

**UNIVERSITY OF CALIFORNIA, DAVIS
INTERNAL AUDIT SERVICES**

**College of Engineering
Dean's Office Administrative Review
Internal Audit Services Project #14-08**

May 2014

Fieldwork Performed by:

Tony Firpo, Principal Auditor
Man Tsui, Senior Auditor

Reviewed and Approved by:

Jeremiah Maher, Director

**College of Engineering
Dean's Office Administrative Review
Internal Audit Services Project #14-48**

MANAGEMENT SUMMARY

Background

As part of the Internal Audit Services (IAS) audit plan for fiscal year (FY) 2014, IAS conducted an administrative review of the College of Engineering (CoE) Dean's Office.

Since its founding in 1962, CoE – in keeping with the UC Davis land grant mission – has focused on finding technical solutions to some of the nation's most challenging problems, while also preparing thousands of highly skilled engineers. CoE is ranked among the top 20 Best Undergraduate Engineering Programs at U.S. public universities, according to *U.S. News & World Report 2014*. CoE operates seven academic departments offering undergraduate and graduate education.

Purpose and Scope

The objectives of the review were to assess:

- Key operational and administrative controls;
- Financial management;
- Key operating statistics; and
- The current state of operations through interviews with key administrative personnel.

To address the audit objectives, we interviewed personnel from the CoE Dean's Office and departments, as well as personnel from Budget and Institutional Analysis (BIA) and the Office of Campus Counsel. We also reviewed key operational metrics and financial data, identified trends and obtained additional data as needed and discussed issues noted with the appropriate personnel.

Conclusions

Fund Sources: Total CoE fund sources increased from approximately \$182 million to approximately \$192 million (6%) between FY 2010 and FY 2013. Contracts and grants funding, which represents 53% of total CoE funds in FY 2013, decreased 9% between FY 2010 and FY 2013. General funds, which represent 30% of total CoE funds in FY 2013, increased 21% over this four-year period. Gifts and endowment income funds, which represent 7% of total CoE funds in FY 2013, increased 13% over this four-year period.

Expenditures: CoE total operating expenditures in FY 2013 were approximately \$104 million, with salaries and benefits (72%) representing the most significant category. FY 2013 expenditures represent a 12% increase over FY 2010, with expenditures of approximately \$93 million. Academic salary expenses increased 2% between FY 2010 and FY 2013 while staff salaries increased 14% over this time period.

Carryforward funds: Total carryforward funds increased 3% from approximately \$76 million at June 30, 2010 to approximately \$78 million at June 30, 2013. However, of the carryforward funds at June 30, 2013, only approximately \$20.2 million represents general funds and other unrestricted funds. Of this total, approximately \$7.7 million resides in Dean's Office accounts, approximately \$5.5 million resides in department accounts, and approximately \$7 million resides in faculty accounts and is therefore unavailable to the Dean's Office to meet CoE's commitments, which are discussed below.

Commitments: As of March 31, 2014, CoE has approximately \$14 million of recorded commitments in Dean's Office and departmental accounts, thus exceeding available unrestricted carryforward funds of \$13.2 million in these accounts. In addition, CoE has unrecorded commitments of approximately \$900,000. As such, overall, CoE has approximately \$1.7 million of recorded and unrecorded commitments in excess of funds available. In general, the recorded commitments relate to faculty start-up packages and retention agreements, while the unrecorded commitments relate to ongoing faculty recruitments.

By having commitments that exceed unrestricted funds available, the Dean's Office acknowledges that they are taking an aggressive stance toward faculty recruiting, but considers its current risks to be prudent and necessary. The commitments are multi-year (with most faculty searches spanning multiple years) and CoE expects to have funds available via the incentive-based budget model when the needs arise. The CoE is also assuming that the Provost will be able to continue to supplement the college at a level comparable to current supplements. CoE's faculty recruiting is in response to the requirements of the 2020 Initiative, as well as to meet increasing student interest in Engineering (see "Operating trends" below).

Operating trends: Undergraduate CoE majors increased 26% between FY 2010 and FY 2013 and CoE student credit hours increased approximately 29% over this four-year time period.

Operational effectiveness: Overall, our review found that the Dean's Office is well managed both administratively and financially; no significant opportunities for improvement were identified.

OBSERVATIONS**1. Financial Overview and Key Operating Trends**

	<u>FY 2010</u>	<u>FY 2013</u>	<u>\$ Change</u>	<u>% Change</u>
Total Funding Sources	\$182 million	\$192 million	\$10 million	6%
General Funds	\$48 million	\$58 million	\$10 million	21%
General Funds as Percentage of Total Fund Sources	26%	30%	---	---
Contracts & Grants	\$111 million	\$101 million	(\$10 million)	(9%)
Contracts & Grants as Percentage of Total Fund Sources	61%	53%	---	---
Total Expenditures	\$93 million	\$104 million	\$11 million	12%
Salaries and Benefits Expenditures	\$69 million	\$75 million	\$6 million	9%
Salaries and Benefits as a Percentage of Total Expenditures	74%	72%	---	---
Carryforward Balances	\$76 million	\$78 million	\$2 million	3%
Restricted	\$59 million	\$58 million	(\$1 million)	(2%)
Unrestricted	\$17 million	\$20 million	\$3 million	18%

Fund Sources: Total CoE fund sources increased from approximately \$182 million to approximately \$192 million (6%) between FY 2010 and FY 2013. Contracts and grants funding, which represents 52% of total CoE funds in FY 2013, decreased 9% between FY 2010 and FY 2013. General funds, which represent 30% of total CoE funds in FY 2013, increased 21% over this four-year period. Gifts and endowment income funds, which represent 7% of total CoE funds in FY 2013, increased 13% over this four-year period. (See the Appendix B-1 for further information about fund sources.)

Expenditures: CoE total operating expenditures in FY 2013 were approximately \$104 million, with salaries and benefits (72%) representing the most significant category. FY 2013 expenditures represent a 12% increase over FY 2010 expenditures of approximately \$93 million. Academic salary expenses, which represented 42% of total CoE expenditures in FY 2013, increased 2% between FY 2010 and FY 2013, while staff salaries, which represented 12% of total CoE expenditures in FY 2013, increased 14% over this time period. Based on our analysis of the other categories of expenditures, the trends identified over the period of FY 2009 through FY 2013 were considered reasonable. (See Appendix B-1 for further information about expenditures.)

Carryforward funds: Total carryforward funds increased 3% from approximately \$76 million at June 30, 2010 to approximately \$78 million at June 30, 2013. However, of the carryforward funds at June 30, 2013, only approximately \$20.2 million represents general funds and other unrestricted funds. Of this total, approximately \$7.7 million resides in Dean's Office accounts, approximately \$5.5 million resides in department accounts, and approximately \$7 million resides in faculty accounts.

The \$20.2 million of unrestricted carryforward funds represents 39% of prior year expenditures of unrestricted funds, which is slightly higher than the general guideline recommended by campus. However, for funds held in Dean's Office and departmental accounts, CoE has commitments in excess of available carryforward funds; as such, at this time, the 39% figure does not appear excessive nor cause for action. CoE's commitments against its carryforward funds are discussed in detail in observation 2 below. (See Appendix A for further information about carryforward funds.)

Operating trends: Undergraduate CoE majors increased 26% between FY 2010 and FY 2013 and CoE student credit hours increased approximately 29% over this four-year time period, reflecting the increasing student interest in CoE. The CoE student-faculty increased from 13:1 in FY 2009 to 18:1 in FY 2013. (See Appendix B-2 for further information about operating trends.)

No recommendations or corrective actions are considered necessary.

2. Commitments

As of March 31, 2014, CoE has approximately \$1.7 million of recorded and unrecorded commitments in excess of unrestricted funds available.

As noted in Observation 1 above, CoE has unrestricted carryforward funds of \$20.2 million at June 30, 2013; however, approximately \$7 million of this resides in faculty accounts, and is therefore not available to meet CoE commitments, leaving approximately \$13.2 million in Dean's Office and departmental accounts to meet CoE commitments. As of March 31, 2014, CoE has approximately \$14 million of recorded commitments from Dean's Office and departmental accounts, thus exceeding available unrestricted carryforward funds in these accounts by \$800,000. In addition, CoE has unrecorded commitments of approximately \$900,000; therefore, overall, as of March 31, 2014, CoE has approximately \$1.7 million of recorded and unrecorded commitments in excess of unrestricted funds available.¹

¹ Note that certain commitments are unrecorded in the Quali Financial System because the Dean's Office does not presently have the funding available against which to record these commitments; therefore, the commitments are being tracked off-line.

In general, the recorded commitments relate to start-up packages and retention agreements, while the unrecorded commitments relate to ongoing recruitments, of which CoE has 15 as of March 2014. Two of the 15 were approved in FY 2013 while the remaining 13 were approved in FY 2014. Additionally, in spring 2014, CoE requested new recruitments for 11 positions. If these requests are approved and the CoE and its departments are required to contribute to the associated start-up packages, the CoE's over-commitment position will worsen. Also, for most of these positions, if the recruitment requests are approved, CoE will need to identify ongoing salary/benefit funding sources.

The Dean's Office acknowledges that they are taking an aggressive stance toward faculty recruiting, but considers its current risks regarding over-commitments to be prudent. The commitments are multi-year (with most faculty searches spanning multiple years) and CoE expects to have funds available through the incentive-based budget model and Provost supplement when the needs arise. Their aggressive stance toward faculty recruiting is in response to the 2020 Initiative, as well as to meet the ever-increased demand of student interest in Engineering (as demonstrated by the 26% increase in Engineering majors over the past four years which was noted previously.)

Finally, during FY 2014, the Dean's Office entered into a Memorandum of Understanding (MOU) with a CoE professor whose extramural funding from several contracts temporarily ceased. CoE advanced \$450,000 to the faculty member's program as a loan to be repaid over several years from sources including: (a) the faculty member's retention agreement; (b) salary savings from charging the faculty member's salary and benefit costs to extramural contracts; and (c) indirect cost returns that would have normally accrued to the faculty member in accordance with CoE policies. The loan covered program costs including graduate student stipends and benefits, staff salaries and benefits, materials and supplies, and subcontractor expenses. In May 2014, the program was notified by one of its funding agencies that a two-year award for \$5.6 million had been approved. The Chancellor, the Provost, and BIA are all aware of this MOU.

No recommendations or corrective actions are considered necessary.

Appendix A – Carryforward Balances, FY 2011 to FY 2013

Campus Carryforward and Reserve Balances					
(amounts in 000's)					
	2011-12	2012-13	2013-14	2013-14	2013-14
	Carryforward As of July 1, 2011	Carryforward As of July 1, 2012	Carryforward As of July 1, 2013	Committed Obligations COBL	Known Obligations KOBL
State Funds/Tuition/Fees					
General Funds and Tuition	\$ 6,799	\$ 7,014	\$ 7,947	\$ (4,458)	\$ (1,600)
Summer Session Fees	\$ 240	\$ 319	\$ 446	\$ (125)	\$ (191)
Professional Degree Fees					
Student Services Fee	\$ 13	\$ 17	\$ 21		
Course Material Fees	\$ (0)	\$ (3)	\$ 10		
Campus-Based and Other Student Fees ¹		\$ 0		\$ (5)	
Sub-Total, State Funds/Tuition/Fees	\$ 7,052	\$ 7,348	\$ 8,424	\$ (4,588)	\$ (1,791)
Indirect Cost Recovery					
	\$ 8,005	\$ 7,678	\$ 8,711	\$ (6,828)	\$ (2,121)
Sub-Total, Indirect Cost Recovery	\$ 8,005	\$ 7,678	\$ 8,711	\$ (6,828)	\$ (2,121)
Other Unrestricted Funds					
Private Unrestricted Gifts	\$ 136	\$ 225	\$ 300		\$ (17)
Other Funds ²	\$ 609	\$ 251	\$ 2,195	\$ (153)	\$ (431)
Unrestricted Endowment/FFE Earnings	\$ 7	\$ 7	\$ 8	\$ (10)	
UNEX Reserves	\$ 325	\$ 383	\$ 590	\$ (68)	\$ (170)
Self-Supporting Degree Fees					
Application Fees					
Sub-Total, Other Unrestricted Funds	\$ 1,077	\$ 866	\$ 3,093	\$ (231)	\$ (617)
Sub-Total, ICR/Other Unrestricted	\$ 9,082	\$ 8,545	\$ 11,805	\$ (7,059)	\$ (2,738)
Restricted and Designated Funds (all remaining funds)	\$ 65,646	\$ 58,393	\$ 57,583	(2)	
All Funds Total	\$ 81,781	\$ 74,285	\$ 77,811	(3)	
Select Fund Types -- State Funds/Tuition/Fees					
Prior Year Expenditures	\$ 40,569	\$ 39,851	\$ 42,398	\$ 42,398	
CF as a % of Expenditures	17%	18%	20%	9%	
Select Fund Types -- ICR/Other Unrestricted					
Prior Year Expenditures	\$ 4,270	\$ 6,202	\$ 9,082	\$ 9,082	(4)
CF as a % of Expenditures	213%	138%	130%	52%	
Restricted and Designated Funds (all remaining funds)					
Prior Year Expenditures	\$ 53,576	\$ 48,227	\$ 50,352		
CF as a % of Expenditures	123%	121%	114%		
All Fund Types					
Prior Year Expenditures	\$ 98,415	\$ 94,280	\$ 101,832		
CF as a % of Expenditures	83%	79%	76%		
Selected Funds -- Dean - Departmental/Other:					
Carryforward held by Dean's Office	27%	34%	38%		
Carryforward held by Departments/Other	73%	66%	62%		
¹ Campus-Based and Other Student Fees category is almost 90% student referendum funds on a campus-wide basis.					
² Other Funds category is 90% STIP and patent revenue on a campus-wide basis.					

² Includes contracts & grants, gifts and endowments, and self-supporting funds.

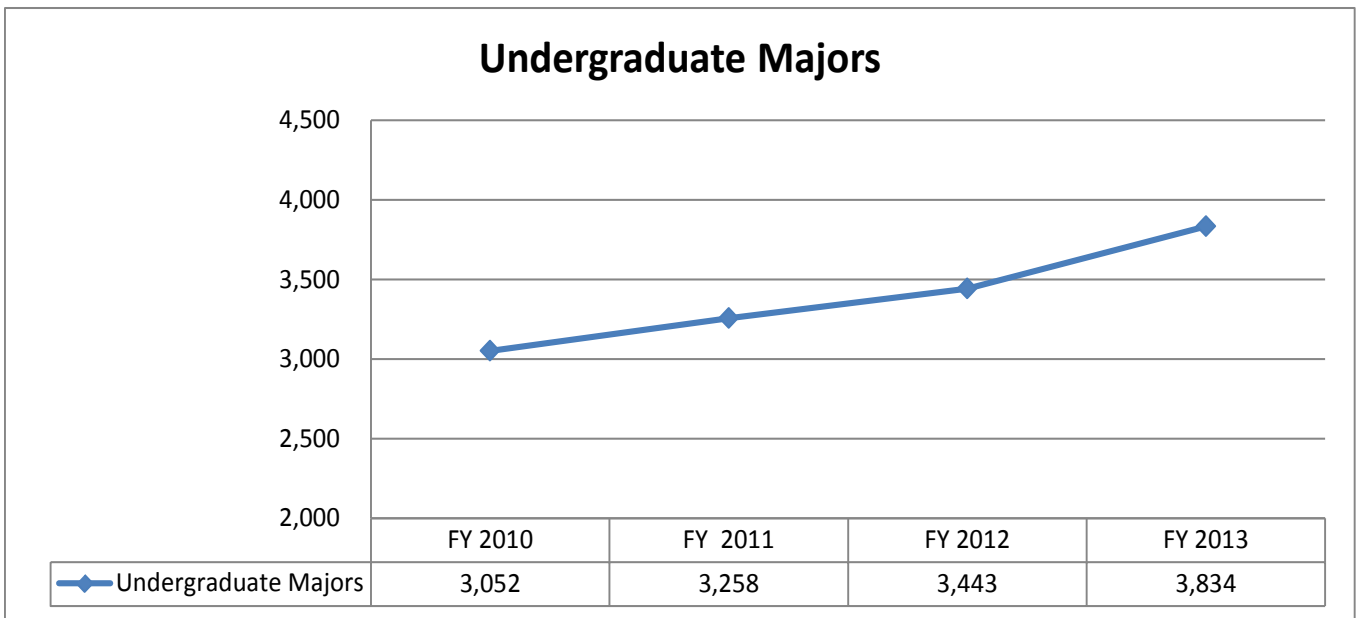
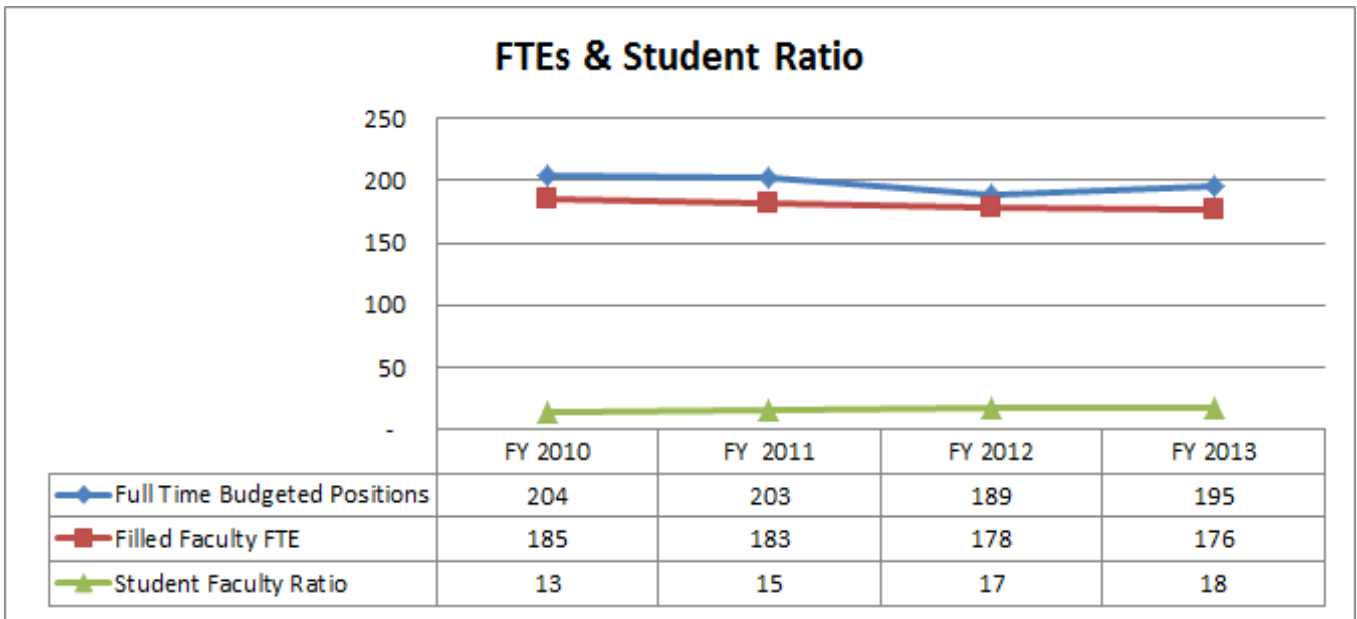
³ Carryforward balance is calculated by Budget and Institutional Analysis, and excludes financial aid funds, indirect costs, encumbrances and liens.

⁴ Total expenditures exclude financial aid funds, indirect costs, encumbrances and liens.

Appendix B-1. Operating Trends, Total Sources, Expenditures & Funds Available

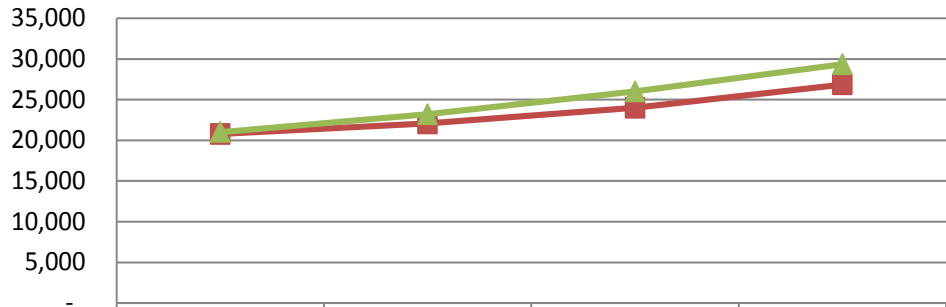
	FY 2010	FY 2011	FY 2012	FY 2013
OPERATING TRENDS				
Full Time Budgeted Positions	204	203	189	195
Filled Faculty FTE	185	183	178	176
Student Faculty Ratio	13	15	17	18
Undergraduate Majors	3,052	3,258	3,443	3,834
Undergraduate Student Credits by Course of Origin	20,779	22,078	24,010	26,872
Undergraduate Student Credits by Pay Department	21,003	23,201	26,002	29,345
<i>\$, in thousands</i>				
FUND SOURCES				
Carryforward	\$ 81,630	\$ 88,860	\$ 88,161	\$ 87,909
July 1 Base Budget	32,653	31,906	31,083	41,348
Current Year Adjustments	65,809	66,694	62,987	60,668
Income	663	292	555	543
Recharge	838	1,071	1,084	1,670
Total Sources	181,593	188,823	183,870	192,138
EXPENDITURES				
Salaries and Benefits:				
Academic Salaries	43,072	45,787	43,529	43,964
Staff Salaries	10,610	10,269	11,693	12,086
Benefits	14,923	17,454	17,616	18,823
Scholarships & Fellowships	962	1,163	1,427	1,678
Other Expenditures:				
Equipment	5,152	4,218	2,996	5,336
Subcontract	5,615	6,332	4,571	3,890
Services	2,319	2,783	2,544	3,741
Fabrication	1,186	2,377	2,681	3,195
Laboratory supplies	1,947	2,024	1,919	2,426
Travel	2,197	2,370	2,469	2,421
Supplies	2,226	2,392	2,285	2,169
UCOP assessment	-	-	-	1,462
Computer software and supplies	319	307	559	458
Entertainment	224	316	316	586
Communication resources	576	582	538	571
Other expenditures	1,379	1,428	742	813
Total Expenditures	92,707	99,802	95,885	103,619
Financial aid funds and external encumbrances	(13,270)	(7,240)	(13,700)	(10,708)
FUNDS AVAILABLE				
Restricted	\$ 58,699	\$ 65,646	\$ 58,393	\$ 57,583
Unrestricted	\$ 16,917	\$ 16,135	\$ 15,892	\$ 20,228

Appendix B-2. Operating Trends⁵



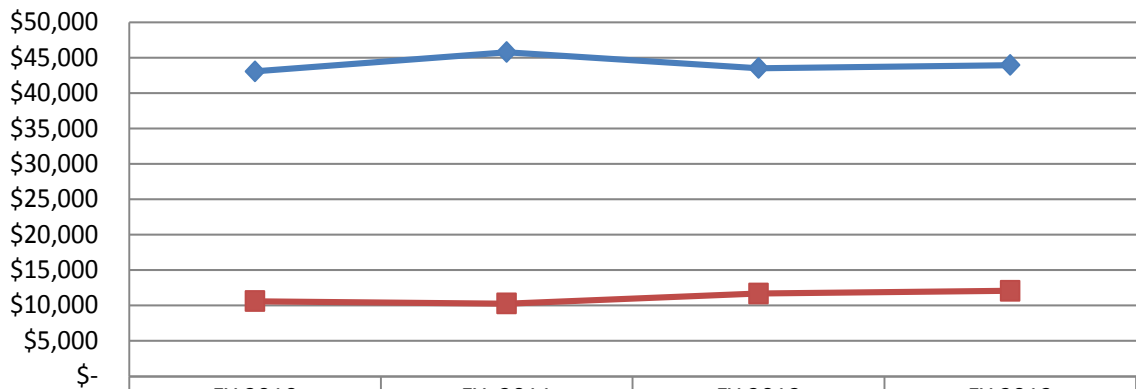
⁵ Source: The Provost's Dashboard & the Student Information System Decision Support (SIS DS)
UNIVERSITY OF CALIFORNIA

Undergraduate Student Credits



	FY 2010	FY 2011	FY 2012	FY 2013
Undergraduate Student Credits by Course of Origin	20,779	22,078	24,010	26,872
Undergraduate Student Credits by Pay Department	21,003	23,201	26,002	29,345

Academic vs Staff Salaries



	FY 2010	FY 2011	FY 2012	FY 2013
Academic Salaries	43,072	45,787	43,529	43,964
Staff Salaries	10,610	10,269	11,693	12,086