Recharge Rate Review
and Approval Process

Internal Audit Report No. I2015-110
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RE: Recharge Rate Review and Approval Process  
No. I2015-110

Internal Audit Services has completed the review of the recharge rate review process and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.

[Signature]

Mike Bathke  
Director  
UC Irvine Internal Audit Services

Attachment

C: Audit Committee  
Rich Lynch, Associate Vice Chancellor – Planning & Budget  
Maria Gorginova, Principal Finance Analyst – Budget Office
I. MANAGEMENT SUMMARY

In accordance with the fiscal year 2014-2015 audit plan, Internal Audit Services (IAS) evaluated the effectiveness of the recharge rate review and approval process within the University of California, Irvine (UCI) Budget Office. The review disclosed some internal control/compliance weaknesses that should be improved to minimize risks and ensure compliance with University policies and procedures and/or best business practices. The following concerns were noted.

Annual Recharge Review – During the 2014 annual recharge rate review, the financial status for some recharge centers were not reviewed; some recharge centers did not submit financial reports to the Budget Office as required by policy. This observation is detailed in section V.1.

Published Recharge Rates – Some of the published recharge rates as well as their descriptions were inaccurate or no longer current. In addition, some of the approved rates were not properly archived or available for review. This observation is discussed in section V.2.

II. BACKGROUND

The Budget Office serves the campus current and long range planning efforts associated with the campus operating and capital budgets by providing accurate, timely, and meaningful analysis of budget and financial information. The Budget Office provides professional analytical and resource management expertise that support campus decision-making and effective management of campus resources such as recharges. A recharge transaction is appropriate when a department has incurred expenses to make available a product or service which is sold to another department for an established price. Under the policy, the Budget Office is required to perform an annual recharge rate review of all existing recharge rates by notifying all recharge centers to complete an annual report that is based on prior fiscal year financial information. The annual review enables the Budget Office to monitor the financial status of each recharge activity, review all requests to establish new recharge accounts or to adjust existing rates along with the justification for the requests, consult with the campus recharge review committee regarding policy and request for rate adjustments, and prepare recommendations for approval by the Executive Vice
Chancellor and Provost. Additionally, the Budget Office develops and implements the policy and procedure on recharge activities for the effective management of campus financial resources.

Administratively, a principal finance analyst in the Budget Office, who is the primary lead in the recharge rate review process, also updates any rate changes for publication in ZotPortal, the campus website, in addition to the above mentioned duties.

III. PURPOSE, SCOPE, AND OBJECTIVES

The scope of the audit primarily focused on the business processes and practices during the 2014 annual recharge rate review. The primary purpose of the audit was to determine if the business processes and practices are adequate and sufficient to ensure the timely, efficient, and effective reviews of all recharge rates to provide relevant and current information to the Executive Vice Chancellor/Provost in regard to each recharge center’s financial status annually.

Based on the assessed risks, the following audit objectives were established.

1. Determine if all recharge rates, including requests for new recharge accounts, rates, and adjustments, are obtained, reviewed, and approved in a timely manner at mid-year and annually.

2. Determine current practices and ascertain if processes are properly established and implemented for departments/units requesting exemption from the recharge policies.

3. Verify if the approved recharge rates are accurately published and in a timely manner.

4. Determine if the review of recharge centers that have year-end surpluses or deficits is adequate and timely.

5. Determine if the review for and handling of inactive recharge activities is adequate and timely.
6. Determine if appropriate review is performed for those recharge activities where rates have remained consistent without year-end surpluses or deficits over several years or that include federal funds.

IV. CONCLUSION

IAS concludes that financial reports submitted by recharge centers were reviewed and approved in accordance with University policy. However, certain internal control concerns were identified in the areas of the annual recharge rate review process and published rates.

It should also be noted that there was a key transition in the Budget Office. A new principal finance analyst took charge of the recharge rate review for the 2013 annual review and is been in the process of revising the current recharge policy and has been working with Office of Information Technology to automate the recharge rate review process.

Observation details and recommendations were discussed with management, who formulated action plans to address the issues. These details are presented below.

V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Annual Recharge Rate Review and Approval Process

   Background

   UCI Administrative Policy Section 703-13 requires each recharge center to submit financial reports for review annually, even if no rate adjustments are requested. The Budget Office initiates the annual rate review process by requesting the necessary reports and information from recharge centers for further review to determine if its operations are fiscally sound.
**Observation**

In order to determine if the annual rate review and approval process was complete and conducted in a timely manner, IAS reviewed the current processes and performed an analysis to determine if all 92 recharge centers submitted the required reports to the Budget Office for the 2014 annual rate review. IAS noted the following observations.

- A total 27 of the 92 recharge centers did not submit financial reports to the Budget Office for the 2014 annual rate review as required by policy. Further review disclosed that one recharge center had not submitted reports for review since 2009 and the others last submitted reports from 2010-2013.

- The current process in place to review and approve recharge rates on an annual basis is manual, and does not ensure that recharge centers submit financial reports for review and approval in a timely manner. The Budget Office does not have adequate processes in place to track and monitor all recharge center submissions and conduct proper follow up with the recharge centers that failed to submit the required reports.

The annual rate review of each recharge center is required by University policy and helps ensure that rates are properly substantiated. Lack of an annual rate review also increases the risk that unacceptable deficits or surpluses go undetected.

**Management Action Plan**

For the annual recharge rate process associated with 92 recharge centers noted above, the Budget Office reviewed the financial reports for 65 recharge centers in Fall 2014 and an additional nine in Winter 2015. Further analysis of the remaining 18 recharge centers that did not submit financial reports indicated that six of them had no prior year activity and another six had no prior year charges to federal funding. The Budget Office has contacted (or will be contacting) the remaining six delinquent recharge centers to obtain financial reports.
The Budget Office uses a spreadsheet to track recharge center annual financial report submissions. During the peak submission volume the spreadsheet was not updated. In the future, the Budget Office will use attributes (the account indicator that allows it to be used for billing another campus account and the object code categorization indicating that the services are approved campus recharge services) in the Kuali Financial System (KFS) to establish a complete list of approved recharge centers. After the deadline has passed and no communication from the recharge center is received, the Budget Office will send an email indicating delinquency and the need for immediate submission. The email will be sent to the recharge center contact, the recharge unit’s coordinating point administrative contact, the respective Assistant Dean/Associate Vice Chancellor, and the respective Dean/Vice Chancellor. No response will result in a call to the Assistant Dean/Associate Vice Chancellor or Dean/Vice Chancellor to define a timeline for submission of the required documentation. Additionally, the Budget Office has established a new email address to which recharge centers will be asked to submit their reports. This separation will allow for more efficient and consolidated tracking of unit submissions. The Budget Office is also pursuing the development of a financial report in KFS to provide them with the fiscal year-end financial balance of each approved recharge center account.

2. **Published Recharge Rates**

**Background**

UCI Administrative Policy Section 703-13 establishes a mechanism for requesting, reviewing, and approving new recharge accounts, and for annual review of rates to be charged by the recharge departments or units.

Although not required by policy, in addition to the annual review, the Budget Office has been formally performing mid-year reviews since 2011 in order to respond to campus needs and pressures.

For the mid-year and annual reviews, it is the Budget Office’s goal to publish the approved rates every February and October in each calendar year respectively.
**Observation**

The recharge center reports submitted for review were compared to the published recharge rates dated October 31, 2014 in order to determine if recharge rates were accurately published and in a timely manner. IAS also performed testwork to ascertain if the mid-year and annual recharge rates were properly archived and posted in ZotPortal. The review disclosed the following observations.

- IAS compared the recharge services and rates submitted by the recharge centers to the published services and rates and noted discrepancies in service descriptions and/or rates for 21 recharge centers. For example, the recharge service descriptions and rates for several recharge centers currently providing services were not published even though the service descriptions and rates were documented in the financial reports submitted for review. Conversely, IAS noted that a recharge center had been closed for two years yet the rates were still published.

- The approved 2014 annual review rates were not properly posted in the campus web portal, ZotPortal. IAS searches in ZotPortal disclosed recharge rates with two different revision dates (one revised on October 31, 2014 and the other revised on June 1, 2014) were posted. It should be noted that the rates in ten recharge centers on the June 1, 2014 revision were adjusted on the October 31, 2014 version.

- Although mid-year reviews have been conducted formally since 2011, the published mid-year rates had not been archived and were not available for review.

The publication of approved recharge rates is required by University policy and helps ensure that only properly approved rates are used. The lack of a current and accurate published listing of all approved recharge rates increases the risk that recharge rate errors go undetected.

**Management Action Plan**

KFS has a unique object code for each approved recharge facility or collection of services. The unit’s recharge review packet includes a list of services with rate detail. These two tools will be used together to review the schedule of
approved recharge rates to help ensure accuracy and completeness of the published rate schedule each time a modification to the rate schedule is made. A file (.pdf format) of the published rate schedule will be stored by the Budget Office. The Budget Office will update and post the most current schedule of approved recharge rates as linked to on the Planning and Budget Office website and on the UC Irvine Policies and Procedures website, Section 703-13 within a reasonable period of time (within 2 weeks) of receiving approval of new recharge rates or changed recharge rates. The Budget Office is not responsible for recharge rate schedules posted by other organizations and found on other ZotPortal locations.