopied or otherwise redistributed.

David Meier  
Director  
Audit & Management Advisory Services

Attachment

cc:     Judy Bruner  
       Alexander Bustamante  
       Robert Hannahs  
       Pierre Ouillet  
       Holly-Ann Paiva  
       Cheryl Ross

# UC San Diego

---

## AUDIT & MANAGEMENT ADVISORY SERVICES

Simplified Operating Fund Initiative (SOFI) Allocations  
Report No. 2018-02  
September 2018

### FINAL REPORT

**Performed By:**

Bella Chang, Auditor  
Greg Buchanan, Manager

**Approved By:**

David Meier, Director

---

**TABLE OF CONTENTS**

---

I. EXECUTIVE SUMMARY ..... 3

II. BACKGROUND..... 5

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES ..... 6

IV. CONCLUSION..... 6

V. OBSERVATIONS REQUIRING MANAGEMENT ACTION ..... 7

    A. Restrictions on Legacy Funds..... 7

    B. Compensation Variance..... 8

ATTACHMENT A – Source of SOFI Funds

ATTACHMENT B – Compensation Proration Flowchart

ATTACHMENT C – Non-Compensation Proration Flowchart

---

## I. EXECUTIVE SUMMARY

---

Audit & Management Advisory Services (AMAS) has completed a review of Simplified Operating Fund Initiative (SOFI) Allocations as part of the approved audit plan for Fiscal Year 2017-18. The objective of our review was to determine whether adequate internal controls are in place to ensure expenses were applied to legacy funds appropriately and applicable restrictions were enforced in accordance with University of California (UC) and UC San Diego (UCSD) policy.

In July 2016, UCSD implemented SOFI to improve the efficiency of expenditure accounting and fund management of non-restricted “core” resources that support the academic investment and general institutional operations. This strategy supports Goal 5 of UCSD’s Strategic Plan of “creating an agile, sustainable, and supportive infrastructure by ensuring a dedication to service, people, and financial stewardship.” Prior to SOFI, unrestricted financial resources were managed using over 60 different funds and represented approximately \$1 billion of the primarily unrestricted resources on campus. In order to increase efficiency, these “legacy” funds were consolidated into two central funds: 99100A – University Core Fund and 99200A – Campus Core Fund.

In order to continue to meet the State’s reporting requirements on UCSD’s use of funds, a monthly proration process is completed to reallocate expenditures from the two SOFI funds to the appropriate legacy fund at the campus-wide operating ledger level. In general, the monthly proration mapping logic seeks to spend down legacy funds on a first-dollar principle; in other words, in order from most to least restricted as budget balances allow, with the goal of having carryforward balances accumulate on funds that are the least restricted.

We concluded that internal controls were generally adequate to ensure expenses were applied appropriately and restrictions on legacy funds were enforced in accordance with UC and UCSD policy. Most expenses were properly prorated to legacy funds in accordance with fund restrictions. However, we identified opportunities for improvement to ensure restricted/sensitive non-payroll account codes were not inappropriately prorated to legacy funds.

We also noted an unexpected variance, by fund, between the automatically-prorated compensation expenses and how compensation expenses mapped to legacy funds when following the proration flowchart. Management’s corrective actions to address these findings are summarized briefly below:

### A. Restrictions on Legacy Funds

1. For FY 2017-18 reporting, the CBO will manually move parking expenses off SGF to a less restrictive funding source.
2. The CBO will work with ITS to update the lists of restricted/sensitive account codes to account for newly-identified restrictions, as appropriate.
3. The CBO will continue to work with subject matter experts to ensure they have a comprehensive list of account codes restricted on legacy funds.

**B. Compensation Variance**

The CBO will work with ITS to determine the source of the variance and whether the logic is working as intended.

Observations and related management corrective actions are described in greater detail in section V. of this report.

---

## II. BACKGROUND

---

Audit & Management Advisory Services (AMAS) has completed a review of Simplified Operating Fund Initiative (SOFI) Allocations as part of the approved audit plan for Fiscal Year 2017-18. This report summarizes the results of our review.

In July 2016, UCSD implemented SOFI to improve the efficiency of expenditure accounting and fund management of non-restricted “core” resources that support the academic investment and general institutional operations. This strategy supports Goal 5 of UCSD’s Strategic Plan of “creating an agile, sustainable, and supportive infrastructure by ensuring a dedication to service, people, and financial stewardship.”

Prior to SOFI, unrestricted financial resources were managed using over 60 different funds and represented approximately \$1 billion of the primarily unrestricted resources on campus. In order to increase efficiency, these “legacy” funds were consolidated into two central funds: 99100A – University Core Fund and 99200A – Campus Core Fund. **Attachment A** provides a listing of the legacy funds included in these two SOFI funds. The consolidation provides increased financial flexibility through simplified fund management, expense processing, and reporting processes.

In lieu of receiving budget allocations on individual legacy funds, the Campus Budget Office (CBO) provides each Vice Chancellor or department with budget allocations into their established SOFI indexes. In order to continue to meet the State’s reporting requirements on UCSD’s use of funds, a monthly proration process is completed to reallocate expenditures from the two SOFI funds to the appropriate legacy fund at the campus-wide Integrated Financial Information System (IFIS) operating ledger level. In general, the monthly proration mapping logic seeks to spend down legacy funds on a first-dollar principle; in other words, in order from most to least restricted as budget balances allow, with the goal of having carryforward balances accumulate on funds that are the least restricted.

The proration occurs using two distinct processes – a compensation process and a non-compensation process. The compensation proration process (**Attachment B**) considers the employee’s occupation type, function<sup>1</sup>, payroll Description of Service (DOS) codes, title codes, and class title outlines. DOS codes, which identify the type of employee labor reported, are separated into three tables to manage legacy fund restrictions. Table A includes DOS codes that are allowable on State General Funds (SGF), Table B contains those that are allowable on tuition funds, but not SGF, and Table C contains all other DOS codes.

The non-compensation proration process (**Attachment C**) considers the function, non-payroll account codes, and organizations. For example, student financial aid expenses (functions 77, 78, and 79) are allocated to Tuition Fund (20095A), while Central UCSD development activities are allocated to Campus Core funds (68606A). Sensitive account codes (e.g. tobacco, alcohol, and gifts) and activities (e.g. lobbying) are included in lists entitled “Special/Sensitive Account Codes” and “Special/Sensitive Orgs,” and prorated to the least restricted legacy funds (e.g. Campus Core fund 07427A). Changes to the

---

<sup>1</sup> The Chart of Accounts uses a program code to identify the function associated with a transaction or balance. The first two digits of the program code defines the function associated with the program, (e.g. 40xxxx is Instruction while 61xxxx is Instruction, Extension).

overall spending plan for legacy fund balances are identified by the Campus Budget Office and then proration logic adjustments are provided to Information Technology Services (ITS) for implementation into the programming of the automated monthly back-end process.

The CBO Principal Administrative Analyst (CBO Analyst) tracks proration spending results on a monthly basis, including alignment with the strategic plan and effect on carryforward balances. At fiscal year-end, the CBO Analyst reviews the ledger for unallowable activity that may have been prorated to SGF in error or prior to the implementation of a new constraint. Additionally, the CBO Analyst analyzes the proration outcomes to identify under/over-spending based on established financial targets. Remaining carry-forward balances in legacy funds from prior years are also addressed during fiscal year-end.

---

### III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

---

The objective of our review was to determine whether adequate internal controls are in place to ensure expenses were applied to legacy funds appropriately and applicable restrictions were enforced in accordance with UC and UCSD policy. In order to achieve our objective, we performed the following:

- Reviewed various UC and UCSD policies, including G-28 (Travel Regulations), BUS-79 (Expenditures for Business Meetings, Entertainment, and Other Occasions), and D-371-35 (Honorarium Payments);
- Interviewed the CBO Analyst;
- Reviewed proration flowcharts for moving compensation and non-compensation expenses from SOFI funds to “legacy” funds, including DOS code tables and lists of special/sensitive account codes and organizations;
- Sampled and tested prorated expenses to verify that proration rules are working as intended; and
- Sampled and tested special account and DOS codes to verify whether they were inappropriately charged to restricted funding sources.

The scope of our review was limited to expenditures from July 2017 through April 2018.

---

### IV. CONCLUSION

---

Based on our review, we concluded that internal controls were generally adequate to ensure expenses were applied appropriately and restrictions on legacy funds were enforced in accordance with UC and UCSD policy. Most expenses were properly prorated to legacy funds in accordance with fund restrictions. However, we identified opportunities for improvement to ensure restricted/sensitive non-payroll account codes were not inappropriately prorated to legacy funds. We also noted an unexpected variance, by fund, between the automatically-prorated compensation expenses and how compensation expenses mapped to legacy funds when following the proration flowchart.

## V. OBSERVATIONS REQUIRING MANAGEMENT ACTION

<b>A.</b>	<b>Restrictions on Legacy Funds</b>
Some restrictions on legacy funds were not included in the automated proration process, in accordance with UC or UCSD policy.	
<b>Risk Statement/Effect</b>	
Missing restrictions may inadvertently result in the charging of inappropriate expenses to partially restricted legacy funds.	
<b>Management Corrective Action</b>	
A.1	For FY 2017-18 reporting, the CBO will manually move parking expenses off SGF to a less restrictive funding source.
A.2	The CBO will work with ITS to update the lists of restricted/sensitive account codes to account for newly-identified restrictions, as appropriate.
A.3	The CBO will continue to work with subject matter experts to ensure they have a comprehensive list of account codes restricted on legacy funds.

### A. Restrictions on Legacy Funds – Detailed Discussion

During our review, we noted a number of non-payroll account codes that appear to be restricted by policy, but were not included in the Special/Sensitive Account Codes list. For example, while University Policy indicates that state funds cannot be used for parking permits (UCSD Policy & Procedure Manual 545-2), the account code for parking recharges (637217) was not on the list of special/sensitive account codes. Additionally, honoraria payments cannot be made on state funds (UC Policy D-371-35), but account code 637900 for honoraria was not included either.

Of the \$1.17m potentially restricted/sensitive expenses incurred during our audit scope, only \$1.5k in parking recharges was inappropriately charged to SGF. Honoria expenses totaling \$5,200 had originally been charged to SGF, but had been identified and moved prior to our sample selection. Although the risk of unallowable non-compensation expenses appears to be low, including the potential restricted/sensitive account codes to the automated proration process would reduce the need for manual adjustments during the fiscal year-end process.

Throughout the fiscal year, the CBO Analyst maintained a list of items, including honoraria, that potentially should be included or moved in the Special/Sensitive lists and DOS code tables. The items were either brought to her attention by various subject matter experts or from her own research. Part of the fiscal year-end process is to determine whether the proration programs need to be updated with the newly-identified restrictions. The CBO Analyst plans to discuss the items with management and will work with ITS to update the programs for the following fiscal year.

<b>B.</b>	<b>Compensation Variance</b>
There was an unexpected variance between the prorated compensation expenses and the mapped expenses by funding source for the period July 2017 through April 2018.	
<b>Risk Statement/Effect</b>	
The compensation proration logic may not be working as intended.	
<b>Management Corrective Action</b>	
B.1	The CBO will work with ITS to determine the source of the variance and whether the logic is working as intended.

### B. Compensation Variance – Detailed Discussion

During our review, we obtained compensation data on SOFI funds for our audit scope and mapped which funding source the expense would be charged to according to the Compensation Proration Flowchart (**Attachment B**). We then compared the mapped expenses to the prorated expenses and had the following variances:

Fund	Prorated Expenses Total	Mapped Expenses Total	Variance
<b>07427A</b>	\$ 45,012,854	\$ 45,033,166.72	\$ (20,313.13)
<b>19900A</b>	\$ 216,251,005	\$ 216,178,844.63	\$ 72,160.47
<b>19933A/19934A</b>	\$ 47,199,695	\$ 46,774,472.16	\$ 425,222.74
<b>19942A</b>	\$ 112,905,888	\$ 112,184,393.37	\$ 721,495.12
<b>20095A</b>	\$ 164,888,266	\$ 166,086,550.00	\$ (1,198,284.14)
<b>Grand Total</b>	<b>\$ 586,257,708</b>	<b>\$ 586,257,426.88</b>	<b>\$ 281.06<sup>2</sup></b>

While the cause for the overall variance was identified, the variance at the fund level could not be explained. However, the risk of unallowable expenses on restricted funds appears to be low. The majority of noted restrictions on State General Fund 19900A are related to non-compensation expenses. Additionally, the only restriction for Fund 20095A (Tuition Fund) is that it cannot be used to support self-supporting graduate degree programs. Part of the CBO Analyst's fiscal year-end process includes reviewing expenses for professional schools to ensure they are allocated to their respective fund appropriately. Therefore, while we could not determine whether any expenses on Fund 20095A were for self-supporting graduate degree programs, the risk of unallowable expenses on the fund appears to be low. We did not note any other restrictions on the remaining funding sources.

<sup>2</sup> The variance between the prorated and mapped totals is because one payroll expense had a CTO value of "\*", which was not included in the proration flowchart, and therefore could not be mapped to a funding source.

## AMAS Project #2018-02

## Source of SOFI Funds

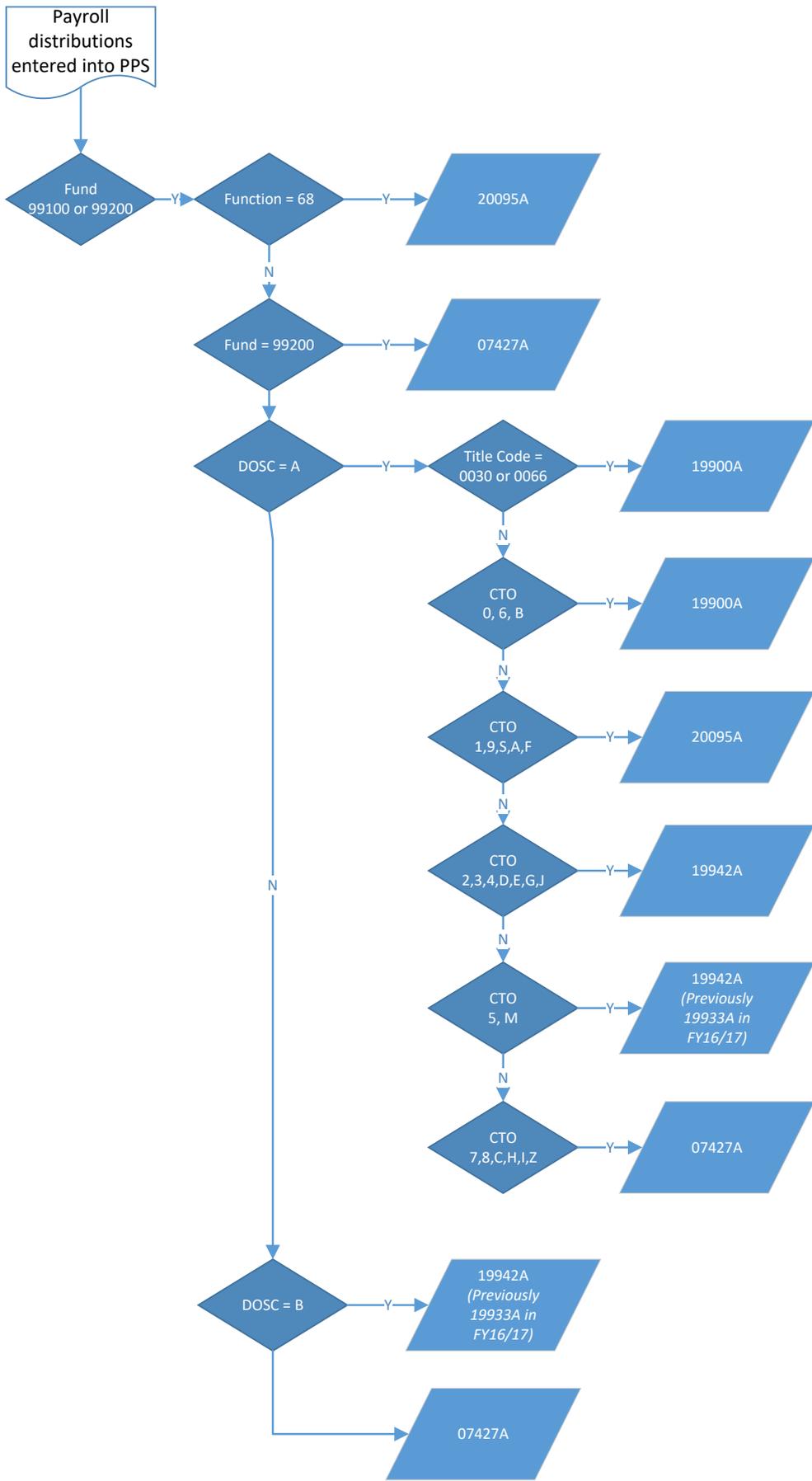
**UNIVERSITY CORE FUND: 99100A**

<b>Fund</b>	<b>Fund Title</b>
<b>State General Funds</b>	
19900A	GENERAL FUND
19900R	GENERAL FUND-STATE AWARDS
19904A	S/A UTEP S/A INSTRUCTIONAL EQUIPMENT
19905A	REPL PR
19906A	S/A INSTR USE OF COMPUTER K-12 TEACHER DEVELOPMENT PROGRAMS
19923A	PROGRAMS
19925A	S/A SUBSTANCE ABUSE/SF S/A UCOP ADMINISTRATIVE SYSTEMS
19926A	SYSTEMS
19946A	LEASE PURCHASE PAYMENTS
19948A	LEASE PURCHASE DEPT SAVINGS STATE FUND - STUDENT
19969A	FINANCIAL AID
19990A	Y/E ADJ- GF
<b>UCGF - Univ. generated General Funds</b>	
19931A	STATE/UC SPONSORED RSRCH OH
19933A	UC GEN FUND FROM ICR STATE APPROP/STATE AGRMNT
19934A	OVERHEAD
19940A	UC GENERAL FUND YE ADJ
19941A	MISC UC GENERAL FUNDS
19942A	NON RESIDENT SUPP TUITION
19943A	NRT GRADUATE ACADEMIC
<b>Systemwide Tuition &amp; Fees</b>	
20095A	TUITION
20226A	PROF DEG SUPP TUITION
20225A	PROF DEG SUPP TUITION - MBA
20224A	SOP PROF DEGREE SUPP TUITION
20223A-R	IRPS PROF DEG SUPP TUITION
20290A	SUMMER SESSION-FISCAL YEAR

**CAMPUS CORE FUND: 99200A**

<b>Fund</b>	<b>Fund Title</b>
<b>Research ICR</b>	
05397A	EDUCATIONAL FUND
07427A	OPPORTUNITY FUND
69750A	CONTRACT AND GRANT ADMIN NET-NEW INDIRECT COST
69753A	RECOVERY
<b>Internal Overhead Recovery</b>	
39998A	DONORS
46250A	FEE ASSESSMENT-UCSD FDN ASSA ADMINISTRATIVE
67531A	OVERHEAD ENDOWMENT COST RECOVERY- REGENTS ENDOWMENT COST RECOVERY- FOUNDATION
68606A	REGENTS
68607A	FOUNDATION
75451A	DIFF INC RESV - CENTRAL ADMIN
<b>Patent Income</b>	
60506A	PATENT/IP DISCRETIONARY
<b>STIP/TRIP Income</b>	
69899A	VC-DEVELOP & UNIV RELATIONS- STIP
69900A	STIP CLEARING
69901A	CHANCELLOR'S STIP FUND
69902A	CHANCELLOR'S TRIP FUND
69903A	2009/2010 5 YR STIP LOAN VC-D&UR UC FDN STIP
69987A	ASSESSMENT VC-D&UR REGENTS STIP
69988A	ASSESSMENT
69991A	VICE CHANCELLOR-HEALTH SCIENCE-STIP VICE CHANCELLOR-MARINE
69992A	SCIENCE-STIP VICE CHANCELLOR-BUSINESS & FIN-STIP
69993A	VICE CHANCELLOR-ACADEM AFFAIRS-STIP
69994A	VICE CHANCELLOR-STUDENT
69995A	AFFRS-STIP VICE CHANCELLOR-RESOURCE
69996A	MGMT-STIP TRIP CLEARING UCOP
99998A	DISTRIBUTIONS

**SOFI  
Compensation  
Proration to Legacy  
Fund Mapping**  
as of Nov 2017



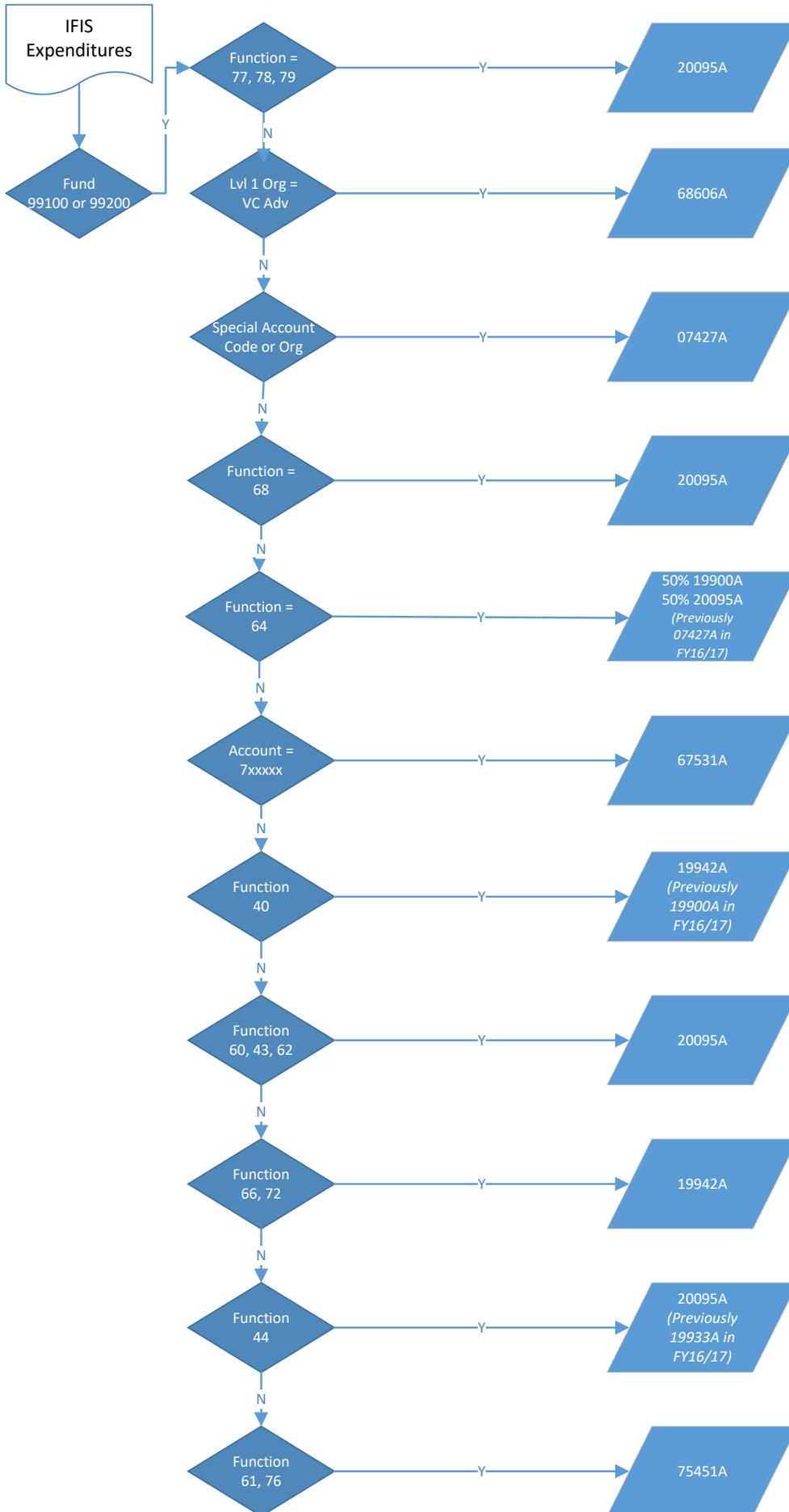
**Function**  
First 2 Characters of Program Code  
68: Student Services

**DOSC: Description Of Service Code**  
Table A: ok for SGF i.e. REG, HST, NCB  
Table B: Comp Plan Scale X', Y, Y'  
Table C: all other

**Title Code**  
0030: Chancellor  
0066: Exec VC and Provost

**CTO: Class Title Outline**  
A: Student Services  
B: Clerical  
C: Food & Linen Services  
D: Comm, Arts & Graphics  
E: Architecture, Engineering Services  
F: Fiscal, Mgmt & Staff Services  
G: Maintenance, Fab & Operations  
H: Health Care  
I: Sciences, Laboratory  
J: Protective Services  
M: Management  
S: Academic Admin Officers  
Z: Other  
0: Faculty – Ladder Ranks  
1: Faculty – Acting Ranks  
2: Faculty – Lecturers  
3: Other Faculty  
4: Student Assistants  
5: Research  
6: Librarians  
7: Cooperative Extension  
8: University Extension  
9: Other Academic Personnel

**SOFI**  
**Non-Compensation**  
**Proration to Legacy**  
**Fund Mapping**  
*as of Nov 2017*



Function	
First 2 Characters of Program Code	
40xxxx	Instruction
44xxxx	Research
62xxxx	Public service
42xxxx	Teaching hospital
43xxxx	Academic support
60xxxx	Library
61xxxx	Instruction, Extension
64xxxx	OMP
66xxxx	Institutional support
68xxxx	Student services
72xxxx	Institutional support
77xxxx	Financial aid, undergraduate
78xxxx	Financial aid, graduate
79xxxx	Financial aid
80xxxx	Budget provision

Special / Sensitive Account Codes	
637455	Gifts, flowers, tickets
637465	Meals-Special Entertainment
637466	Meetings-Parties/Social
637490	MedCenter Emp Awards
637592	Prog Activity
637920	Restor Plan 415M Expense
638086	Tobacco
638094	Gifts/awards Emp Non-cash
638173	Beverages-Alcoholic
638190	Catering-Bus/Tech Events
638201	Catering-Bus w/ materials
652012	Athletics-Team Travel
652013	Athletics-Prof Travel
652014	Athletics-Recruiting Travel
652900	Travel-Out of State
652905	Travel-Out of State ClinTrial
652910	Travel-Out of State Conf
652911	Travel-Out of State Recruit

Special / Sensitive Orgs	
436457	SIO Govt-Intl Relations
613700	Intl Relations & Pac Studies
660221	Chancellor Residence-Ops
660227	VC Research
660417	Univ Relations-Special Event
660437	UCSD Signature Events
723001	Univ Communications