

UC RIVERSIDE: AUDIT & ADVISORY SERVICES

December 17, 2012

To: Millie Garrison, Assistant Dean & Chief Financial & Administrative Officer
CNAS Dean's Office

Subject: Limited Review of CNAS - Financial Management

Ref: R2012-08

We have completed our limited review of College of Natural & Agricultural Sciences (CNAS) - Financial Management in accordance with the UC Riverside Audit Plan. Our report is attached for your review.

We will perform audit follow-up procedures in the future to review the status of management action. This follow-up may take the form of a discussion or a limited review. Audit R2012-08 will remain open until we have evaluated the actions taken.

We appreciate the cooperation and assistance provided by you and your staff. Should you have any questions concerning the report, please do not hesitate to contact me.

Michael R. Jenson
Director

xc: Audit Committee Members
Associate Vice Chancellor Hull

UNIVERSITY OF CALIFORNIA AT RIVERSIDE
AUDIT & ADVISORY SERVICES
MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS
INTERNAL AUDIT REPORT R2012-08
COLLEGE OF NATURAL & AGRICULTURAL SCIENCES –
FINANCIAL MANAGEMENT

DECEMBER 2012

Approved by:

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**UC RIVERSIDE
COLLEGE OF NATURAL AND AGRICULTURAL SCIENCES
FINANCIAL MANAGEMENT
INTERNAL AUDIT REPORT R2012-08
DECEMBER 2012**

I. MANAGEMENT SUMMARY

Based upon the results of work performed within the scope of the limited review of the College of Natural & Agricultural Sciences (CNAS) Financial Management, it is our opinion that its deficit reduction plan developed under then Dean Baldwin and approved by the Executive Vice Chancellor and Provost (EVC/P) in April 2011 is generally adequate and reasonable.

As of July 1, 2012, the CNAS 19900 - General Fund and 19931 - UC General Fund-Intercampus Recharge Allocation (Facilities & Administrative Recovery) carry forward funds report a \$223 thousand deficit. There is a carry over deficit in the CNAS Unallocated Activity for the General Fund (19900) of \$7 million as of July 1, 2012. Including the Facilities & Administrative Recovery Fund, the Unallocated Activity carry over deficit is \$4 million.

CNAS Dean's Office management has taken a proactive approach in addressing its budget deficit as evidenced by the following positive observations:

- 1) In addition to the approved deficit reduction plan, the unit developed a:
 - comprehensive budget and financial analysis and determined the causes of the deficit;
 - detailed plan to address their share (\$1.9M) of the Fiscal Year (FY) 2012 campuswide permanent State budget cut.
- 2) CNAS management continues to work proactively with Resource Planning & Budget (RPB) and EVC/P on funding solutions.

However, CNAS management should closely monitor the results of the Deficit Reduction Plan on a timely and consistent basis, and adjust the plan as needed (with approval of EVC/P and RPB) to accomplish the deficit reduction plan goals (Observation III).

This item is discussed below. Minor items that were not of a magnitude to warrant inclusion in the report were discussed verbally with management.

II. INTRODUCTION

A. PURPOSE

UC Riverside Audit & Advisory Services (A&AS), as part of its Audit Plan, performed a limited review of CNAS Financial Management operations to determine the adequacy, reasonableness, and achievability of its deficit reduction plan.

B. BACKGROUND

CNAS has the largest number of graduate students, second-largest number of undergraduates, and twice the amount of research dollars as any other college on campus. Its 13 departments are organized into three divisions, the Life Sciences, the Agricultural Sciences, and the Physical Sciences. The Life and Agricultural Sciences each has its own Associate Dean. It has 10 centers and institutes including the Agricultural Experiment Station (AES). During the past two decades, the number of CNAS faculty has remained nearly constant at about 250, but the student body of the college is well over twice the size it was twenty years ago. This was during a time when research programs were growing rapidly. Contract & Grant expenditures amounted to \$51 million and \$41 million in FY 2011 and FY 2009, respectively, a two year increase of 23%.

CNAS is funded primarily with General Funds, State appropriations, extramural funding, and endowment income; and comprises 12% of the campus budget. In FY 2011, CNAS received \$69 million in permanent funding and \$77 million in temporary funding totaling \$146 million.

C. SCOPE

1. **Fund Carry Forward and Deficit Balances Review**

We reviewed the CNAS portion of the RPB Carry Forward (CF) Analysis for FY 2011 and FY 2012 to verify its accuracy, identify any unusual changes or deficits in core CF fund balances, core permanent budget beginning balances, endowment and gift balances, and Contract & Grants overdrafts.

2. **Financial Management Review**

We reviewed FY 2011 CNAS management reports (which included Actual, Budget, and Projections through FY 2015). We also reviewed budget cuts planned for FY 2012. We reviewed deficit reduction plans and inquired with and/or reviewed various correspondences with RPB regarding such deficit reductions plans.

3. Fiscal Year 2012 Reduction and Expenditure Plan Review

We reviewed the FY 2012 Budget Reduction and Expenditure Plan dated April 2011 addressed to the EVC/P from the then CNAS Dean. We evaluated whether the proposed plan was reasonable and achievable.

III. OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

Monitoring Deficit Reduction Plan Results

The CNAS 19900 - General Fund and 19931 - UC General Fund-Intercampus Recharge Allocation (Facilities & Administrative Recovery) Fund carry forward surplus/(deficit) balances are as follows:

- July 1, 2010 \$1.9 million
- July 1, 2011 (\$2.3) million
- July 1, 2012 (\$0.2) million

Deficits in carry forwards above primarily reside in the CNAS Unallocated Activity, a clearing account which funds the college's needs in temporary instruction, facilities, research support, etc. The budget pressures have created deficits in this Activity for the General (19900) Fund of:

- July 1, 2010 (\$13.5) million
- July 1, 2011 (\$13.4) million
- July 1, 2012 (\$7) million

With 19931 - Facilities & Administrative Recovery fund, the Unallocated Activity carry over deficits are as follows:

- July 1, 2010 (\$10.3) million
- July 1, 2011 (\$9.3) million
- July 1, 2012 (\$4) million

Additional details are shown below:

CNAS Unallocated Activity (in thousands)

Fund/Budget Type	FY 2010	FY 2011	FY 2012
General (19900) Fund			
Academic Salaries	\$3,113	\$7,190	\$15,564
Academic Benefits	(1,063)	(3,064)	(3,355)
Staff Salaries	1,108	1,262	265
Staff Benefits	(791)	(1,248)	(1,073)
General Supplies & Expenses and Other	(15,822)	(17,570)	(18,372)
Total General (19900) Fund	\$(13,455)	\$(13,430)	\$(6,971)
Facilities & Administrative Recovery Fund - 19931	\$3,148	\$4,094	\$2,986
Total Both Funds-Unallocated	\$(10,307)	\$(9,336)	\$(3,985)

The deficits were primarily caused by overspending and/or under-budgeting for:

- Initial complements for faculty hires;
- Cost of teaching (large increase in enrollments without commensurate increases in teaching budget);
- Unfunded mandates primarily in employee benefits.

The college has been operating on a deficit for several years. To reduce expenditures and repay the accrued deficit, the college made a permanent cut of \$4 million in expenditures and planned temporary reductions of approximately \$2.5 million per year in the next four years. This amounts to approximately a 20% reduction before the FY 2012 State cuts.

The overall strategy to deal with the budget cuts entails:

- reorganizing the college by clustering various departments into larger and better focused academic units;
- temporarily downsizing faculty by a few FTE through attrition;
- committing future strategic hiring to the smaller number of more focused units.

This strategy was devised under Dr. Baldwin's appointment as College Dean, whose appointment ended January 1, 2012, and was communicated to RPB and EVC/P in April 2011.

The \$4 million permanent cut is primarily broken down as follows:

- 20% reduction in Teaching Assistant and Lecturer positions - \$2.5 million
- Staff reductions - \$1 million
- Changes in Initial Complement funding - \$0.5 million

The \$2.5 million annual cuts were to come primarily from:

- Department budgets - \$500 thousand
- Graduate Student Researcher support - \$620 thousand
- AES research support - \$278 thousand
- Air Pollution Research Center - \$464 thousand
- Faculty salary transfers to research and grants - \$500 thousand
- Others - \$138 thousand

The State FY 2012 budget cuts are broken down as follows:

- Instruction & Research - Return \$1.24 million for open faculty lines.
- Organized Research – Return \$620 thousand in Supplies & Expenses.

Potential consequences of the planned reductions include:

- Delay in campus acquiring the profile of a member of the Association of American Universities
- Temporary teaching support cuts of approximately 9%

- Challenges in hiring top notch faculty and quality graduate students
- Challenges in securing increased extramural funding
- Possible negative impact to research and teaching missions
- Challenges in meeting the AES land grant mission

In a June 2011 update, we noted that although some portions of the plan were implemented, management determined that other portions of the plan would not be fulfilled. More recently, we note that CNAS management departed from the portion of the deficit reduction plan to reduce FY 2013 CNAS faculty hires to five. For FY 2013, the number of faculty recruitments increased to 14. While unlikely that all recruitments will be successful, if there were five more hires than planned, that would adversely affect the deficit reduction plan by an estimated \$2.3 to \$2.6 million for FY 2014, and would need to be made up elsewhere. As time passes, and circumstances change, the plan will need to be adjusted to make up for shortfalls in the planned reductions.

RECOMMENDATION

CNAS management should continue to closely monitor implementation of the approved budget deficit reduction plan, make revisions as needed, share progress and obtain approval for deviations/revisions from EVC/P and RPB.

MANAGEMENT RESPONSE

CNAS is pleased to have an opportunity to review these observations and recommendations. We will continue to monitor our progress as agreed by the schedule included in a November 3, 2011 letter from the EVC/Provost to then Dean Baldwin.

The agreed to schedule includes a Chancellorial allocation of \$900 thousand to CNAS per year, "...as an offset to the additional faculty hires that were mandated in the mid 2000's." With the allocation, the deficit balance in the College's Unallocated Resource pool should be no greater than (\$6.6) million. The actual balance was (\$4.0) million. In addition, the overall CNAS balance for 19900 and 19931, which includes all departmental carry forward balances, was (\$223) thousand.

We understand that a primary observation in this report is that hiring more CNAS faculty than the five originally presented as part of the deficit reduction plan would ultimately cause the deficit to grow once again as it did in the mid 2000s. We would increase the number of faculty recruitments only after negotiations with, and full approval by, the EVC/Provost.