



**UNIVERSITY OF CALIFORNIA, MERCED  
AUDIT AND ADVISORY SERVICES**

February 3, 2023

To: Bianca Khanona, Assistant Vice Chancellor, Financial Planning & Analysis  
Amanda Preston-Nelson, Assistant Vice Chancellor, Controller  
Kurt Schnier, Interim Vice Chancellor and Chief Financial Officer  
Subject: Recharges and Recharge Process Review  
Ref: UC Merced Audit Report No. M22A004

Internal Audit completed the review of Recharges and Recharge Process as part of the fiscal year (FY) 2021 – 2022 Audit Plan.

Attached is the subject report. We appreciate the help we received from all personnel involved. If you have any questions, please feel free to contact me.

Respectfully reported,

Randy Schwantes  
Internal Audit Director

cc Senior Vice President and Chief Audit and Compliance Officer Bustamante  
Chancellor Muñoz  
Associate Chancellor and Chief of Staff Putney  
Vice Chancellor and Chief Operating Officer Okoli  
Vice Chancellor, research & Economic Development Wilson  
Chief of Staff Physical Operations, Planning & Development Smullen



**UNIVERSITY OF CALIFORNIA, MERCED  
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**Recharges and Recharge Process Review  
Audit No. M22A004**

February 3, 2023

Audit Conducted by:  
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Audit Reviewed by:  
Randy Schwantes – Internal Audit Director

## Recharges and Recharge Process Review

### Audit No. M22A004

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#### I. MANAGEMENT SUMMARY

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Baker Tilly US, LLP (Baker Tilly) and the University of California, Merced (UC Merced or the University) Internal Audit department conducted a review of the risks, policies, processes, and controls surrounding the recharge process as part of the 2021 – 2022 fiscal year internal audit plan. Baker Tilly identified opportunities to enhance recharge-related processes and communications to emphasize compliance with the University's policies and procedure.

Detailed observations and management corrective actions are included in the following sections of the report.

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#### II. BACKGROUND

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Baker Tilly and UC Merced Internal Audit conducted a review of the risks, policies, processes, and controls surrounding the recharge process. UC Merced updated their financial system (i.e., legacy financial system hosted at UCLA) to Oracle Cloud (Oracle) to improve financial management at UC Merced by creating more effective and efficient processes. However, due to the recent changes within the University, there were concerns raised regarding the processes in place related to the pooling and charging of costs. These concerns included the following:

- Increased risk due to the implementation of a new system, changes in research leadership, and reorganization
  - Tools and basis utilized in the recharge process
  - Compliance with requirements surrounding review of recharges and established rates
  - Appropriateness of reviews currently being performed
  - Processes for determining when a recharge is no longer needed or relevant and sunseting those recharges
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#### III. PURPOSE, OBJECTIVES AND SCOPE

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The objectives of this audit were to evaluate the risks, policies, processes, and controls surrounding the operations and review of recharges and the recharge process, identify opportunities to enhance efficiencies, and provide recommendations to improve internal controls and compliance with UC Merced governance and federal guidance.

To accomplish the audit objectives and scope as documented above, Internal Audit performed the following procedures:

- Held a kick-off meeting with key stakeholders to confirm scope, approach, timeline, and deliverables
- Requested and reviewed materials including:
  - Policies and procedures
  - Organizational charts, roles, and responsibilities
  - Relevant recharge process information and documentation

- Interviewed key process owners within the Office of Research and General Accounting to understand the current recharge process including<sup>1</sup>:
  - Controls currently in place and comparison to controls in place within the former system
  - Process and supporting documentation required for recharge requests
  - Supporting documentation requirements to determine the appropriateness of recharge costs
  - Recharge rate review process and updating recharge rates due to changes in usage, faculty, surplus/deficits, etc.
- Recommended enhancements to current processes, controls, and systems to achieve greater risk mitigation and efficiency, as well as to help prepare for the upcoming sponsored audits.
- Communicated conclusions, issues, and recommendations to University leadership.
- Provided regular status updates and report of project hours via email or meetings of UC Merced Internal Audit

#### IV. CONCLUSION

##### *Recharges and Recharge Process Review*

Based on an evaluation of UC Merced recharge units' policies, procedures, and processes there were no high-risk observations identified during this review. Baker Tilly identified opportunities for improvement related to updating the UC Merced Recharge Policy Handbook, the process for sunseting recharges, capabilities and use of Oracle reporting, Facilities Management (Facilities) recharge units, the initial recharge submission process, and the lack of integration across systems used in the recharge unit lifecycle.

As outlined in the detailed report below, UC Merced has an opportunity to enhance recharge-related processes and communications to emphasize compliance with the University's policies and procedures. Observation details were discussed with management, who formulated action plans to address the issues. Details are presented below.

#### V. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS

##### 1. ***Review of Policy***

###### **Background**

The UC Merced Recharge Policy Handbook provides information on how to establish a new recharge unit, closure of recharge operations, the functional responsibilities of recharge units, establishment requirements, period of review, billing, etc. The current Recharge Policy Handbook does not provide recharge units with guidance on the appropriate level of review and approval of transactions submitted to General Accounting. As such, there is no defined process, and the level of review varies by recharge unit. There is a Recharge Committee made up of individuals across different functions of the university (i.e., Financial Planning & Analysis, Business and Financial Services, Research, Provost Office, Stem Cell Instrumentation Facility, Recreation and Athletics, Physical operations, Planning and Development). This

<sup>1</sup> After discussions with UC Merced Internal Audit, it was deemed not necessary to test recharges until the UC Merced Recharge Policy Handbook could be updated to outline the recharge processes more accurately.

committee is responsible for determining and communicating the process, including clear deadlines for the establishment of recharges and fees that become effective at the beginning of each fiscal year.

### Observation

Based on the results of the work performed within the scope of the audit, we identified the following:

- The UC Merced Recharge Policy Handbook has not been reviewed and updated since the implementation of Oracle on January 4, 2021. Without a review of the policy to update processes based on new system changes, the information provided to process owners (e.g., Recharge Unit Managers) does not reflect the current process.
- There are issues with the submission process for core facilities outside of the Office of Research (ORED) due to the lack of review and approvals when submitting data to General Accounting. The recharge units outside of ORED do not typically have multiple approvals prior to submitting data to General Accounting, increasing the risk that the data entered may be inaccurate.

### Recommendation

We recommend that the Recharge Committee perform the following:

- Review and update the UC Merced Recharge Policy Handbook to include policies and procedures related to Oracle.
- Communicate the updated policy to process owners (e.g., Financial Contacts for Recharges, Recharge Manager).
- Institute a defined process for reviewing and approving data submitted to General Accounting. This process could be modeled after one that is already being utilized at the University:
  - A leading practice is used by ORED core facilities, which utilizes a three-step approval process that could be leveraged by other recharge centers across the university. The process starts with (1) the recharge owner and team checking with the faculty to ensure accuracy, (2) Faculty check with Research Admin/Fund Approver to verify that funds exist, and (3) the recharge owner and team do a final check for submission to accounting

### Management Corrective Action:

**Leadership within the Division of Finance and Administration (DFA) will work with team members in both Financial Planning and Analysis (FP&A) and Financial and Accounting Services (F&AS) to update the UC Merced Recharge Policy Handbook by June 30, 2023. Once updated, the handbook will be presented for review, comment, and approval by the UC Merced Recharge Committee. Once the handbook is finalized, FP&A and F&AS will communicate the updated policy to process owners on campus, by September 30, 2023. F&AS has already instituted a three way review of recharge activities within the campus. Campus users submit through CBS2 a ticket to record recharge activities for a period of time, an accountant within the F&AS team reviews the ticket submission for accuracy and inserts the journal entry request, the Director of F&AS reviews the journal entry prior to positing the activity to ensure that the entry matches the back up documentation. FA&S is responsible for ensuring the consistency of the data within the Oracle system (i.e. that the je matches the back up and is in the appropriate fund types). Campus owners of recharge activity are responsible to ensure the validity of the recharge data (i.e. that the data matches the activities they requested for billing).**

## 2. Sunsetting Recharges

### Background

UC Merced currently has 25 recharge units with 13 permanent recharge units and 12 rate-based recharge units. The rate-based recharge units are categorized into three different areas: academic, research, and administrative units.

- Academic
  - International Affairs-Visa Administration
  - Spatial Analysis and Research Center
- Research
  - Microscopy Lab
  - Nuclear Magnetic Resonance Facility
  - Stable Isotope Lab
  - Environmental Analytical Laboratory
  - Stem Cell Instrumentation Foundry
  - Vivarium Services
  - Biostatistics and Data Support
- Administrative Units
  - Document Services Operation
  - Facilities Management
  - Fleet Services

The annual revenues for each service center currently range from about \$12,000 to about \$900,000 with revenues being the highest for administrative units. Based on inquiries made with other UC system campuses, some campuses have established internal materiality thresholds of at least \$25,000 annual revenue as a basis for ongoing operations.

In the current process, the Recharge Unit Manager is responsible for deciding if a recharge unit should continue or cease operation. They are responsible for emailing their control unit and Recharge Committee advising of the decision to close the account and providing an outline of the steps it will take to account for the remaining surplus or deficit.

### Observation

Based on the results of the work performed within the scope of the audit, we observed that:

- There is not a formalized process for sunseting recharges in the current policy. UC Merced has drafted an internal policy that includes a \$20,000 materiality threshold for the establishment of new recharges and existing recharge units to remain an approved rate-based facility. Without the implementation of this policy, the University risks recharge units being established that do not translate into creating new revenue for the University. Additionally, Service centers should be established to benefit an institution's teaching and research functions and create revenue for the University. If a service center is inappropriately established or no longer being used for its intended purpose, it may lead to transferring expenses across departments rather than benefitting the University.

**Recommendation**

We recommend that the Recharge Committee perform the following:

- Implement a materiality threshold of \$20,000 or higher based on the analysis performed by the Financial Planning & Analysis department to create the draft internal policy for the establishment of new recharge units and for existing recharge units to remain an approved rate-based facility in the Recharge Policy Handbook. The implementation of this policy update will reduce the risk of recharges being created as a way to increase the budget of a service unit that does not entirely translate into creating new revenue for the campus.

**Management Corrective Action:**

**The UCM Recharge Committee will meet and discuss the implementation of a materiality threshold by June 30, 2023. FP&A will collaborate with BFS to draft an internal policy referencing the threshold for both the establishment of new recharge units and the continuity of existing recharge units on campus by September 30, 2023.**

**3. Oracle Reporting and Functionality****Background**

Oracle was implemented on January 4, 2021, with the intention of maintaining the same controls as the legacy financial system, while improving efficiency across the University. The functionality and reporting were expected to be the same or be improved upon with the implementation of Oracle as the new financial system.

**Observation**

Based on the results of the work performed within the scope of the audit, we identified the following:

- At the time interviews were conducted, the reporting functionalities within Oracle were not fully developed. The majority of the reports being pulled were created through Smart View which is a tool that enables UCM team members to integrate Oracle sourced ERP data, into summarized queries/reports (e.g., account balance and account summary). Beginning in the summer of 2022, the Associate Vice Chancellor and Controller began providing training to Oracle users on the reporting functionality with a focus on inputs to ensure that reports created from the system provided all necessary details.
- During a walkthrough of the Oracle process, Baker Tilly noted that the Accountant for the General Accounting Department is manually entering the information into Oracle without a review of the accuracy of the information or any reconciliation between the inputs to journal entries (JEs) by the Recharge Managers. Due to the lack of reconciliation and manual process of entering data into Oracle, there is an increased risk that data may be entered incorrectly, which would create inaccurate rates for recharge units.

## Recommendation

We recommend that General Accounting perform the following:

- Continue to identify potential efficiencies to be gained through the use of Oracle, including additional reporting capabilities (e.g., Oracle COA attributes, GL Transaction report, etc.)
- Provide ongoing training to Oracle users as additional reporting functionalities become available
- Institute a review by the Director of Financial and Accounting over the information being entered into Oracle for accuracy against the list of monthly transactions provided by the Recharge Unit Manager.
- Implement a review of the submitted request to the approved JEs by the Recharge Manager to ensure the entry is aligned with expectations

### Management Corrective Action:

**F&AS will continue to identify potential efficiencies to be gained through the use of Oracle, including additional reporting capabilities. F&AS, in collaboration with leadership across DFA, will continue to provide ongoing training to Oracle users as a mechanism to ensure the consistency and accuracy of the data present in Oracle. F&AS has already implemented a journal entry review process whereby the separation of duties related to the entry of journal entries is clearly outlined and defined. As a second measure, all journal entries are reviewed and approved by the Director of F&AS prior to being posted into the Oracle system. F&AS will provide a written process paper documenting the journal entry review process by July 31, 2023.**

## 4. Facilities

### Background

Facilities comprise the majority of recharge units at the University and because they are considered permanent recharge units, they follow a different approval process. This process requires the recharge units to submit self-certification forms annually to reaffirm the rates being charged are accurate. This process has not been completed by recharge units within Facilities in the last three years.

### Observation

Based on the results of the work performed within the scope of the audit, we identified the following:

- Facilities recharge units are in their third year without a self-certification or fund summary to show the level of activity within the recharge unit. A lack of monitoring on the recharge unit increases the risk of incorrect rates being charged.
- Facilities approved funds are supposed to use fund code 1200 for reporting; however, as a result of the Oracle implementation cutover these funds were incorrectly grouped into the miscellaneous code 1300. This resulted in the Principal Analyst manually updating the funds to the appropriate codes. The updates were made via manual transfers, increasing the risk of additional manual entry errors and risk of inaccurate financial information.



## Recommendation

We recommend that General Accounting and Facilities perform the following:

- General Accounting should ensure that the fund code matrix is updated on an ongoing basis and regularly shared with Recharge Managers to ensure funds are correctly entered into their respective charge codes.
- Recharge Unit managers should review the recharge units' financial data for the proper use of fund codes within the department after month end close has concluded to improve consistency in charges.
- General Accounting and Facilities should perform ongoing monitoring of the Facilities recharge units annually for the next three years to reduce the risk of incorrect rates being charged. This process should include documenting and retaining documentation in a centralized location with the recharge unit and General Accounting. This will provide a point of reference for process owners and will reduce the risk of inconsistencies when turnover occurs.
- Facilities should maintain financial information on the recharge units to allow for a review of the rate structure at each of the recharge units on a defined cadence (e.g., every two years).
- General Accounting should work with Facilities to create annual training around the correct use of fund codes to avoid additional manual entries.

### Management Corrective Action:

**Financial and Accounting Services will ensure that the fund matrix is updated on a continuous basis and will communicate the updated matrix to the Recharge Managers. F&AS will also train the Facilities and Recharge Managers the appropriate funds to be utilized for recharge activity. F&AS will analyze and monitor the Facilities recharge units annually for the next three years to ensure that appropriate rates are charged.**

**Facilities Management (FM) will submit requests to update all rates by the deadline of March 3, 2023, that was announced by UC Merced's Recharge Committee and Budget Office. FM will continue to submit for annual rate updates in accordance with Campus guidelines. In an effort to consistently monitor each Recharge Unit, FM has implemented monthly meetings with each manager to discuss revenue, expenditures and projections. These meetings take place the 3<sup>rd</sup> week of every month. The Chief Administrative Officer in the Division of Physical Operations, Planning & Development maintains a Box folder with all financial information for each of the Recharge Units and will make this folder available to the Budget Office and Financial and Accounting Services by March 3, 2023.**

## 5. Lack of Integration Across Systems

### Background

As a result of the update from Oracle, there are various software being utilized by recharge units to assist with the tracking of transactions. Some of the software are better equipped to integrate with Oracle than others, but currently none are integrated with Oracle. ORED uses the software system, iLab, for five out of the seven recharge units within the department, which allows the recharge units to reduce the amount of manual entries in the process. iLab is able to be upgraded to ensure that approved transactions made within the recharge units are processed directly to the general ledger (GL). Currently, other recharge units within the University utilize Excel spreadsheets to track transactions within the recharge unit. These

spreadsheets are provided to General Accounting for manual entry transactions made within the recharge unit.

### **Observation**

Based on the results of the work performed within the scope of the audit, we observed that:

- Units across the University typically have to enter their transactions across two ledgers and complete a reconciliation due to the lack of integration. The double-entry creates a manual process that increases the risk for incorrect data being entered into Oracle.

### **Recommendation**

We recommend that the Recharge Committee establish a list of approved software that recharge units could use to assist with the tracking of transactions and submission into Oracle. This could be modeled after the software being used by one unit at the University:

- ORED is currently working toward upgrading their current version iLab to allow for integration with Oracle, so the transactions are posted directly to the general ledger. Recharge units across the University should complete a cost-benefit analysis for implementing an iLab or a similar system that integrates with Oracle at the remaining recharge units. This upgrade will reduce the risk of incorrect data being entered into the general ledger as a result of the double entry.

### **Management Corrective Action:**

**The Recharge Committee will establish a list of approved mechanisms (excel documents, budget tracking tools such as SmartView, and Reports) to be utilized on campus to assist campus users with the tracking of transactions and submissions into the Oracle ERP by September 30, 2023. DFA leadership will continue to review and evaluate potential software offerings specific to tracking recharge activities (for example, iLab) and work towards an eventual integration into the Oracle ERP System.**