

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

**Public Health Sciences Accounting Structure
Audit & Management Advisory Services Project #17-59**

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MANAGEMENT SUMMARY

Background and Purpose

This advisory service was conducted at the request of the Department of Public Health Sciences (PHS) in the UC Davis School of Medicine (SOM). PHS management asked that Audit and Management Advisory Services (AMAS) perform a review of the existing financial accounting structure and internal reporting practices.

PHS has a total annual budget of approximately \$151.6M for Fiscal Year (FY) 2016 and is comprised of 36 faculty members that oversee eight divisions and centers, conducting specialized research in 16 different areas. The majority of the PHS budget originates from contract and grant programs funded by private organizations, the State of California and various Federal agencies. Only about 6% of the budget for PHS is obtained from non-contract and grant sources.

Scope

To conduct our review, AMAS met with PHS administrative staff responsible for financial transactions as well as staff from the School of Medicine (SOM) and Budget and Institutional Analysis (BIA). We also referenced UC Davis policies related to expenditure adjustments, commitment carryforward and the UC Davis Administrative Responsibilities handbook.

We analyzed PHS financial data from July 2013 through March 2017, assessing the consistency of the application of the accounting structure¹ and the accuracy and content of internal reporting. Financial data reviewed included Accounts Receivable, known obligations (KOBL) and committed obligations (COBL), PHS budget distribution and General Ledger (GL) adjusting entries.

Conclusion

PHS Leadership has proactively sought to improve their existing accounting and financial reporting by attempting to identify shortfalls in their processes and requesting additional guidance from AMAS.

AMAS could not confirm PHS has procedures in place to ensure all obligations are properly recorded. It was observed that though PHS leaders were aware of the COBL and KOBL requirements, documentation supporting the existing balances, which were mostly present when new leadership assumed responsibility approximately two years ago, could not be provided. AMAS was also unable to validate that all existing obligations were appropriately accounted for; or, that old obligations recorded in the general ledger were still valid. In response to the review observations, PHS will be analyzing their commitments and ensuring the commitments recorded on the general ledger are current and appropriate.

¹ The phrase "accounting structure" is used to describe the methodology of classifying transactions using sub-accounts, object and project codes.

During the assessment, it was observed that PHS did not have standard accounting procedures in place and a review of GL activity identified that the account structure was inconsistently applied depending on the origin of the transaction. These inconsistencies could explain why PHS makes a greater than average number of adjusting entries when compared to the SOM or UC Davis as a whole. Further review of internal financial reporting identified that at times the reports did not reconcile to the general ledger (GL), were not updated to recent periods, or were difficult to interpret, indicating that PHS could benefit from establishing guidance to implement consistent financial reporting. In response to the review observations, PHS will be developing standards for accounting and financial reporting within the department, and ensure any necessary training is provided to responsible employees.

I. OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT CORRECTIVE ACTIONS

A. Oversight of Known and Committed Obligations

Obligations associated with carryforward balances are not being accounted for in accordance with Campus guidelines.

During FY 2013, BIA and Accounting and Financial Services (A&FS) developed two new object codes to more easily track future obligations associated with carryforward balances. These object codes, created to identify committed obligations (COBL) and known obligations (KOBL), were implemented by PHS during FY 2014. Though BIA recommends that a project code be assigned to each activity to aide in defining the purpose of the commitment, this practice has been inconsistent within PHS.

PHS was not able to provide documentation to substantiate the purpose of the committed funds currently recorded in their ledgers, as these balances were in large part present when new department leadership assumed responsibility approximately two years ago. Additionally, PHS could not confirm that all committed or known obligations were accounted for and/or provide reconciliations of the current balances.

By properly recording committed and known obligations in the accounting system, PHS will have a more accurate picture of its financial status and be better able to plan for future operations.

Recommendation

PHS should re-evaluate all committed and known obligations to ensure the balance recorded as COBL and KOBL are appropriate and accurately represent PHS commitments.

Management Corrective Actions

- a. By January 15, 2018, PHS will identify all known and committed obligations.
- b. By January 15, 2018, PHS will reconcile COBL and KOBL activities and update general ledger balances accordingly.

B. Internal Controls Over Financial Reporting

Accounting and financial reporting within PHS can be enhanced.

Over 90% of the PHS total budget of approximately \$151.6 million in FY 2016 was received from extramural sources, with the remainder of PHS's budget coming from various non-restricted fund sources. PHS staff with accounting and financial reporting responsibilities for both the restricted and non-restricted funds indicated that there are no documented department guidelines governing their activities in these areas. Establishing department guidelines could help address issues noted during the review, such as:

- PHS used accounts, sub-accounts and project codes inconsistently depending on the individual processing the transaction, which could be a contributor to PHS making a higher than average number of adjusting entries to move or allocate transactions and correct errors.

- A review of the financial reports being produced by PHS staff and provided to faculty and department leadership also found that at times the reports did not reconcile to the GL, were not updated to current periods and/or were difficult to interpret.
- While the Management Ledger Review was current for PHS, there were a number of Analytical Ledger Reviews that were not. Failure to perform required GL reviews timely increases the risk that errors and omissions which could impact financial information provided to faculty and departmental leadership will occur and remain undetected.

In all organizations, establishing appropriate internal controls over accounting and financial reporting is critical to ensuring what is being reported is complete, accurate and reliable. An effective internal control system can minimize opportunities for errors and provide analysis tools to identify potential future problems. As PHS has numerous programs, there is a benefit to establishing consistent accounting and reporting processes across these programs to provide faculty and department leadership with financial reports that are comparable and meaningful, as well as complete and accurate.

Recommendation

- PHS must establish appropriate internal controls over their accounting and financial reporting processes, including those that ensure standard accounting practices, consistency between internal financial reports and the University's general ledger, and appropriate review of account activity.
- PHS should ensure that the job description of those impacted by the newly developed control procedures align with their new duties and responsibilities.

Management Corrective Actions

1. PHS staff who would benefit from additional training on Excel and/or accounting and financial reporting will be identified and that training will be provided by January 15, 2018.
2. By August 15, 2018, PHS will ensure that the all required ledger reviews are current and completed monthly.
3. By January 15, 2018, PHS will develop standard accounting procedures that can be applied to all funding sources.
4. By January 15, 2018, PHS will develop and implement a financial reporting methodology (including standard templates) that will provide complete, accurate and meaningful internal reporting.
5. By April 15, 2018, PHS will evaluate the job descriptions of those impacted by the newly developed control procedures to ensure alignment with the new duties and responsibilities.