

September 20, 2024

MERCEDES MUNOZ
Associate Vice Chancellor/Campus Budget Officer
0936

**Subject: *Recharge Processing and Oversight
Report 2024-03***

The final report for *Recharge Processing and Oversight, Report 2024-03*, 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.

Christa Perkins
Director
Audit & Management Advisory Services

Attachment

cc: Judy Bruner
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AUDIT & MANAGEMENT ADVISORY SERVICES

Recharge Processing and Oversight
Report No. 2024-03
September 2024

FINAL REPORT

Performed By:

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ATTACHMENT A - Recharge Units in Priority Need of Updated Rates, as of June 18, 2024

I. EXECUTIVE SUMMARY

Audit & Management Advisory Services (AMAS) has completed a review of Recharge Processing and Oversight (Report 2024-03) as part of the approved audit plan for Fiscal Year 2023-24. The objective of our review was to assess whether internal controls and business processes for recharge activities provided reasonable assurance that recharge operations are effective, result in accurate financial reporting, and are in compliance with relevant policy. The scope of our review did not include Auxiliary Enterprise Activity or recharge activities at the Medical Center.

Based on our review, we concluded that internal controls and business processes for recharge activities could be improved to provide reasonable assurance that recharge operations are effective, result in accurate financial reporting, and are in compliance with relevant policy.

We noted multiple areas in which Costing Policy & Analysis (CP&A) has made improvements to the process of recharge tracking and review. CP&A has implemented an internal tracking and follow up system for rate reviews and approvals, to better track rates that are due for review. Additionally, the unit developed new review templates for department and internal reviews to have clear reference documents and focused on timeliness of rate approvals. Further, in 2022, CP&A issued a guidance memo to the UCSD recharge community advising recharge application users to utilize the “expenditure comment” field to provide billing details. This guidance was in response to complaints that recharge expenditures did not include enough details for users to reconcile billings. Our review found recharge applications that had not previously provided billing details began utilizing the comment field after this guidance. We also found that the details recharge operations provided in this field provided the requisite information for users to identify the source and purpose of the charge.

While CP&A has made progress in multiple areas, we did note opportunities for process improvements in some areas. CP&A is in the process of beginning an annual review of recharge units, however, that process is not anticipated to begin for five to six months. Additionally, there is not a centralized campus process to perform tracking and oversight of non-federal recharges, which are classified as low risk in comparison to federal recharges. We also noted that a delegation of authority was not in place from the Chancellor, who has authority to approve recharge rates per University policy. Local policy has not yet been updated to reflect current approval processes.

Management Action Plans to address our findings are summarized below:

A. Annual Review and Oversight

1. CP&A will initiate processes for annual review of recharge rates within the next five to six months.
2. CP&A will work with campus partners¹ to determine recharge oversight responsibility and develop a process to track, monitor, and provide oversight for all recharge operations that CP&A has authority to approve.
3. CP&A will build and maintain an inventory for other income producing recharge units.

¹ ICA, Vice Chancellor for Health Sciences Business Contracting, Sponsored Projects Office, and CBO.

B. Recharge Approval Authority

1. A formal delegation of authority will be obtained from the Chancellor to the CP&A Executive Director, or other appropriate leader, for review and approval of recharge rates.
2. CP&A will review current processes to determine optimal approval workflows and update local policy as appropriate.

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 Recharge Processing and Oversight (Report 2024-03) as part of the approved audit plan for Fiscal Year 2023-24. This report summarizes the results of our review.

At UCSD, a recharge is an internal process to distribute costs for products or services among University units. A recharge activity is a self-supporting operation that consistently provides specific goods or services to campus units for a fee. Examples of recharge activities include lab services, computer services, and imaging services, among others. Some examples of campus departments that offer supplies and services through the recharge process include Animal Care Program, Facilities Management, San Diego Supercomputer Center (SDSC), Scripps Institution of Oceanography (SIO) Marine Sciences Development Center (MSDC), Information Technology Services (ITS), Mail Services, Temporary Employment Services (TES), Campus Research Machine Shop, and Altman Clinical and Translational Research Institute (ACTRI) among others.

UCSD's recharge policies and procedures are governed by various documents, including Policy & Procedure Manual (PPM) 300-87, Sales & Service of Educational Activities: Recharges by Academic Support Units and, Sales & Services to External Entities Policy; Business and Finance Bulletin (BFB) A-47, University Direct Costing Procedures; BFB-A-56, Academic Support Unit Costing and Billing Guidelines; and BFB-A-59, Costing and Working Capital for Auxiliary and Service Enterprises.

Costing Policy & Analysis (CP&A) provides oversight and guidance to ensure that recharge activities comply with federal and University costing policies and recover costs. The main objective of CP&A is to develop and apply policies, strategies, and financial practices that enhance campus cost reimbursement, achieve cost savings, and prevent disallowed costs, especially for sponsored activities and externally funded capital projects. CP&A services to the UCSD community encompass consultation and support; training and education; cost recovery optimization; policy development and implementation; compliance oversight and continuous improvement. CP&A is currently managing recharge licenses for 206 recharge units.

Departments are responsible for identifying and quantifying their recharge needs, including providing the justification, rates, and proposals for a recharge activity, ensuring the activity operates on a breakeven basis, billing customers on a monthly basis and maintaining sufficient records to support the recharges.

Historically, Internal Controls & Accounting (ICA) performed a Financial Review in the recharge workflow, which evaluated the financial viability of the proposal's cost recovery mechanism. However, that review is currently performed by CP&A. ICA now provides advice on an as needed basis to verify the technical accounting activity in the General Ledger.

As part of the recharge oversight process, a Recharge Advisory Committee (RAC) has been established by the Controller to act in an advisory role to address policy related issues, recommend resolution of any disputes, and provide adequate oversight. Specifically, at the request of CP&A or the Controller, RAC may review and recommend requests to establish new recharge and other income-producing activities, new recharge rates or revisions to existing recharge rates, and proposed corrective action

presented by staff in response to an annual review of existing recharge rates and recharge and income-producing activities.

CP&A has historically reported organizationally to the UCSD Controller in the Business & Financial Services (BFS) unit, under the Vice Chancellor (VC) and Chief Financial Officer (CFO) area. In Spring 2024, the Controller announced that effective July 1, 2024, CP&A would move to the Campus Budget Office (CBO), which is also under the VC-CFO.

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

The objective of our review was to assess whether internal controls and business processes for recharge activities provided reasonable assurance that recharge operations are effective, result in accurate financial reporting, and are in compliance with relevant policy. The scope of our review did not include Auxiliary Enterprise Activity or recharge activities at the Medical Center. In order to achieve our objective, we performed the following:

- Reviewed the following policies:
 - Business and Finance Bulletin (BFB) A-47, University Direct Costing Procedures;
 - BFB-A-56, Academic Support Unit Costing and Billing Guidelines;
 - BFB-A-59, Costing and Working Capital for Auxiliary and Service Enterprises; and
 - UCSD Policy & Procedure Manual (PPM) 300-87, Sales & Service of Educational Activities: Recharges by Academic Support Units and, Sales & Services to External Entities Policy.
- Reviewed:
 - CP&A's Recharge Community SharePoint website;
 - Sales and Service Recharge Activities Blink website;
 - Recharge activity profit and loss trends;
 - Recharge expenditure source transaction comment details;
 - March 2024 Recharge Administration Forum PowerPoint;
- Interviewed the following:
 - Executive Director, Costing Policy & Analysis;
 - Associate Controller, Internal Controls & Accounting, BFS;
 - Senior Director, Financial Operations Strategic Design, BFS;
 - Executive Director, Business Technology Services, Information Technology (IT);
 - Team Lead, Financial Information Services, IT;
 - Controller, UC San Diego Health Medical Center; and
 - Director, Policy & Records Administration (PRA);
- Analyzed:
 - Timeliness for recharge approvals from 2022 through 2024;
 - A judgmental sample of 10 recharge approval documents;
 - Recharge account balances for federal, state, and non-federal funds; and
 - A sample of recharge expenditure transactions from January 2024 – April 2024.

IV. CONCLUSION

Based on our review, we concluded that internal controls and business processes for recharge activities could be improved to provide reasonable assurance that recharge operations are effective, result in accurate financial reporting, and are in compliance with relevant policy.

We noted multiple areas in which CP&A has made improvements to the process of recharge tracking and review. CP&A has implemented an internal tracking and follow up system for rate reviews and approvals, to better track rates that are due for review. Additionally, the unit developed new review templates for department and internal reviews to have clear reference documents. CP&A is currently working to populate past recharge proposal rates and information into updated templates in anticipation of reaching out to recharge units for updated proposals. CP&A has also focused on timeliness of rate approvals, as we noted that CP&A completed 88% of reviews and approvals within two months of Vice Chancellor's Office review. This improvement is largely due to a 2019 policy change which removed the requirement for the RAC to review and approve recharges. The policy now allows the RAC to review and endorse proposals upon request, which has made the process more efficient.

Further, in 2022, CP&A issued a guidance memo to the UCSD recharge community advising recharge application users to utilize the "expenditure comment" field to provide billing details. This guidance was in response to complaints that recharge expenditures did not include enough details for users to reconcile billings. Our review found recharge applications that had not previously provided billing details began utilizing the comment field after this guidance. We also found that the details recharge operations provided in this field provided the requisite information for users to identify the source and purpose of the charge.

While CP&A has made progress in multiple areas, we did note opportunities for process improvements in some areas. CP&A is in the process of beginning an annual review of recharge units, which will begin with higher risk units determined by federal billings, unallowed expenses, and annual trends; however, that process is not anticipated to begin for five to six months. Additionally, there is not a centralized campus process to perform tracking and oversight of non-federal recharges, which are classified as low risk in comparison to federal recharges.

CP&A is also working to update resources, including training materials and website information in an effort to educate the campus community on proper recharge review processes, and the unit held an educational forum in March 2024 for over 150 campus recharge contacts.

We also noted that a delegation of authority was not in place from the Chancellor, who has authority to approve recharge rates per University policy. Local policy has delegated the authority to ICA by the Controller, however there is not a delegation of authority on file from the Chancellor that authorizes this, and the approvals are now being performed by the CP&A Director. Local policy has not yet been updated to reflect these current processes, or that ICA's role to perform a financial review is no longer part of the current process.

V. OBSERVATIONS REQUIRING MANAGEMENT ACTION

A.	Annual Review and Oversight
	CP&A has not yet implemented an annual review process, and currently, there is no central oversight process for non-federal recharges.
	Risk Statement/Effect
	Recharge units may be using the recharge mechanism without approval or oversight.
	Management Action Plans
A.1	CP&A will initiate processes for annual review of recharge rates within the next five to six months.
A.2	CP&A will work with campus partners ² to determine recharge oversight responsibility and develop a process to track, monitor, and provide oversight for all recharge operations that CP&A has authority to approve.
A.3	CP&A will build and maintain an inventory for other income producing recharge units.

A. Annual Review and Oversight – Detailed Discussion

Annual Review

University Policy (BFB A-47) requires that recharge rates be evaluated at least annually and adjusted to account for any changing costs and volume. The policy does not allow a surplus or deficit in excess of the allowable amount: two months of the recharging unit's activity. According to CP&A, many Health Science recharge units, in collaboration with their VCs, have been independently working to update their rates; however, CP&A has not yet implemented an annual review process for outdated rates and units who need to adjust rates based on a significant surplus or deficit.

CP&A has focused its recent efforts on improving the prior recharge processes, which relied on an outdated proposal template (that incorrectly calculated some rates) and email correspondence for approval workflow. The prior process did not centrally maintain documentation to allow CP&A to review established rates and reach out to recharge units to obtain updated proposals. CP&A has made a number of process improvements, including implementing a ServiceNow (SNOW) ticket process that catalogs and tracks proposals and approvals. After the financial system conversion in 2020, recharge units created multiple projects for recharges. This process made it difficult to track recharge units due to the high number of projects that were created. In order to review comprehensive financial information for recharge units, CP&A created a licensing system where each recharge unit is assigned a license number. A recharge license number is linked to one or more projects related to a single recharge facility. It identifies and tracks specific recharge operations and their projects, facilitating cost

² ICA, Vice Chancellor for Health Sciences Business Contracting, Sponsored Projects Office, and CBO.

recovery and financial management. The unit has also created new templates for the functional³, financial, and compliance review stages. CP&A is in the process of rolling out a new proposal template.

As part of these ongoing efforts, CP&A is maintaining documents that identify unit contacts, track expiration dates, allow them to review annual surplus and deficit trends for each unit while assessing risk category, federal billing percentages and total amounts, unallowable expenses, and total expenses/revenues. According to CP&A, this profit and loss tracking spreadsheet identifies high priority items and will be the basis for annual reviews, which will begin within the next five to six months as CP&A populates the updated proposal template with unit information to send out to VCs for review and updates. Based on this process, CP&A has identified 31 recharge units that they will be reaching out to for updated proposal templates. See Attachment A for a listing of recharge units which CP&A has identified as priority for updated rates.

Oversight

CP&A's current purview is over three funds that allow federal recharges: 12100 – Recharge Operating Fund, 12200 – External Sales Differential Income, and 17000 – Recharge Equipment Renewal and Replacement Fund along with the expenditure types CP&A has identified and matched to a recharge operation. CP&A has focused its oversight efforts on recharge rates that may be billed to restricted federal funding sources, as those charges are perceived to pose a higher financial risk to the University. CP&A reviews and provides guidance and approval for recharge operations that have federally unallowable expenditures or other attributes that would violate federal costing principles (i.e., “non-federal recharges”); however, CP&A does not include these non-federal recharges in their annual review process.

CP&A performs an annual reconciliation of expense types which they have identified and matched to the recharge units they provide oversight for, to ensure there are no unallowable expenses on federal funds; however, CP&A does not have oversight for recharge expense types that fall outside of the list of what they have identified (including, but not limited to auxiliary services and the Medical Center). Additionally, any recharge activity that may be occurring outside of CP&A's purview under the local policy (PPM 380-87) does not currently have centralized recharge oversight, such as a non-sales and service activity carrying a surplus.

All recharge activity (including auxiliaries, sales and service of education activities, medical center activity, and other income-producing activities) is classified in the general ledger under the 77xxxx account code and expenditure types. Account codes are created by ICA, and expenditure types are assigned by Financial Operations. For these reasons, CP&A does not have the ability to identify and match any newly created account codes or expenditure types for recharge units they were not involved with reviewing and approving. Further, it is unclear how many other income producing recharge operations exist due to the lack of a formal tracking process that existed prior to CP&A's current efforts.

While deficit fund balances do have oversight via the deficit reporting process, any surplus that may exist in a non-federally charged recharge operation may be operating without the same oversight practices. Any income-producing recharge unit that was established prior to the newly implemented

³ The functional review is completed by the recharge unit's VC office. The functional review template is not required to be completed, but is available as a reference.

processes, which is based on the SNOW ticket tracking, would not have a license number and would be unknown to CP&A.

B.	Recharge Approval Authority
	The recharge approval process is inconsistent with local policy, and delegation of authority has not been granted from the Chancellor to the CP&A Director to review and approve recharge rates.
	Risk Statement/Effect
	The current process does not comply with University policy and may lead to a loss of accountability in the event of errors, omissions, or inaccuracies.
	Management Action Plans
B.1	A formal delegation of authority will be obtained from the Chancellor to the CP&A Executive Director, or other appropriate leader, for review and approval of recharge rates.
B.2	CP&A will review current processes to determine optimal approval workflows and update local policy as appropriate.

B. Recharge Approval Authority – Detailed Discussion

University Policy (BFB A-47) requires recharge activities for “costs charged to a University department for specific goods or services provided by another University department” to “publish a schedule of rates and prices which shall be reviewed and approved by the Chancellor or his/her delegate.” Additionally, the policy requires the Chancellor or their delegate to review and approve costs “charged to self-supporting activities which are primarily funded from external income for identifiable services provided by central campus administrative offices” and “the cost charged to University departments for special services and abnormal levels of services provided by central campus administrative offices which are beyond the normal services provided by those offices.”

We noted that campus recharges are not being approved by the Chancellor, and there is no delegation of authority from the Chancellor for the current approval process. The current approval workflow includes the originating department, their Vice Chancellor (VC) Office, and CP&A. The RAC is consulted on an advisory basis, as needed based on the CP&A Executive Director’s determination.

We noted that this process is also inconsistent with local policy (PPM 300-87) which designates the BFS Assistant Vice Chancellor/Controller as the final approver, with delegated final approver responsibilities to CP&A (formerly known as Financial Analysis Office in the policy).

In addition, historically, ICA completed the financial review for recharge rate proposals; however, the unit does not have a formal role in the current approval workflow. CP&A completes both the financial and compliance reviews for recharge rate proposals. Campus policy (PPM 300-87) outlines various responsibilities for ICA (formerly known as General Accounting in the policy), which include performing a financial review for proposals considered medium and high risk based on a review matrix that considers both annual expenses and annual federal billings. Additionally, the RAC may, upon request,

perform a review and endorse proposals to help ensure consistent treatment and adequate oversight. As of July 1, 2024, CP&A will be moved from BFS to the Campus Budget Office, and further changes to the workflow may be appropriate.

During our review, we noted that CP&A approved a recharge rate proposal from Student Financial Services (SFS). Prior to July 1, 2024 both CP&A and SFS were units under BFS. In accordance with local policy (PPM-300-87), the VC office reviewed the proposal prior to submission with CP&A. Upon review, CP&A rated the activity as low risk for the following reasons: \$139,000 in annual expense, no equipment depreciation, no federally funded contracts and grants customers, and no external customers. According to CP&A, recharges of this size and risk would not have been discussed with the RAC. We did not find any inconsistent treatment with the approval process; however, implementing checks and balances for any instance of potential or perceived conflict of interest removes the possibility of undue influence and ensures the integrity of the process.

Attachment A – Recharge Units in Priority of Updated Rates, as of June 18, 2024

License No.	FY23 Federal Billings	FY23 Federal Billing %	FY23 Unallowable Expenses	FY23 Annual	FY23 With Carryforward	Proposal Due Date	Last Approval
D09000 - Mail Services	\$ 351,847	10.7%	\$ 30	8%	-16%	3/31/2022	6/4/2021
G05000 - Computer Science & Engineering Services	\$ 4,680	72.7%	\$ -	-775%	-434%	4/30/2024	8/12/2019
G12000 - Elliot Field Station Services	\$ 16,499	17.3%	\$ -	0%	133%	3/31/2021	
G14000 - Environmental Complex Analysis Lab Services	\$ 36,334	25.0%	\$ -	-24%	-110%	3/31/2022	9/17/2021
G17000 - Flow Cytometry Services	\$ 49,647	87.3%	\$ -	-66%	-200%	3/31/2024	10/12/2020
G21000 - Inorganic Materials Characterization Services	\$ 17,373	18.3%	\$ -	-23%	-24%	3/31/2023	8/30/2021
G22000 - IT Systems & Desktop Support Services	\$ 216,125	25.2%	\$ -	4%	-67%	3/31/2021	
H04000 - Development & Outfit Shop	\$ 427,925	44.4%	\$ -	-10%	45%	3/31/2022	9/24/2019
H10000 - IGPP Support Services	\$ 209,363	38.7%	\$ -	-52%	-31%	12/31/2023	1/25/2019
H17000 - Lagrangian Drifter Lab (LDL) Services	\$ 1,358,100	85.4%	\$ -	6%	19%	2/28/2021	6/13/2019
H24000 - STS Operations	\$ 8,237,775	84.1%	\$ -	4%	66%		
J04000 - Alpha Stem Cell Clinic Services	\$ 2,675	1.5%	\$ -	92%	26%	3/31/2024	11/15/2023
J13000 - Biomarkers Services - Public Health	\$ 19,304	72.3%	\$ -	33%	52%	3/31/2021	
J19000 - Canon Services	\$ 101,710	100.0%	\$ -	-58%	-158%	3/31/2023	
J33000 - Exercise & Physical Activity Services	\$ 234,117	32.2%	\$ 684	-72%	-95%	3/31/2020	
J35000 - Flow Cytometry Shared Services	\$ 17,939	54.6%	\$ -	72%	188%	3/31/2020	
J37000 - Functional MRI Services	\$ 931,931	76.6%	\$ 430	17%	-21%		
J43000 - HIV Neurobehavioral Research Services (HDRA)	\$ 243,480	69.5%	\$ -	-114%	-40%	3/31/2026	7/7/2023

Attachment A – Recharge Units in Priority of Updated Rates, as of June 18, 2024

License No.	FY23 Federal Billings	FY23 Federal Billing %	FY23 Unallowable Expenses	FY23 Annual	FY23 With Carryforward	Proposal Due Date	Last Approval
J44000 - HR Shared Services	\$ 117,560	0.9%	\$ 13,802	-4%	-46%		
J47000 - Humanoid Services	\$ 236,963	20.7%	\$ 6,035	-26%	-78%	1/31/2024	5/24/2019
J49000 - Laboratory Support Services	\$ 53,973	45.9%	\$ -	46%	479%	3/31/2020	
J57000 - NEU Microscopy Core	\$ 228,159	65.1%	\$ -	-3%	-331%	3/31/2021	
J60000 - Mouse Phenotyping Services	\$ 11,255	44.0%	\$ -	-25%	-301%	3/31/2020	
J66000 - Neurosciences Lab for Neurocytology	\$ 130,540	17.1%	\$ -	-52%	-179%	3/31/2021	
J67000 - Nikon Imaging Center	\$ 84,674	67.4%	\$ 131	-77%	-88%	9/30/2021	
J69000 - Perinatal Research Core	\$ 166,054	98.5%	\$ -	-44%	-255%	2/28/2021	
J72000 - Public Health BBL Services	\$ 33,564	40.0%	\$ -	-8%	-74%	3/31/2021	
J78000 - Safety Read Services	\$ 37,375	96.1%	\$ -	-12%	-18%	5/31/2020	
J80000 - Screening Services	\$ 42,167	94.9%	\$ -	146%	61%	12/31/2020	4/18/2019
J86000 - Transgenic Mouse Shared Services	\$ 217,291	82.5%	\$ -	29%	37%	3/31/2026	7/28/2023
R02000 - CMRR Auditorium Facilities	\$ 24,669	48.5%	\$ -	-8%	-88%	11/30/2023	3/18/2019