

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

**UC Davis Comprehensive Cancer Center Review  
Audit & Management Advisory Services Project # 18-13**

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**Fieldwork Performed by:**

Victoria Owens, Principal Auditor  
Nirali Patel, Principal Auditor

**Reviewed & Approved by:**

Leslyn Kraus, Director

**Comprehensive Cancer Center Review  
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**MANAGEMENT SUMMARY**

**Background**

The UC Davis Comprehensive Cancer Center (the Center) was founded in 1991 to generate discoveries to increase understanding of cancer, to improve the prevention, diagnosis and treatment of cancer and to prepare leaders in cancer research. In 2002, the Center first achieved the National Cancer Institute (NCI) Cancer Center designation, followed by “Comprehensive” designation from NCI in 2012. The Center is the only cancer center in Sacramento and all of inland Northern California to have earned the designation, awarded to only about three percent of cancer centers nationwide. As part of the Comprehensive designation, the Center receives a Cancer Center Support Grant (CCSG), which was successfully renewed for the five-year period of 7/1/2016–6/30/2021.

The Center is currently led by an Interim Director, Interim Chief Administrative Officer, and five (5) Associate Directors who oversee the its various administrative and operational aspects. Significant within the Center is the Office of Clinical Research (OCR), which is responsible for enrolling and managing the ongoing clinical trial activities at UC Davis Health for cancer patients, along with overseeing the compliance, regulatory, protocol feasibility and financial management elements of conducting such trials. Additionally, there are five (5) research programs<sup>1</sup> led by experienced cancer investigators in an effort to unite scientists from varied disciplines on cancer-related topics for the development of research projects, publications, and applications for extramural funding. The Center is also integrated with nine (9) shared resources<sup>2</sup> that serve a key role in investigators’ research.

As of FY 2016, the Center had approximately 39.51 FTEs that provide administrative, clerical, and professional and research functions along with 55 academic personnel either funded by or providing effort to a Center grant. In addition, the Center has 315 members – researchers doing cancer-related research in laboratories, clinics and offices at UCD Health, UC Davis campus colleges and schools, and Lawrence Livermore National Laboratory. Although Center members, these researchers are faculty and clinicians in those other departments.

The Cancer Center clinics and Cancer Care Network, while closely integrated with the Center, are overseen by UC Davis Medical Center (Medical Center). The clinics provide a wide range of cancer-related clinical services and serve as the primary point of contact to enroll patients in clinical trials and manage the ongoing treatment requirements associated with the trials. The Cancer Care Network, an affiliation with six community hospitals, extends the reach of these clinical services and research capabilities to California’s Central Valley and northern inland counties.

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<sup>1</sup> The five (5) research programs at the Center are Molecular Oncology, Comparative Oncology, Cancer Therapeutics, Population Sciences & Health Disparities, and Biomedical Technology.

<sup>2</sup> The nine (9) shared resources consist of Animal Imaging, Combinatorial Chemistry, Molecular Pharmacology, Biorepository, Genomics, Mouse Biology, Biostatistics, Flow Cytometry and Immune Monitoring (which is still developing).

**Purpose and Scope**

As part of its audit plan for Fiscal Year (FY) 2018, Audit and Management Advisory Services (AMAS) conducted an administrative review of the UC Davis Comprehensive Cancer Center to assess its business and financial performance and evaluate the current state of its operations. The scope of our review was the UC Davis Comprehensive Cancer Center, and excluded the Cancer Center clinics and the other Cancer Care Network members.

The objectives of the review were to assess the following:

- Analyze the financial performance over a five (5) year period from FY13 to FY17, including assessment of key internal controls over financial and administrative processes;
- Assess the internal controls over financial and administrative processes;
- Evaluate the current state of operations including key inherent risks affecting the Center.

**Conclusion**

As an NCI-designated Comprehensive Cancer Center, the Center ranks in the top 3% of cancer centers nationwide. It is an important part of UCD Health's focus on discovering and sharing knowledge and providing the highest quality of care. The Center has strong leadership, a distinguished and diverse group of members from across the UC Davis community, and a proactive approach to addressing issues that interfere with the achievement of its mission and vision. The Center has recently completed a thorough strategic planning process to ensure it can retain its Comprehensive status and Cancer Center Support Grant under the new NCI guidelines.

The Center's finances have been stable over the previous five years. Funding sources have grown by 4%, while expenses decreased 25% overall. Salaries and benefits expenses had the largest decline, which was mainly due to the Biochemistry faculty transferring management of their grants to the Biochemistry department. Year-end carryforward increased 69% between 6/30/2013 and 6/30/2017. The increase in FY 2017 year-end carryforward amount includes \$3 million in restricted grant funds. See Table 3.

There are some challenges facing the Center. The new Strategic Plan requires financial resources and other support from the School of Medicine (SOM) Dean and the Vice Chancellor for Human Health Services that have not yet been committed; the reporting structure for the Center is complex, as the Director reports to the SOM Dean, the Associate Vice Chancellor of Research and the Medical Center Chief Executive Officer; and the Center lacks a predictable financial base - important funding decisions, including approval of the FY 2018 budget, have been delayed pending the appointment of a permanent Center Director.

We also found some opportunities for improvement in the Center's financial monitoring practices. Specifically, we concluded the Center's Kuali hierarchy could be restructured to better support financial oversight; accounting practices for establishing budgets and using object codes could be improved; and monitoring of the Office of Clinical Research unit's financial performance could be enhanced.

Additional information is contained in the body of this report.

## I. ACCOMPLISHMENTS AND CHALLENGES

The Center's mission is to generate discoveries to increase understanding of the biology of cancer, to improve the prevention, diagnosis, and treatment of cancer for populations in its diverse catchment area, and to prepare trainees as leaders in cancer research.<sup>3</sup> Its NCI designation as a Comprehensive Cancer Center and the infrastructure funds provided by the CCSG are central to the achievement of that mission.

The most recent NCI site visit, conducted in March 2016, rated the Center overall as excellent, with shared resources, senior leadership, developmental funds, physical space, organizational capabilities and cancer focus all rated as outstanding.

NCI issued a new CCSG Funding Opportunity Announcement (Announcement) effective December 21, 2016. The March 2016 site visit reviewed the Center's operations based on the earlier criteria, but the Center must meet the stricter guidelines in the new Announcement when it applies for a competitive renewal of its CCSG in 2020.

With these new guidelines in mind, in 2017, Center leadership undertook to produce a Strategic Plan that would guide its operations for the next five years. The process focused on improving the weaknesses noted in the NCI site visit report, and ensuring the Center would retain its Comprehensive designation and qualify for a CCSG under new the NCI guidelines.

The resulting Strategic Plan is detailed, including goals, strategies and tactics to achieve those goals, and metrics by which success will be measured. All of the strategies are explicitly aligned with those in the current UCD Health Strategic Plan. The Cancer Center Strategic Plan also includes the cost, estimated over the five years to be an additional \$6 million for Cancer Center and \$15-20 million for the departments, to support 22 additional FTE. The Center requested an additional \$1.4 million in its FY 2018 budget for the positions and programs necessary to implement its plan, as discussed in detail under "Budgetary Requests for FY 2018" later in this report.

The Cancer Center faces some challenges in executing its Strategic Plan:

- Strategic Plan initiatives and resources: The Strategic Plan was developed under the previous UCD Health administration, and its creation had the support of the former Vice Chancellor for Health Services and Dean of the School of Medicine (a combined position at the time). The Center used feedback it received from NCI, input from Center managers and Shared Resource Directors, and a report from its External Advisory Committee to create the Strategic Plan and its associated list of requirements and budgetary needs. SOM and Medical Center executives participated in designing the framework of the plan, and received a presentation of the final product, but have not so far committed the resources necessary for its execution.

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<sup>3</sup> UC Davis Comprehensive Cancer Center Annual Report, Fiscal Year 2015-2016

Execution of the Center's Strategic Plan will require additional financial support, changes to the authority of the Cancer Director and other actions from both the SOM Dean and the Vice Chancellor for Human Health Sciences. With the anticipated hiring of both a new Vice Chancellor and a new SOM Dean, the Center may need to revisit its Strategic Plan to obtain the backing of these executives.

- Reporting structure: The Center Director has multiple reporting lines. The Director reports to the SOM Dean, and the SOM oversees the Center's finances. Although the Center operates as an independent unit, its designation as an Organized Research Unit (ORU), dictates that the Director also report to the Vice Chancellor for Research. Finally, the Director has historically reported to the Chief Executive Officer of the Medical Center as well. The complexity of multiple levels of reporting and approval could inhibit the Center's ability to move forward and execute a Strategic Plan. It may be appropriate to reconsider the Center's organizational placement and implement a reporting structure that encourages effective oversight while allowing the Center appropriate autonomy and authority.
- Funding decisions: As of the date of the audit, the Center had not received an approved FY 2018 budget from the SOM, and funding agreements with the Medical Center were allowed to expire in June 2017. Both of these important financial decisions have been postponed pending the appointment of a permanent Director, leaving the Center without a firm basis for financial decisions.

A baseline budget may need to be established for the Center to cover existing activities, with consideration given to amending the budget based upon needs articulated in a Strategic Plan that is supported by incoming UC Davis Health leadership. It also may be advisable to create a multi-year budget for the Center showing the costs of executing a Strategic Plan, so all stakeholders can be fully informed and understand the impact of such a plan.

To retain the Center's position as a leader in cancer research, care and education, it must address the challenges and impediments to its planned strategies. We recommend that once a permanent director is selected, the Center, SOM and UCD Health executives collaborate to obtain the endorsement and approval of all parties for the Strategic Plan and its goals, gather the necessary financial resources, clarify the reporting structure for the Cancer Center Director, and ensure more timely financial decisions and feedback for the Center.

II. FINANCIAL HIGHLIGHTSSourcesTable 1: UC Davis Comprehensive Cancer Center Five-Year Summary of Sources (Source: Decision Support<sup>4</sup>)

Sources	FY13	FY14	FY15	FY16	FY17
<b>Carryforward</b>	<b>(\$5,421,268)</b>	<b>(\$4,373,503)</b>	<b>(\$3,529,290)</b>	<b>(\$4,302,169)</b>	<b>(\$4,457,795)</b>
<b>Current Funds<sup>5</sup></b>	<b>(\$8,463,491)</b>	<b>(\$8,188,898)</b>	<b>(\$7,830,427)</b>	<b>(\$6,784,818)</b>	<b>(\$10,035,600)</b>
Base Budget	(\$271,770)	(\$279,505)	(\$293,829)	(\$335,965)	(\$342,449)
Endowment Income	(\$225,547)	(\$227,781)	(\$225,020)	(\$265,610)	(\$272,094)
Office of Research Support	(\$46,223)	(\$46,954)	(\$46,954)	(\$47,727)	(\$47,727)
Miscellaneous	-	(\$4,770)	(\$21,855)	(\$22,628)	(\$22,628)
Other Funding Sources <sup>6</sup>	(\$8,191,721)	(\$7,909,393)	(\$7,536,599)	(\$6,448,853)	(\$9,693,152)
Cancer Center Support Grant	(\$1,272,314)	(\$1,125,027)	(\$1,211,530)	(\$1,293,066)	(\$1,072,555)
Medical Center Agreements	(\$872,575)	(\$1,872,575)	(\$2,079,575)	(\$2,079,575)	(\$2,079,575)
SOM Agreements	(\$778,702)	(\$776,424)	(\$779,085)	(\$825,635)	(\$779,085)
Additional support from SOM	(\$1,027,868)	(\$462,234)	(\$223,952)	(\$82,964)	(\$156,218)
Indirect Cost Recovery Allocation	(\$196,497)	(\$201,855)	(\$150,996)	(\$139,759)	(\$144,017)
Office of Research Support for various research-related activities	-	(\$50,000)	(\$23,000)	(\$8,000)	(\$68,000)
Provost/ CA&ES/SOVM	-	-	(\$80,000)	(\$20,000)	(\$1,000,000)
Miscellaneous Income Earned	(\$45,726)	(\$59,545)	(\$18,913)	(\$19,312)	(\$607)
Other Current Year Activity for Research Funds	(\$3,099,936)	(\$2,713,955)	(\$1,920,120)	(\$933,405)	(\$3,802,380) <sup>7</sup>
Other Current Year Activity for Gifts/Endowment Funds	(\$750,964)	(\$719,875)	(\$777,296)	(\$892,627)	(\$356,341)
Other Current Year Activity for Recharges, General, Indirect Opportunity, and & Self-Supporting Funds	(\$147,140)	\$72,097	(\$272,131)	(\$154,510)	(\$234,374)
<b>Total Sources</b>	<b>(\$13,884,759)</b>	<b>(\$12,562,401)</b>	<b>(\$11,359,717)</b>	<b>(\$11,086,987)</b>	<b>(\$14,493,395)</b>

<sup>4</sup> The total carryforward, base budget, and other funding sources tie to Decision Support. The detailed data under "Other Funding Sources" is based on AMAS' analysis of Kualii transactions, and financial schedules provided by SOM Dean's Office.

<sup>5</sup> Current Funds is comprised of base budget plus other funding sources.

<sup>6</sup> Other funding sources is comprised of current year adjustments, income, and recharges.

<sup>7</sup> FY17 figure includes \$3 million in new CCSG funds that were appropriated prior to year-end close.

Over a five-year period, the Center has been fiscally steady, with total sources growing by 4%. The primary source of funding provided to the Center is from SOM, making up 32%<sup>8</sup> of FY17 current funds. The SOM funding is comprised of four sources: (1) funds provided by the Medical Center based on existing agreements with SOM on behalf of the Center; (2) funds provided by SOM based on existing agreements; (3) SOM Dean's distribution of indirect cost recoveries; and (4) SOM Dean's discretionary funds given to provide support on a variety of activities including training, research support, and the NCI site visit<sup>9</sup>. The two (2) agreements with the Medical Center, established in 2008 and 2013, were both for fixed dollar amounts with no provision for increases, resulting in a flat funding stream over the five-year period. The agreements expired on June 30, 2017 and have not yet been renewed pending the hiring of the new Center Director, to allow UC Davis Health and the new leadership to ensure adequate funding is provided for future programmatic goals of the Center. The six (6) SOM agreements, established between 2009 and 2011, were also for fixed amounts, so funding has been flat throughout the years except in FY16, when an additional approximately \$46,000 was provided. No expiration date has been indicated for these agreements.

The funding received from SOM indirect cost recoveries (ICR) over the five-year period has declined by 27%. To determine the ICR that will be allocated to the Departments and Centers, SOM Dean's Office first sets aside the necessary funds to support research programs and activities followed by the funds SOM expects to use to subsidize the University of California Office of the President (UCOP) tax<sup>10</sup>. The remaining amount is then distributed based on the production of indirects by each Department and Center. It is important to note that the change in the campus' budget model in the coming years will result in 3% less ICR allocation to the SOM as the additional funding will be held by the Provost's Office for use across UC Davis.

The amount of SOM Dean's discretionary funds provided for various Center activities has fluctuated over the five-year period, with funding declining from FY13 to FY16, and then increasing again in FY17. In FY13, the Center OCR unit ran a deficit, and SOM provided one-time funding of approximately \$1 million. To support the growing OCR unit's activities, SOM in collaboration with the Medical Center established a new agreement to provide an additional \$1 million annual funding, as reflected in the increase of Medical Center agreements starting in FY14. Also starting in FY14, the Center received additional support from endowment income, which resulted in \$341,000 in FY14 and \$141,000 in FY15 and FY17<sup>11</sup>. Furthermore, SOM provided matching support for various research activities, totaling \$30,000 in FY13 and FY15, and \$96,000 in FY14.

Lastly, the Center receives significant indirect support from SOM that is not reflected in their financial ledgers nor the table above. SOM contributes to start-up packages (i.e. recruitment support) when departments hire faculty with a cancer-related research focus, and provide cancer-related research funding directly to a faculty's SOM department.

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<sup>8</sup> This was calculated as follows: Numerator: Indirect Cost Recovery Allocation, SOM & Center Agreements, and additional adhoc support from SOM, Denominator: Base Budget & Other Funding Sources. It excludes carryover funds from the calculation.

<sup>9</sup> Funding received from the Medical Center and SOM based on agreements is provided monthly to the Center as credit to expenditures. Funding is not appropriated at the beginning of the year. See Observation B.

<sup>10</sup> SOM paid for 38% of the UCOP tax using ICR funds in FY17 and expect to pay 19% of the tax in FY18 with ICR funds. This will increase the UCOP tax paid for by SOM departments and centers by 19%.

<sup>11</sup> SOM forgot to transfer the endowment income of \$141,000 in FY16.

Another key funding source for the Center is the NCI Cancer Center Support Grant P30 (CCSG), providing 11% of total sources in FY17. While the CCSG provides approximately \$1.8 million a year in direct costs, approximately 38% is transferred immediately to the departments that manage the nine (9) Shared Resources, who are then responsible for managing the expenses related to the funds. The CCSG grant amount is generally consistent each year, based on the approved amount, but can vary due to the impact of changes in the federal budget. This grant is secured until 2021. The CCSG grant is primarily used to pay for staff and academic salaries, benefits, equipment and travel along with indirect costs.

Other key funding sources for the Center over the past five years have been as follows:

- \$1 million in FY17 from the Office of the Provost as part of a five year, \$5 million agreement to build the Center's research and clinical trials infrastructure, faculty, and staffing.
- A total of \$149,000 from Office of Research during FY14 through FY17 for various start-up activities.
- \$144,000 from FY13 to FY17 from various fundraising events and tournaments along with a one-time royalty payment in FY13.
- \$80,000 in a FY15 contribution from the School of Veterinary Medicine (SVM) to fund initiatives designed to foster collaboration between the Center and SVM on four projects.
- \$48,000 as base budget funding each year from Office of Research for addressing ORU administrative requirements.
- \$20,000 in matching funds from the College of Agricultural and Environmental Sciences during FY16 for Collaborative Institutional Research Grant Pilot Funding for investigators in oncology.

It is important to note that the Center's financial ledgers (and the table above) do not include all funding sources and expenditures related to OCR's operations. While OCR is part of and overseen by the Center, the portion of OCR personnel expenditures associated with conducting private industry-sponsored clinical trials is directly charged to the Principal Investigators' SOM departments, since the departments receive the revenue associated with the trials.

Uses

Table 2: UC Davis Comprehensive Cancer Center Five-Year Summary of Uses (Source: Decision Support FIS349)

Uses	FY2013	FY2014	FY2015	FY2016	FY2017	Variance (\$)	Variance (%)
Academic Salaries	\$1,692,009	\$1,376,079	\$1,145,626	\$1,169,989	\$821,873	(\$870,136)	(51%)
Staff Salaries	\$3,264,058	\$2,920,283	\$2,455,028	\$2,359,622	\$2,749,577	(\$514,481)	(16%)
Benefits	\$1,909,082	\$1,740,623	\$1,449,077	\$1,475,723	\$1,562,899	(\$346,183)	(18%)
Supplies, Services, & Equipment	\$1,820,951	\$889,110	\$819,738	\$869,587	\$1,519,239	(\$301,711)	(17%)
Travel & Entertainment	\$112,657	\$122,794	\$88,878	\$87,547	\$90,117	(\$22,540)	(20%)
Special Items & Scholarships	\$201,727	\$100,483	\$25,764	\$23,904	\$27,850	(\$173,877)	(86%)
Subcontractor	\$545,569	\$1,756,502	\$862,382	\$210,969	\$376,027	(\$169,542)	(31%)
<b>Total Uses</b>	<b>\$9,546,053</b>	<b>\$8,905,874</b>	<b>\$6,846,493</b>	<b>\$6,197,341</b>	<b>\$7,147,583</b>	<b>(\$2,398,470)</b>	<b>(25%)</b>

Total uses over the five-year period have declined by 25%, with expenditures decreasing in all categories. The majority of the decline is in academic and staff salaries along with benefits, which is attributable to the Biochemistry Department transferring the management of their research grants from the Center to their department<sup>12</sup>.

Supplies, services, and equipment (SS&E) had the second largest decline in expenditures over a five-year period. This again is due to the transfer of research grants to the Biochemistry Department, reducing the costs associated with lab instruments & related supplies. Although SS&E declined overall, expenditures in certain sub-categories within SS&E have increased. The most significant increase (\$713,000) was in external purchased services for contractors in the OCR unit, due to the inability to hire adequately trained staff to meet the demands of the clinical research trials. The second largest increase (\$67,000) is a result of the UCOP assessment fee. This fee was fully subsidized by SOM in FY13, but the amount of the subsidy declined in each of the subsequent years<sup>13</sup>. It is anticipated that the subsidy will decrease further in FY 2018, increasing the Center's portion of this assessment by 19%.

Other significant increases in SS&E expenditures over the five-year period are as follows:

- \$51,000 increase in UCDMC Ancillary & Facility Services related to OCR's temporary move to another location and facility upgrades to prepare for the NCI site visit.

<sup>12</sup> The Center used to manage research grants on behalf of many Biochemistry researchers who resided at the Sacramento campus. However, the researchers transferred to the Davis campus, and therefore there was no need for the Center to manage their grants.

<sup>13</sup> The Center's UCOP tax payments were as follows: ~\$28,000 (FY14), \$51,000 (FY15), \$53,000 (FY16), and \$67,000 (FY17)

- \$34,000 increase in temporary employment services for open administrative positions.
- \$20,000 increase in consulting services to prepare a strategic plan for the Center.

Due to the limitations in the current Kuali organizational hierarchy of accounts, the expenditures associated with specific programmatic activities and units could not be readily determined. See Observation A below.

Year-End Carryforward

Table 3: UC Davis Comprehensive Cancer Center Five-Year Summary of Carryforward (Source: Decision Support FIS349)

	FY2013	FY2014	FY2015	FY2016	FY2017	Var (%)
Sources Total	(\$13,884,759)	(\$12,562,401)	(\$11,359,718)	(\$11,086,987)	(\$14,493,395) <sup>14</sup>	4%
Uses Total	\$9,546,053	\$8,905,874	\$6,846,493	\$6,197,341	\$7,147,583	(25%)
<b>Carryfwd Funds</b>	<b>(\$4,338,706)</b>	<b>(\$3,656,527)</b>	<b>(\$4,513,225)</b>	<b>(\$4,889,646)</b>	<b>(\$7,345,812)</b>	<b>69%</b>

The FY 2017 figure for current year research funding sources (see Table 1) was elevated by the appropriation of \$3,005,659 in restricted grant funds during the closing process for FY 2017. Exempting this award, the 6/30/2017 overall carryforward balance varies only \$1,149 from the 6/30/2013 amount, a negligible change over the five-year period. Carryforwards specific to gifts & endowments have grown, and efforts are underway to utilize these funds.

Budgetary Requests for FY 2018:

In FY 2018, the Center requested an additional \$1.4 million in funding to support operational growth and to ensure new NCI guidelines can be met during the next grant renewal cycle. The additional funding and its purpose is outlined below:

- Cancer Center Programs, \$500,000: The NCI guidelines issued in December 2016 require each research program to have at least seven (7) fully cancer-focused, peer-reviewed funded research projects from a minimum of five (5) different, independent Principal Investigators (PIs). In addition, each project must have funding for a minimum of three (3) years, with at least \$125,000 in direct costs per year. This new requirement requires funding for PIs to conduct pilots of such projects.
- Supportive Oncology Survivorship (SOS), \$166,000: This funding is requested to hire patient navigators and to create a permanent administrative director position within the unit. Per NCI guidelines, centers are expected to perform research relevant to their catchment area, engage the populations in the research and other Center activities, and establish partnerships with other healthcare delivery systems.

<sup>14</sup> Excluding new grant funds, balance would be (\$11,487,737).

- Salaries & UCOP Tax, \$108,000: The current SOM and Medical Center agreements have been flat over the past years, and have not been adjusted for increased costs associated with merit increases and increases in benefit costs. Additionally, the Center anticipates additional expenses will be incurred due to the reduction of SOM subsidization of the UCOP tax expense.
- Development & Informatics Analysts, \$255,000: The Center requested these positions in an effort to increase their overall grant portfolio. The Development Analyst would assist in obtaining additional funding for pilot projects, which could lead to more grants and research projects to meet the new NCI requirements. The Center believes the Informatics Analyst is a crucial need to allow the Center to pull and analyze the tremendous amount of research data available (i.e. genotype and phenotype data) which could be utilized in developing future grant proposals.
- OCR Positions & Marketing Campaign, \$372,000<sup>15</sup>: The seven (7) OCR positions are requested to keep up with the workload associated with an increased number of pharmaceutical clinical trials, along with expanding regulatory and billing compliance requirements. Funding is also requested to expand the exposure of available clinical trials to non-UC Davis patients and increase participation in the Center's trials. The marketing campaign would disseminate knowledge and information to non-UC Davis patients on active clinical trials.

As of the date of the audit, no action has been taken on filling the requested positions or disbursement of funds related to the additional \$1.4 million, as the Center has not received formal approval from the SOM Dean's Office regarding the FY 2018 budget.

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<sup>15</sup> Of the \$372,000 in OCR funding requested, \$362,000 were requested for additional OCR positions and \$10,000 for an OCR marketing campaign.

**III. OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT CORRECTIVE ACTIONS****A. Opportunity exists to restructure the Center's Kualii organizational hierarchy and chart of accounts to support financial monitoring of programmatic activities and units.**

The Center's current accounting practice utilizes sub-accounts to tie transactions to specific programmatic activities and units. As a result, sources and expenditures for a particular program/unit can either be comingled into a single account and organization or spread across various accounts and organizations. Furthermore, many transactions initiated by other departments are not coded with a sub-account.

While the current practice may yield financial information related to the programs and units, the results would not be accurate or complete without manual input to identify the transactions that are missing sub-account information. In addition, the process may not be readily duplicated. Lastly, the existing practice can impede timely financial monitoring and periodic evaluation of individual programs/units as the financial information is not readily available within Kualii.

**Recommendation**

- a. The Center should review and restructure the organizational hierarchy and chart of accounts to reflect the sources and expenditures by programmatic activities and units to allow for accurate, complete, and readily available financial information in Kualii.

**Management Corrective Action**

1. By **April 30, 2018**, the Center will review and restructure its organizational hierarchy and chart of accounts to allow the sources and expenditures associated with programmatic activities and units to be readily determined.

**B. The Center's accounting practices for establishing budgets and utilizing object consolidations can be improved.**

The Center does not establish a budget for applicable accounts within its organization at the beginning of the year. Instead, funds are appropriated at year-end from the OP Fund's primary account to other accounts to cover the expenditures incurred for the year. Funds received from the SOM and Medical Center agreements are managed slightly differently. They are received on a monthly basis as credits to the expenditures, and therefore, credits are transferred to the applicable expenditure accounts at year-end.

Both these practices prevent visibility into the financial performance of the accounts and the overall organization within Kualii, as the individuals accounts will inaccurately appear in overdraft until year-end.

Furthermore, since only enough funds are transferred to cover the expenditures for the year, the account will not reflect the true financial performance based on the activities conducted during the year<sup>16</sup>.

In addition, funds allocated into the accounts and expenditures credited to the accounts are not adjusted at year-end into object consolidations that match actual expenditures. Therefore, all appropriated funds appear in SUB8 (unallocated) or SUB3 (supplies and services) for a majority of the accounts. This prevents any financial reporting or monitoring based on object consolidations, as allocations are not correctly classified.

### **Recommendations**

- a. The Center should develop a process to appropriate budget funds into the applicable accounts at the beginning of each fiscal year. Adjustments should be made throughout the year as additional funds are received, or changes in the budget are made.
- b. For funds received as part of SOM and Medical Center agreements, the Center should meet with SOM leadership to reevaluate the manner in which funds are received and the timing of the funds provided. Based on the results of the meeting, the Center should develop a process that will allow for visibility into the financial performance of the accounts.
- c. The Center should develop a process at year-end to ensure funds within each account are adjusted to the correct object consolidation based on incurred expenditures throughout the year.

### **Management Corrective Action**

1. By **June 30, 2018**, the Center will develop a process to use the established budget to appropriate funds into applicable accounts at the beginning of each fiscal year. Changes will be made throughout the year to accurately reflect the financial performance of the Center.
2. By **June 30, 2018**, the Center will:
  - a. Meet with SOM leadership to understand and determine (1) if funds could be appropriated instead of receiving credit to expenditures, and (2) if funds could be provided at a mutually agreeable period (i.e. beginning of the year or month).
  - b. Develop a process that will provide visibility into the performance of various accounts in a timely manner. The process will be determined based on the results of the SOM meeting.

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<sup>16</sup> Note, this only applies to accounts that are not closed at fiscal year-end, as all non-primary accounts closed at fiscal year-end will not reflect a surplus or deficit.

3. By **June 30, 2018**, the Center will develop a process at year-end to adjust appropriated funds into the correct object consolidations to match expenditures incurred during the year.

**C. Monitoring of the financial performance of the Center's Office of Clinical Research can be enhanced.**

While the Office of Clinical Research (OCR) is an operational unit overseen by the Center, a significant portion of OCR's personnel expenditure<sup>17</sup> is directly charged on a monthly basis to various SOM departments. OCR personnel expenditures for supporting a cancer-related clinical trial are charged to the Principal Investigator's department, as that department receives the revenue associated with the clinical trial. The exact amount of OCR personnel expenditure charged varies each month, as it depends on the number of patients accrued for each clinical trial. The remaining portion of the OCR's personnel expenditure is covered by various Center funds.

Currently, the Center monitors the financial performance of OCR on a quarterly basis by reviewing the OCR expenditures charged to Center accounts in comparison to what was budgeted for the year. While this quarterly monitoring does provide some insight into the financial activity of the unit, by reviewing only the expenditures for OCR recorded in the Center's accounts, a complete perspective of OCR's financial performance cannot be determined as costs directly charged to other Departments are excluded. This can hinder the Center's ability to appropriately evaluate and determine the necessary funding and resources needed for the OCR unit in subsequent years.

**Recommendation**

- a. A process should be developed to evaluate OCR's financial performance on an annual basis, by reviewing the unit's budget to actual expenditures, including the expenditures that do not appear on the Center's accounts. This process should occur prior to developing the subsequent year's budget.

**Management Corrective Action**

1. By **September 30, 2018**, the Center will develop an annual process to review and evaluate OCR's financial performance through a comparison of budget to actual expenditures. All OCR related expenditures, including those directly charged to other SOM departments will be included in the evaluation. The process will occur prior to the subsequent year's budget request.

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<sup>17</sup> The FY18 budget estimates approximately 70% of personnel cost, \$3.2 million, will be charged to other SOM departments.