AUDIT AND ADVISORY SERVICES

Incubators and Accelerators for Start-up Organizations Audit
Project No. 19-725

April 2, 2020

Prepared by:

Robert Asato
Auditor-in-Charge

Reviewed and Approved by:

Jaime Jue
Director

UNIVERSITY OF CALIFORNIA, BERKELEY

BERKELEY • DAVIS • IRVINE • LOS ANGELES • MERCED • RIVERSIDE • SAN DIEGO • SAN FRANCISCO SANTA BARBARA • SANTA CRUZ

AUDIT AND ADVISORY SERVICES
Tel: (510) 642-8292

611 UNIVERSITY HALL #1170
BERKELEY, CALIFORNIA 94720-1170

April 2, 2020

Randy Katz
Vice Chancellor
Office of the Vice Chancellor for Research

Vice Chancellor Katz:

We have completed our audit of incubators and accelerators for start-up organizations as per our annual service plan in accordance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and the University of California Internal Audit Charter.

Our observations with management action plans are found in the accompanying report. Please destroy all copies of draft reports and related documents. Thank you to the staff of the Office of the Vice Chancellor for Research, Berkeley SkyDeck, CITRIS Foundry, and the QB3 Garage and for their cooperative efforts throughout the audit process. Please do not hesitate to call on Audit and Advisory Services if we can be of further assistance in this or other matters.

Respectfully reported,

Jaime Jue
Director

cc: Assistant Vice Chancellor Patrick Schlesinger
Assistant Vice Chancellor Carol Mimura
Chief of Staff Elizabeth Brashers
Dean Ann Harrison
Dean Tsu-Jae King Liu
Executive Director Caroline Winnett
Assistant Dean Dat Le
Assistant Dean Delphine Sherman
Interim Controller Elizabeth Chavez
Associate Chancellor Khira Griscavage
Senior Vice President and Chief Compliance and Audit Officer Alexander Bustamante

University of California, Berkeley
Audit and Advisory Services
Incubators and Accelerators for Start-up Organizations

Table of Contents

OVERVIEW

Executive Summary

The purpose of the audit was to assess campus oversight and departmental controls to ensure sound practices are in place to support operational effectiveness and efficiency of campus incubators and accelerators.

The scope of the audit included selecting a sample of campus incubators and accelerators to assess certain operational and financial processes and procedures to determine the effectiveness and efficiency of those areas and compliance with related campus and university policies.

Based upon the results of the audit work performed, we observed the following areas for opportunities to strengthen controls and improve process design and operational effectiveness related to campus incubators and accelerators:

- **Consistency with the University's Non-Profit Status**: The campus should evaluate the fair-market value of services provided to incubator and accelerator program participants and implement a mechanism to recoup costs (e.g., through participation fees, promissory notes, direct equity investments, or receiving reciprocal in-kind benefits) to mitigate the potential perception that the campus is providing more than incidental benefits to private entities.
- **Competition between Programs**: The campus should consider whether programs should be formally or informally coordinated to mitigate the risk of external confusion of programmatic overlap and to better define their specialized offerings and subject-area expertise.
- **Complex Participation Agreements**: Given that multilateral participation agreements between parties (program participants, corporate sponsors, external venture funds, and the university) are complex, not currently coordinated in their development, and dissimilar to other common business contracts, sponsored projects, or industry alliance agreements found elsewhere on campus, management may wish to reconvene prior working groups involving the Sponsored Projects Office, Business Contracts and Brand Protection, and Intellectual Property and Industry Research Alliances to determine which is the appropriate unit to review and approve under existing delegated authority.
- **Use and Protection of Third-Party Intellectual Property**: The campus should evaluate internal protocols and controls related to the protection, use and disclosure of third-party intellectual property to different stakeholders in the incubator and accelerator environment (venture capital fund general and limited partners, corporate sponsors, global innovation partners, peer incubator and accelerator programs, etc.) where there may be competing interests in terms of obtaining early or preferential access to proprietary information in order to mitigate the risk that the campus may appear to exhibit favoritism or provide preferential treatment.
- **Governance Structures**: Changes in program objectives over time for individual programs, in part because of apparent campus pressures on current revenue generation and cost recovery, were observed to be accompanied by a commensurate increase in program complexity and financial, operational, and reputational risk. Governance structures over campus incubator and accelerator programs should continually evaluate their consistency

with the university's teaching, research, and public service missions as well as to review program objectives, key performance indicators, third-party risk, and program leadership.

- **Berkeley SkyDeck**: Internal controls were not operating effectively to ensure general compliance with campus policies and certain external regulations and laws. With oversight from the SkyDeck Board, management should immediately strengthen the internal control environment to ensure ongoing compliance.

Source and Purpose of the Audit

The audit objective was to assess campus oversight and departmental controls to ensure sound practices are in place to support operational effectiveness and efficiency related to such areas as strategic planning, resource management, contract management, philanthropy and donor stewardship, event coordination, facilities, intellectual property, risk management, performance assessment, and compliance.

Scope of the Audit

The audit scope included examining a select sample of campus' incubators and accelerators. The sample selection included SkyDeck, Center for Information Technology Research in the Interest of Society (CITRIS) Foundry, and the California Institute for Quantitative Biosciences (QB3) Garage and their current processes and internal controls in the areas described above.

Audit techniques also included discussions with

- Vice Chancellor for Research Office (VCRO)
- Industry Alliances Office
- Contracts and Grants Accounting
- Real Estate Services
- Accounts Payable
- Office of Business Contracts and Brand Protection
- University Development and Alumni Relations
- Berkeley International Office
- Office of Legal Affairs
- Office of General Counsel at the Office of the President

Our fieldwork was completed in June 2019.

Background Information

Accelerators and Incubators

Accelerators support early-stage, growth-driven start-ups through education, mentorship, and financing. Start-ups are normally selected to participate for a fixed-period of time and as part of a cohort of start-up companies. Accelerators may or may not offer dedicated office space to start-ups but could have a physical location for sharing resources and expertise and host accelerator events that include invited subject-matter expert guest speakers.

The accelerator experience can be a process of fast-paced and immersive education for the purpose of accelerating the life cycle of young innovative start-ups. The experience can compress several years' worth of learning into a short period of time, culminating in a demo day where the program hosts a series of investment pitches from the start-ups to investors. The goal of accelerators is to grow the size and value of a start-up as fast as possible in preparation for their initial round of funding.

Incubators usually offer similar support as their accelerator counterparts. However, they tend to focus primarily on offering dedicated space to start-ups for a set period of time. Start-ups that are selected for an incubator are usually companies that are at a stage that is further along in its growth than early-stage development.

Increasingly, universities are creating accelerators and incubators to bridge the gap between the university laboratory and industry. These accelerators and incubators serve as a launching pad for students and faculty members to bring new products and services to market. Our audit included three campus programs: Berkeley SkyDeck, CITRIS Foundry, and QB3 Garage.

Berkeley SkyDeck[1]

Berkeley SkyDeck was established in 2012 as a partnership among the Haas School of Business, the College of Engineering, and the Office of the Vice Chancellor for Research, with major input and leadership from Intellectual Property and Industry Research Alliances.

SkyDeck offers two programs: The Hot-Desk track (incubator program) enables teams to engage with SkyDeck on an informal basis, ranging from access to open areas in the office, to attending workshops and events, to networking with other SkyDeck companies. Cohort (accelerator program) teams enroll in the 6-month Berkeley Acceleration Method (BAM) program, in which they receive a lead advisor, personal coaching on fundraising and team development, a suite of free technology resources, and legal and financial expertise. Mentorship is contributed by a community of over 90 SkyAdvisors (including faculty advisors) and industry partners, which make significant financial contributions to access the program.

In 2017, SkyDeck announced the development of an affiliated venture fund. Under the leadership of the managing partner, the Berkeley SkyDeck Fund successfully met its $20 million subscription target, of which $100,000 would be invested (as a $2 million cap SAFE (simple agreement for future equity) mechanism) in each of the 40 companies per year that participated in the cohort/accelerator program. In return, the fund asks for 10% participation rights in the first institutional round of financing. The fund's investors include prominent venture capital firms. In addition to these firms, faculty and SkyAdvisors have invested individually in the fund. Importantly, the fund will share the carry (carried interest or profit share that the general partner receives) equally with UC Berkeley.

In 2018, SkyDeck doubled its space, adding an additional floor to now occupy the Penthouse floor and the third floor in the SkyDeck building (2150 Shattuck Avenue). The floors host SkyDeck Cohort and Hot-Desk teams, and offer space for events and networking.

CITRIS Foundry

CITRIS Foundry is a multi-campus accelerator for founders building deep technology companies. It provides experiential entrepreneurship education to UC Berkeley students, staff, faculty and alumni through their start-up accelerator and incubator program. This is provided through workshops and direct mentorship. To date, CITRIS Foundry has supported 48 start-ups. CITRIS Foundry provides guidance through a curriculum (utilizing a mix of staff time and external advisors), access to office space on the 4th floor of Sutardja Dai Hall and referrals to resource

[1] From Vice Chancellor for Research, *Entrepreneurship at UC Berkeley* whitepaper, July 20, 2018.

partners (cloud computing credits, legal services, etc.). The program has experimented with various models to provide different resources to program participants in the past. At one point, the CITRIS Foundry program provided access to laboratory resources for prototyping (makerspace, wet lab via QB3, cleanroom via Nanolab) and funding to start-ups (up to $10,000) in return for 2% equity. This equity program was piloted with the approval of UC Office of the President and was managed through the UC Office of the Chief Investment Officer. The equity program allows start-ups to pay fair market value (equity) for access to university resources to ensure they retain their intellectual property. However, this program was phased out during the last cohort (2018) in favor of having teams pay for access to university laboratory resources either directly to the campus user facilities or through the pilot Special Shared User Facility for Innovation and Entrepreneurship agreement.

QB3 Garage

QB3's stated mission is to grow the California bioeconomy as a hub for innovation and entrepreneurship in the life sciences and includes The Garage@Stanley Hall (QB3 Garage or Berkeley Garage) as part of its multi-campus programs. The QB3 Garage is a sandbox for nascent companies to operate, with the goal of creating companies based on UC technologies that will enrich the California economy. There are QB3 incubators at other UC locations and they are loosely coordinated by the central QB3 office, who track companies who are working in the Stanley Hall space. The QB3 Garage is required to report on all of QB3's activities systemwide to the Office of the President on a semi-annual basis as well as on QB3-Berkeley's activities annually to the Vice Chancellor – Research organization.

The QB3 Garage in Stanley Hall features approximately 800 square feet of wet laboratory space, set up with eight stations for incubator use. Each station offers bench and desk space as well as network connections. Resident companies also share use of a prep bench with standard lab facilities, along with space for floor-standing equipment, such as a refrigerator, freezer, and centrifuge. Garage tenants pay rent and have leases managed through the campus Real Estate Services office. Approximately 160 faculty affiliates are associated with the QB3 Garage.

Summary Conclusion

Based upon the results of the audit work performed, we observed the following areas for opportunities to strengthen controls and improve process design and operational effectiveness related to campus incubators and accelerators:

- **Consistency with the University's Non-Profit Status**: The campus should evaluate the fair-market value of services provided to incubator and accelerator program participants and implement mechanism to recoup costs (e.g., through participation fees, promissory notes, direct equity investments, or receiving reciprocal in-kind benefits) to mitigate the potential perception that the campus is providing more than incidental benefits to private entities.
- **Competition between Programs**: The campus should consider whether programs should be formally or informally coordinated to mitigate the risk of external confusion of programmatic overlap and to better define their specialized offerings and subject-area expertise.
- **Complex Participation Agreements**: Given that multilateral participation agreements between parties (program participants, corporate sponsors, external venture funds, and the

university) are complex, not currently coordinated in their development, and dissimilar to other common business contracts, sponsored projects, or industry alliance agreements found elsewhere on campus, management may wish to reconvene prior working groups involving the Sponsored Projects Office, Business Contracts and Brand Protection, and Intellectual Property and Industry Research Alliances to determine which is the appropriate unit to review and approve under existing delegated authority.

- **Use and Protection of Third-Party Intellectual Property**: The campus should evaluate internal protocols and controls related to the protection, use and disclosure of third-party intellectual property to different stakeholders in the incubator and accelerator environment (venture capital fund general and limited partners, corporate sponsors, global innovation partners, peer incubator and accelerator programs, etc.) where there may be competing interests in terms of obtaining early or preferential access to proprietary information in order to mitigate the risk that the campus may appear to exhibit favoritism or provide preferential treatment.
- **Governance Structures**: Changes in program objectives over time for individual programs, in part because of apparent campus pressures on current revenue generation and cost recovery, were observed to be accompanied by a commensurate increase in program complexity and financial, operational, and reputational risk. Governance structures over campus incubator and accelerator programs should continually evaluate their consistency with the university's teaching, research, and public service missions as well as to review program objectives, key performance indicators, third-party risk, and program leadership.
- **Berkeley SkyDeck**: Internal controls were not operating effectively to ensure general compliance with campus policies and certain external regulations and laws. With oversight from the SkyDeck Board, management should immediately strengthen the internal control environment to ensure ongoing compliance.

SUMMARY OF OBSERVATIONS & MANAGEMENT RESPONSE AND ACTION PLAN

Incubators and Accelerators and the University's Non-Profit Status

Observation

We observed that certain campus incubator and accelerator programs have expanded their scope to encourage start-up companies to apply and participate in their programs. Whereas these programs initially were envisioned by campus leadership to focus on companies with closer ties to the campus — such as being founded by a faculty member, student, or alumnus — now participants do not have to have such relationships.

We also observed that the benefits provided to program participants, such as programmatic training and instruction, access to faculty, staff support, use of office facilities, telecommunication services, etc., arguably have a monetary value that is more than incidental. Some of the programs do not currently charge for program participation nor seek current or future reimbursement for services provided or other consideration back to the campus.[2] This situation may lend itself to the perception that the campus is providing more than incidental benefits to private entities, which is potentially inconsistent with the University's ongoing non-profit status.

To mitigate this perception, the campus may wish to consider how best to evaluate the fair-market value of services provided to participants in these programs and either charge program participation fees or, as we understand currently takes place at a sister campus, to obtain a promissory note for the value of services provided. Alternately, it may wish to consider the value of any tangible benefits that program participants may provide to the campus, such as the employment of current students as interns, as an offset. Other options may include taking a direct equity stake in the companies, pursuing a university research park model, or spinning-off incubator/accelerator programs into separate legal entities.

Management Response and Action Plan

The VCRO understands that UC Berkeley must work toward a campuswide approach to ensure the consistent and direct flow of benefits back to campus for support of non-UC Berkeley affiliated startups and entrepreneurs. To this end, the VCRO will compose and convene a small group of campus innovation and entrepreneurship (I&E) policy experts to make recommendations for such a policy. In addition, costs for selected I&E programs will be assessed to evaluate and inform decisions regarding models for appropriate cost recovery. We anticipate that these actions will be completed by January 29, 2021.

[2] Some programs have an affiliated start-up fund that provides start-up funds to the company in exchange for an equity stake. However, these start-up funds are legally separate entities.

Competition between Campus Incubators and Accelerators

Observation

We observe many campus units across multiple divisions with incubator and accelerator programs that target start-up companies to participate in their program. Although this situation could be construed to promote healthy competition across divisions and programs, we also note the risk that an uncoordinated approach may lead to confusion among potential participants as to the difference between these programs and which program is best-suited for their company's market niche and stage of development.

This is compounded by one program asserting itself as the "official" campus incubator and accelerator program. Senior management may wish to consider whether certain programs should be formally or informally coordinated to mitigate the risk of external confusion of programmatic overlap or at least to better define their specialized offerings or subject-area expertise beyond their generic appeals of providing "access to campus resources, faculty and alumni".

Management Response and Action Plan

The VCRO, through the well-established Innovation & Entrepreneurship Council, will convene campus incubators and accelerator leadership to discuss these concerns and work toward a plan where the entities' respective roles are clarified and better communicated to the entire campus. The VCRO will work with the incoming Chief Innovation & Entrepreneurship Officer (start date January 2020) to develop a communication plan to internal and external stakeholders. This work is expected to be completed by January 29, 2021.

Complex Program Participation Agreements

Observation

We observe that agreements between the campus and start-up companies for participation in an incubator or accelerator program can involve complex issues that are unlike comparable agreements for corporate sponsorship or industry alliances. In particular and as an example, domestic start-up companies participating in Berkeley SkyDeck's accelerator cohort program sign an agreement that involves both the Regents as well as the Berkeley SkyDeck Fund, a legally separate private entity. There is also a separate agreement between the Regents and the SkyDeck Fund. It is not clear that the Board of Directors for SkyDeck have full insight into how these agreements interrelate and how contractual roles, obligations, and risks are distributed among the parties. (See our separate observation related to governance below.)

In addition, the Berkeley SkyDeck Global Innovation Partners program involves contracts with foreign entities and contemplate legally binding unnamed third-party foreign start-ups that the Global Innovation program's contracted entities recruit to send to Berkeley SkyDeck. These agreements have to date been signed by representatives of the campus Industry Alliances Office. We note that these agreements are arguably very different in scope and context from existing industry alliance relationships. In addition, we note serious errors and omissions in early executed agreements for this program such as inappropriate terms for visa sponsorship, lack of rights for the campus to disapprove companies put forward by Global Innovation partners, and lack of provisions for appropriate risk management (insurance, limitations of liability, indemnification, etc.). Although some of these errors and omissions were corrected in subsequent executed agreements, business processes for appropriate preparation and review of all of these agreements do not appear to be in place. The campus may wish to reconvene prior working groups involving the Sponsored Projects Office, Business Contracts and Brand Protection, and Intellectual Property and Industry Research Alliances (IPIRA) to determine which is the appropriate unit to review and approve these agreements going forward under existing delegated authority.

Lastly, also with respect to the SkyDeck Global Innovation Partners program, we observe that the current agreements that were vetted and approved by the Industry Alliances Office contemplate establishing a project in the campus financial system that is tracked and invoiced through the campus Contracts and Grants Accounting Office with the Assistant Vice Chancellor of IPIRA as the named principal investigator. However these agreements do not appear to be detailed in terms of performance milestones and deliverables that would provide guidance as to the appropriate timing for the recognition of earned revenue. This is exacerbated by the fact that SkyDeck does not currently track programmatic expenses in a manner that can justify allowability and allocability to the specific project. In addition, these projects are also subject to a 20% indirect cost assessment which reduces the amount of net revenue available to SkyDeck more so than considering it as miscellaneous revenue that has an associated administrative full costing assessment of 9%. Management may wish to consider whether the continued use of a sponsored project model is preferable to recognizing the income from this program as another income category (such as sales and service of educational activity or miscellaneous income).

Management Response and Action Plan

The SkyDeck organization (represented by the Regents) and its relationship with the SkyDeck Fund constitute a complex and innovative structure. Program agreements are typically novel and require review from multiple offices including Industry Alliances Office, Business Contracts and Brand Protection, the Berkeley International Office, and others.

To support this coordination, the VCRO will convene a small working group with leadership from the Industry Alliances Office, Sponsored Projects Office, Business Contracts and Brand Protection, University Development and Alumni Relations, and Campus Counsel to provide a formal review process for incubator/accelerator agreements. In addition, selected existing agreements will be reviewed to identify potential opportunities for clarification of terms or agreement type classification. We anticipate that the review process developed by the leadership working group will be implemented by January 29, 2021.

In the meantime, since 2019, the VCRO has required that SkyDeck staff inform VCRO of any new funding or partnership agreements being considered — industry, gift or otherwise — before any terms or gift/grant/contract status are finalized to make sure they are properly routed to and reviewed/signed by the appropriate office.

Lastly, the VCRO will work with the SkyDeck Board chair and Campus Counsel to ensure that Board members are fully informed regarding the complexities of these arrangements.

Use and Protection of Third-Party Intellectual Property

Observation

With the expansion of focus by certain campus incubator and accelerator programs to solicit and accept potential program participants with no formal relationships with the campus, certain risks related to the protection, use, and disclosure of third-party intellectual property arises. These risks are not as prevalent when these programs are handling university-owned intellectual property, such as those developed by faculty or staff.

To evaluate applications from potential program participants as well as to assist them once onboard, sharing of the company's proprietary intellectual property is likely involved. As such, the campus has a certain duty to protect disclosure of third-party intellectual property to other third-parties.

We observe at least one complex situation where a campus incubator and accelerator program has an associated start-up fund that also contractually has access to a participating company's third-party intellectual property in order that the fund may evaluate the viability of the start-up as a future successful company and to identify other potential investors through the start-up fund. At the same time, the accelerator program solicits corporate sponsorships where membership in certain sponsorship levels brings with it guaranteed access to the proprietary information for the program participants. It is not clear whether there is mutual understanding and disclosure among all parties of who has access to what proprietary information, for what purpose, and whether those purposes are potentially conflicting. For example, investors in the start-up fund and corporate sponsors may be viewed as competing for early access to the start-up company's proprietary information. The potential role of gatekeeper for access to proprietary information for these competing interests puts the campus in a unique, and potentially risky, situation as being perceived as acting inequitably or in bad faith by one party because there is perceived preference or favoritism over another — particularly for that information that has the most potential future commercial value.

Management Response and Action Plan

VCRO has requested that the SkyDeck Executive Director work with Campus Counsel to review all active SkyDeck Fund and industry collaboration agreements to identify potentially overlapping terms/rights/access to SkyDeck incubator work/intellectual property. This review will also look for areas where there may not be full documentation of incubator/accelerator companies giving consent to sharing of IP — or where this consent may have been given, but not documented in writing. This review is underway and is targeted for completion by January 29, 2021.

Governance Structures for Campus Incubators and Accelerators

Observation

We observe that there can be complexities in structuring the governance for campus incubator and accelerator programs that may inhibit effective, ongoing oversight and guidance. In particular, there can be a combination of internal campus units as well as external parties such as affiliated start-up funds with their own leadership consisting of both general and limited partners. If roles and responsibilities among and between these groups are adequately defined, and periodically examined for ongoing effectiveness, coordination among stakeholders can be effectively managed.

For one of the campus programs though, we noted that it appeared that cross-divisional governance was not operating effectively to provide effective oversight. For this program, the scope of the program had evolved significantly from its original purpose of assisting faculty, students, and alumni to bring their ideas to market. This scope had evolved to pursuing corporate sponsorships akin to an industry alliance relationship, creating an affiliated start-up capital fund operated through a legally separate private partnership, and actively pursuing program participants globally with no prior relationship to the campus. We understand that these measures are being pursued in part to enhance current program revenue and to address an ongoing operational deficit. However, the perhaps unintended consequence, as we discussed in the first audit observation, is that the overall non-profit status of the campus may be subject to scrutiny.

We observe that the board overseeing this program has recently taken notable steps to exercise more timely and prudent oversight. We encourage them to continue to focus on the following responsibilities on an ongoing basis:

- Evaluating the mission and purpose of the program and its alignment with the university's mission
- Participating in the development of strategic planning
- Assessing the performance of program leadership
- Reviewing the objectives and performance of key programmatic elements – including key financial, operational, and strategic performance indicators and milestones
- Ensuring appropriate monitoring of the relationships with other third-parties including key donors and sponsors as well as external start-up partnership funds and corporate sponsors
- Ensuring that resources, including all fund sources, are managed prudently and effectively
- Self-assessing the effectiveness of the governing board

Management Response and Action Plan

The adoption of an overarching campuswide governance structure for incubators and accelerators is a broader issue for VCRO and campus partners to consider and explore. In the immediate context of SkyDeck, there are clarifications of roles and bylaws for the SkyDeck Board, which the Board will work on. This will be a topic of conversation at future SkyDeck Board meetings. Specifically, the VCRO will request 1) quarterly review by the SkyDeck Board of SkyDeck goals, mission, purpose, and strategy and 2) the SkyDeck Board to ensure that SkyDeck goals and progress are communicated to campus leadership and stakeholders. These actions are expected to be implemented by January 29, 2021.

Berkeley SkyDeck - Compliance with Campus Policies, External Regulations and Law

Observation

Based upon our audit fieldwork, we observe that internal controls were not operating effectively at Berkeley SkyDeck to ensure ongoing general compliance with campus policies as well as certain external regulations and laws. In particular, we observed

- the sublease of facilities to SkyDeck participants on the third-floor of the SkyDeck Building (2150 Shattuck Avenue) was documented via campus facility use permits, which are not designed nor appropriate for the sublease of leased space in non-university owned properties;
- a contract for the Global Innovation Partner program stated that the campus would host foreign participants on tourist visas;
- services from consultants, independent contractors, and service providers were procured outside of established Supply Chain Management business processes and paid through procurement card transactions;
- a consistent pattern of procurement card transactions not reviewed and approved in the BFS financial system as required and minimum documentation to justify business purpose not uploaded;
- cumulative high-dollar transactions with vendors (in excess of $10,000) that should have involved a Supply Chain Management buyer with delegated authority;
- procurement card transactions that appear to have been split to fall within card purchase limits;
- documentation to support the appropriateness and approval of Event Planner credit card transactions were consistently not prepared;
- significant amounts of catered food and beverages without clear business justification;
- entertainment meals over approved per-person limits without justification for exceptional entertainment expense or appropriate exceptional approval; and
- multiple events where alcohol was served without appropriate campus pre-approvals.

We recommend that management immediately work to enhance the internal control environment at Berkeley SkyDeck to address the areas noted above.

Management Response and Action Plan

VCR Katz and the SkyDeck Board have asked the SkyDeck Executive Director to take immediate steps to bring SkyDeck activities into line with policy and practice. The VCRO has assigned a team of experienced finance, HR, operations, management, and consulting staff to review SkyDeck operations and serve as resources for SkyDeck staff, to help bring SkyDeck into compliance as soon as possible. In addition, all SkyDeck employees have been notified of the need to confer with the VCRO team to identify where processes need to be changed.

A variety of important process and control improvements have already been implemented across the areas noted in the audit observation, and administrative staffing levels are being assessed to determine whether additional resources might be required to sustain compliance on a go-forward basis. This determination and the effort to bring unit business practices in line with policy requirements is expected to be completed by January 29, 2021.