

**UNIVERSITY OF CALIFORNIA, DAVIS
AUDIT AND MANAGEMENT ADVISORY SERVICES**

**University Extension – Center for Human Services
Audit and Management Advisory Services Project #16-54**

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MANAGEMENT SUMMARY

Audit & Management Advisory Services (AMAS) conducted a review of the Center for Human Services (the Center) within University Extension (Extension) as a supplemental audit requested by Extension management.

Background

Extension is the continuing and professional education arm of UC Davis providing courses and programs for individuals, custom training for organizations, education for international students, and applied research to benefit professional practice. The Center is one of Extension's largest and broadest-reaching departments. Comprised of four major Programs, the Center provides comprehensive education and training, consultation, research and other professional services that help human services organizations and professionals serve the needs of vulnerable children and families throughout California and across the nation. The Center has a curriculum of more than 400 courses and a faculty of nearly 300 instructors.

Procedures Performed and Scope of Review

The purpose of the audit was to evaluate the financial and administrative controls, and assess the efficiency and effectiveness of business processes for the Center. To conduct our audit, we interviewed Center leadership, key personnel in each of the Center's four Programs, and the Financial Services unit of Extension, which supports the Center. We reviewed select Center business practices, available policies, and process documentation. We analyzed financial information for the period July 1, 2014 through July 30, 2015.

Overall Financial Analysis of the Center

Extension is a self-supporting, nonprofit entity, relying solely on student fees, contracts and grants. Financial strategies include a goal whereby each Program generally is expected to achieve at least break-even financial performance. The table below shows the Center's recent struggles to cover costs and meet the break-even goal. Center deficits are subsidized by Extension reserves.

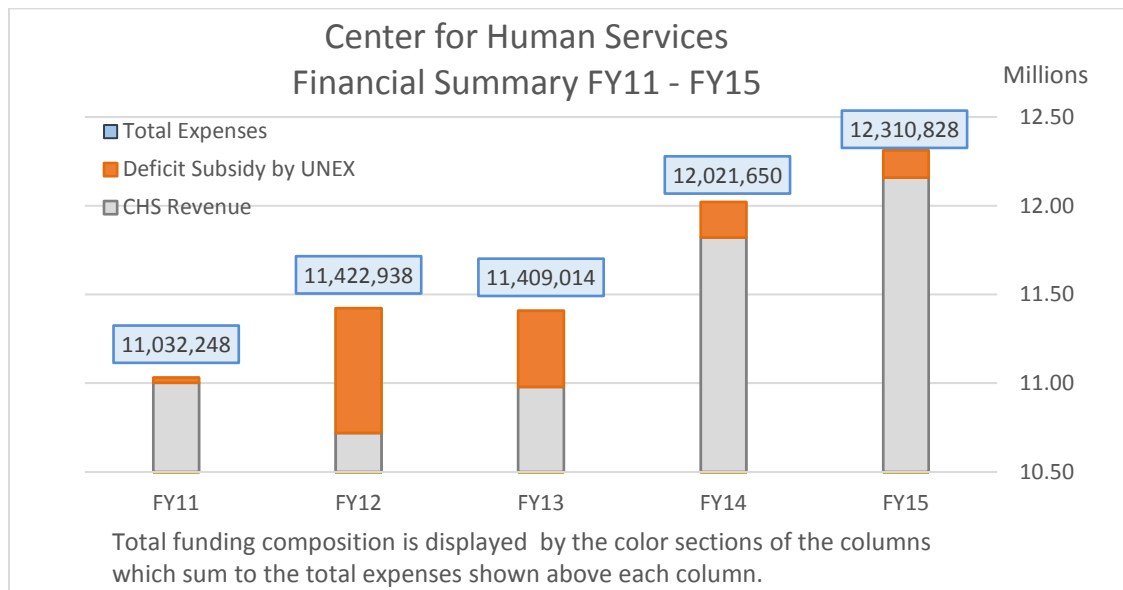


Figure 1 Data Source: Extension prepared Financial Summaries

Conclusion

The Center has entered a period of renewal with the goal of establishing more consistency and collaboration across its Programs. Several work groups were established in the past year and a number of improvements have already been made, including standardization and streamlining of the instructor application and interviewing process. Based on our review, we identified additional opportunities for the Center to strengthen its organizational effectiveness and financial management. Through development of standard operating procedures and communicating expectations to both staff and instructors, the Center will gain efficiencies, transparency, and a more collaborative environment. Finally, ensuring appropriate financial reporting/management tools are available will empower the Center to effectively monitor financial operations, make informed decisions, and manage current and future resources efficiently and effectively. Our observations and recommendations are explained in the body of the report.

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT CORRECTIVE ACTIONS**A Organizational Effectiveness**

Opportunities exist for the Center to strengthen its organizational effectiveness across the interrelated components of leadership, decision making and structure, people, work processes and systems, and culture.

1 Roles, responsibilities and expectations are not clearly defined.

The Center operates without an effective accountability structure that clearly defines and assigns responsibilities and routinely monitors effectiveness. UC Davis Principles of Accountability states that each person must have the appropriate knowledge and authority to perform the tasks assigned. Additionally, Standard Operating Procedures (SOP) are often used to convey the necessary information to ensure a procedure or process is performed the same way each time by each person. Good procedures and work instructions communicate standards and practices within an organization. When applied consistently, SOPs save time, improve accuracy, reduce training costs, and support quality goals.

The Center made recent improvements to standardize and streamline the instructor application and interviewing process, however, we did not observe any other centralized or consistently applied procedures across the Programs. With roles, responsibilities and expectations undefined, the Center's more than 50 employees have created their own processes. We interviewed staff from the various Center Programs and noted that while many of the goals and objectives are identical, the processes in place to accomplish them vary. For example, the authorization process for instructor payment differs among Programs. Some Programs have established procedures for obtaining the individual Program Director approvals, while others utilize an after the fact approval method. This inconsistency among Program processes and approvals may contribute to the perceptions expressed by some people that Programs use different instructor pay rates that may not be equitable or market based.

We reviewed select Extension financial policies and procedures and found they covered transactional processing mainly for Financial Services staff. Interviews with Center personnel confirmed that these policies do not clearly articulate the specific steps they need to perform in order to complete their part of the transactions. This has led to Center personnel developing their own non-standardized processes. In addition, Financial Services does not provide any formal or mandatory training to Center staff and when it does hold informal trainings, they are not well attended. Guidance is often isolated and does not create transparency of the entire process, nor relay the necessary information to staff to know what they should be doing, and why. This adds to the frustration that others are not doing what is necessary to correctly complete the objective.

The lack of standard documented procedures has also led to inefficiencies, such as duplication of efforts. While the Center's four Programs focus on providing education and training to different areas of social services, the processes necessary to achieve objectives are relatively similar. We observed several instances where the Programs are duplicating their efforts.

- “The Green List” originated as a Center-wide instructor list, used by Program representatives to assist them in selecting course instructors. The list was kept current by a single Center individual who has since left. Currently, there is no centralized list. Individuals are updating various versions of the green list for small populations of instructors, which could potentially exclude available instructors. This may limit a Program’s options as instructors are not always Program specific and many are qualified to instruct courses in other Programs.
- The Center has no centralized calendar function to coordinate scheduled courses between the various Programs. There have been occasional instances where more than one course was scheduled in the same location at the same time causing confusion to clients and potentially leading to lower attendance if participants would have taken both courses.

Some of the larger functions present throughout the Center, regardless of Program, such as instructor onboarding and travel claims processing, present opportunities for the Center to leverage resources and centralize select processes to increase efficiency and generate cost savings. Increasing the role of the Center also supports Extension’s current efforts of restructuring and creating “Centers of Energy”.

Recommendations

- Conduct an inventory and analyze the Center’s business processes to identify opportunities to increase efficiency and effectiveness.
- Prepare written documentation of the procedures and include timelines and responsible staff for performing tasks.
- Clearly communicate the procedures to all Center staff including expectations. (New training, annual training, onboarding.)
- Develop and implement a methodology to continuously monitor and enforce procedures.
- Periodically review the procedures for effectiveness and modify as necessary.

Management Corrective Actions

- By October 15, 2016, the Center will inventory business processes utilized in all its Programs and determine those that can be centralized and/or streamlined. The Center will develop a plan to systematically redesign these processes and implement centralized procedures focusing on achieving organizational goals, efficient workflows, and consistent application.
- By March 15, 2017, formalized Standard Operating Procedures will be developed for major processes such as instructor payments and course development that clearly articulate roles, responsibilities, and expectations. The new processes will be communicated to current staff via training and included in future staff onboarding.
- By May 15, 2017, the Center will establish a practice to monitor and enforce the new processes ensuring the desired levels of efficiencies and effectiveness are reached. Monitoring activities could include any combination of the following: transaction sampling, metrics, incident reporting, and root cause analysis.

2 Instructors do not clearly understand their responsibilities and the Center's expectations because of insufficient information.

Onboarding and training of new hires is essential to the success of both the employee and employer. Onboarding provides the knowledge of the organization's culture and expectations while training provides the how and the why of necessary processes. We did not observe a structured onboarding process for instructors within the Center. This lack of clear understanding by instructors and staff is evident per comments we received during interviews with Center personnel regarding instructor travel reimbursement.

- Instructors are either not concerned with keeping costs low, or no consistent guidelines are conveyed to instructors advising them of appropriate travel amounts or limitations.
- Instructors do not readily comply with Extension travel policy IV.A. 3. *Original receipts must be submitted with the Travel Expense Report for all expenses of \$10.00 or more.* Going back and forth with the instructor to obtain the support increases processing time.
- Instructors complain about how long travel reimbursements can take and Center personnel describe the process as onerous.

These comments point out that instructors are not consistently aware of the Center's processes and expectations, and both instructors and staff are frustrated with the current process.

Recommendations

- Develop and document appropriate processes and expectations for instructors.
- Develop appropriate training materials (online, written, in-person etc.) and immediately make available training to all instructors regarding travel policy, processes, and expectations. Consider adding a requirement to instructor agreements that they follow Extension guidelines and procedures for submitting travel requests.
- Establish a structured onboarding process for new instructors.

Management Corrective Actions

- By March 15, 2017, the Center will document critical instructor processes and identify opportunities to streamline and enhance their efficiencies. The Center will develop a plan to systematically redesign and implement instructor procedures that focus on achieving organizational goals, efficient workflows, and consistent application.
- By April 15, 2017, the Center and Financial Services will develop appropriate training materials for instructors regarding Extension expectations and processes.
- By May 15, 2017, the Center will communicate its expectations and processes to all instructors via training and compensation agreements.
- By May 15, 2017, the Center will establish a structured onboarding process for new instructors.

B Financial Management

Tools and processes are inadequate to facilitate efficient and effective decision making and resource management.

1 No formal or informal Center budgets are prepared.

Budgetary control involves prioritizing goals and objectives to guide the deployment of resources, setting targets, and regularly measuring performance. UC Davis Guidelines require establishment of an annual budget.¹ Without a budget or a financial plan, a business runs the risk of not meeting its goals, spending more money than it is taking in, or, conversely, not spending enough money to grow the business and compete. This is particularly important for all facets of Extension as a self-supporting, nonprofit entity, relying solely on student fees, contracts and grants.

Budgets are an important tool in financial monitoring, decision making, and measuring whether performance is on track to achieve goals. Monitoring activities can include a comparison of actual and budgeted expenditures, identification and investigation of variances between original targets and actual outcomes, motivating people to reduce those variances, and responding to changes in circumstances. Without a budget, the Center struggles to effectively monitor their financial performance.

Recommendations

- A Center budget should be developed annually.
- Financial Services and the Center should jointly establish an annual budget process, assigning ownership and clarifying their respective roles and responsibilities in the budget development process.

Management Corrective Actions

- By December 15, 2016, a Center budget for FY17 will be created suitable for monitoring of current year expenditures. Financial Services will develop the budget in collaboration with the Center.
- By April 15, 2017, Extension and the Center will establish an annual budget process that communicates a timeline, individual responsibility, and procedure steps that include analysis of historical data, future goal setting, and identification of funding sources. This budget process is irrespective of the format (paper, electronic, etc.) and Extension will modify steps as necessary for future University requirements and applications.
- By May 15, 2017, a FY18 Center budget will be created.

¹ The Principles of Financial Management (p.42) state that an annual (current) budget must be established.

2 No routine monitoring of the Center’s financial performance is conducted throughout the year.

Effective financial management per UCD Guidelines² requires routine financial monitoring sufficient to identify trends, address concerns, and facilitate decision making in a timely manner.

No consistent analysis of actual expenditures, or other financial monitoring processes designed to identify deviations from expected outcomes, are performed of the Center’s financial results. In FY2014-15, three of the Center’s four Programs saw a deficit balance. Periodic monitoring could have provided an opportunity to respond to negative variances with thoughtful action. We observed deficiencies in two important elements of a financial monitoring program for the Center.

- Responsibility for monitoring the Center’s financial performance is not clearly established. Monitoring roles and expectations are not well defined.
- The Center does not have convenient access to useful reports, greatly reducing the opportunities to make adjustments during the year to potentially control spending, expenses, or program offerings in order to achieve goals.

Financial monitoring requires relevant financial data. FIS Decision Support (DS) is the UC Davis web-based reporting component of the Quali Financial System. Programs are able to generate reports associated with their individual extramural funds easily in DS. Yet generating these same DS reports at the Center level is not an easy task because Extension’s current organizational structure within KFS is based upon funding source rather than a divisional roll up model where each subordinate organization rolls up to the next reporting level. It is necessary to obtain KFS data from a minimum of thirteen Org IDs to develop a complete picture of the Center. This complexity makes it extremely difficult for the Center to generate comprehensive reports from Decision Support.

Financial Services offers a number of predesigned and customizable reports from their financial downloads that can be accessed by Extension units, however, these reports are not widely accessed. The only routine financial report the Center receives is the annual Financial Summary prepared by Financial Services. This report is displayed in a “cost of goods sold” format and does not convey expenses in typical budget categories (i.e. personnel, supplies, travel, etc.), separate direct costs of training courses from Center administrative costs, or present a budget to actual comparison. Per Financial Services, the main purpose of the Financial Summary is to show the impact of a program, unit, or division on Extension’s main operating fund. While this is valuable from an Extension-wide viewpoint, it does not aid financial monitoring or strategic management decision making at the Center level. Financial Services should assist in making information available that is timely, accurate, and easy to use. Operating management, that is, the Center Director in concert with the Extension Dean, need to make the decisions based on the information that will drive performance.

² Principles of Financial Management (p.43) RESPONSIBILITIES -MONITORING AND EVALUATING FINANCIAL DATA includes monthly financial reports that accurately represent the unit’s financial status.

Recommendations

- Extension should restructure their Org ID Structure in KFS to a divisional roll up model.
- Extension should consider consistent use of sub-object codes or other identifiers to distinguish training course related costs from Center administrative costs.
- The Center and Financial Services should work together to identify DS reports and/or develop meaningful reports to facilitate appropriate and consistent monitoring of financial activity.
- Financial Services and the Center should jointly establish a process to periodically monitor the Center's financial performance and take appropriate actions. Roles, responsibilities, and expectations should be clearly defined.

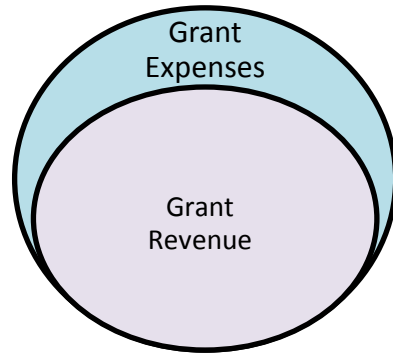
Management Corrective Actions

- By August 15, 2016, Extension Financial Services will restructure their organizational hierarchy in KFS to a divisional roll up model.
- By August 15, 2016, Extension Financial Services will develop a process to consistently differentiate course costs and Center administrative costs through the use of transaction identifiers. This process will be communicated to Financial Services and Center staff by September 15, 2016.
- By May 15, 2017, the Center and Extension Financial Services will identify KFS reports and/or develop meaningful reports to facilitate appropriate and consistent monitoring of financial activity.
- By May 15, 2017, Extension Financial Services and the Center will establish a procedure to periodically monitor its financial performance throughout the year, including an analysis of actual expenditures to budget expectations, and responding to variances with thoughtful action.

3 A cost sharing commitment is not fully funded resulting in a Program deficit.

Per the Center's 2014-15 Financial Summary, \$8.2 million (two-thirds of the Center's revenue) was received via extramural contract and grant sources. One of the Center's largest grants supports the Northern California Training Academy (NCTA). A condition of this grant is a mandatory cost sharing requirement which is partially funded by the indirect costs recovered³ on the award. However, these indirect costs are not sufficient to fully cover the cost share requirement. Figure 2 illustrates the impact of the cost share requirement, with the unfunded cost shares highlighted.

³ By agreement with central campus, Extension retains 100% of the indirect cost recovery generated by extramural awards. This funding is unrestricted and used by Extension to cover Administrative Units and Divisional Expenses.



Expenses charged to award:		
Direct Costs	100	
Calculated Indirect Cost Rate 50%	50	
Total Reimbursements (Grant Revenue)		150
Less Actual Cost to Extension:		
Direct Costs	100	
Actual Extension Overhead 30%	30	
Mandatory Cost Share Commitment	30	
Actual Costs to Extension (Grant Expenses)		(160)
Unfunded Expense		(10)

Figure 2 – Illustrates the impact of indirect costs and cost share requirements on \$100 of direct costs. 30% Actual Overhead estimated by Extension Financial Services. The Cost Share Commitment is 20% of Total Costs (150 * 20% = 30).

Neither NCTA nor the Center has the resources to cover the unfunded amount, which is a major contributor to the Center’s overall deficit position (See *Figure 1* in the Management Summary). The Center’s deficit is covered by Extension’s reserve funds. Without other sources of revenue for this cost share requirement, the current funding model is not sustainable.

Recommendation:

Negotiate with the sponsor to reduce the cost share requirement, and/or explore opportunities to obtain third party contributions or other funding sources.

Management Corrective Actions

By November 15, 2016, the Center will develop a plan to minimize the impact of the deficit resulting from the grant’s mandatory cost share requirement by exploring various options, including third party contributions, internal funding sources, and discussions with the sponsor to reduce the cost share requirement.
