

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

**Office of the Provost and Executive Vice Chancellor
Global Affairs Transition Review
Internal Audit Services Project #15-66**

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MANAGEMENT SUMMARY

Background

As part of the Internal Audit Services (IAS) audit plan for fiscal year (FY) 2015, IAS conducted a transition review of the Global Affairs office.

Global Affairs resides within the Office of the Provost. The mission of the Global Affairs office is to advance UC Davis' internationalization strategy to enhance its global impact and engagement.¹ The Vice Provost of Global Affairs is responsible for the operational and financial oversight of four direct reporting units: Study Abroad, Services for International Students and Scholars (SISS), Hubert H. Humphrey Fellowship Program, and Confucius Institute at UC Davis. The Vice Provost's office provides administrative support for payroll, financial processing, and other operational needs for each unit. In addition, the Fulbright Scholars Program also directly reports to the Global Affairs office but operational and financial involvement is currently limited and was therefore excluded from the scope of the review².

Study Abroad offers UC Davis students the opportunity to explore and engage with other international cultures while gaining academic credit or hands-on training through a variety of programs. UC Davis Quarter, Summer, and Seminar Abroad programs are led by UC Davis faculty who integrate academic coursework with learning opportunities throughout various countries. UC Education Abroad Program (UCEAP) is a UC system-wide program offered during the summer semester, or yearlong in 42 countries. For students unable to find a suitable program, Study Abroad offers an independent program option that allows students to enroll in an international university and receive credit and financial aid for classes taken. Internships Abroad provide students international work experience during the summer.

SISS services over 5,000 international students and scholars³ annually. A primary function for SISS is to provide international students, scholars, and UC Davis departments assistance with visa and immigration issues. Equally important, SISS supports community building through orientation and information regarding financial, cultural and academic concerns to international students and scholars, in addition to various training workshops to campus staff and faculty. SISS also ensures that UC Davis meets federal compliance requirements for the US Department of Homeland Security, Department of Labor, and Department of State regarding international students and scholars.

UC Davis is one of 16 universities⁴ within the United States selected to host Hubert Humphrey fellows. Under the guidance of UC Davis faculty, fellows benefit from professional development and networking in the fields of environmental science, agricultural development, law and economics. The program fosters the exchange of knowledge and the opportunity to build relationships with counterparts in other countries.

¹ Global Affairs website: <http://uoip.ucdavis.edu/about/index.cfm>

²Currently, Global Affairs allocates an annual budget of \$2,000 to pay for various Fulbright scholar enrichment programs and seminars held on campus and throughout the Bay Area to collaborate with other Fulbright scholars.

³ In FY14, SISS provided services to 3,101 international students and 2,091 scholars.

⁴ Hubert Humphrey website: <http://humphrey.ucdavis.edu/index.html>

Confucius Institute at UC Davis was established in FY14 and currently operates in collaboration with UC Davis, Jiangnan University, and the Confucius Institute Headquarters (Hanban) which is affiliated with the Chinese Ministry of Education. The institute promotes the understanding of Chinese food and beverage culture through workshops, lectures, and events for the campus and public community.

Total operating expenses in FY2014 were approximately \$6.5 million, with salaries and benefits (72%) comprising the most significant category. Total expenditures in FY2014 exceeded total sources excluding carryforward balances by \$1.6 million. As of June 30, 2014, total funds available were approximately \$200,000 and total encumbrances were approximately \$800,000, of which \$500,000 was recorded as committed or known obligations.

Purpose and Scope

The objectives of the review were to:

- Assess the financial performance of Global Affairs over the five fiscal years ended FY 2014;
- Assess internal controls over accounting and administrative practices within the Vice Provost's office;
- Assess the current state of operations in Global Affairs;
- Assess practices and procedures in support of the campus diversity goals;

Our review included an analysis of the Global Affairs financial activity, an assessment of applicable business processes, and interviews with personnel from the Vice Provost's Office and direct reporting units, Budget and Institutional Analysis (BIA), Office of the Provost, and Staff Development and Professional Services. The scope of our review covered the five fiscal years ending June 30, 2014, including an understanding of the projected activity in FY15 & FY16.

Conclusion

The Global Affairs Office, including their direct reporting units, has emerged as a key resource in the internationalization of UC Davis through the promotion of various programs and activities since its establishment in 1999. The Office has grown in recent years through the establishment of a Confucius Institute in 2013, an increase in the number of international students (45%) and scholars (5%) from FY12 through FY14, along with newly developed Internship and Seminar Abroad programs that provide UC Davis students another avenue to immerse themselves internationally.

Periodic financial monitoring, reporting, and projections throughout Global Affairs could be strengthened, as the lack of these controls in recent years have impacted management's ability to timely evaluate the short and long-term results of operational activities and key managerial decisions, contributing to growing projected deficits of \$1.4 million (FY15) and \$2.8 million (FY16) (*See Appendix B Exhibit J*).

To stabilize the current financial situation, management will need to evaluate the funding model along with the operational results associated with existing programs to ensure they are financially stable. Particular emphasis should be placed on Study Abroad, as the unit is responsible for 90% of the anticipated deficit within Global Affairs. It is also a major contributing factor to the existing chart of accounts and accounting practices that do not accurately reflect the financial results of individual programs within the general ledger. Last, we have identified opportunities for improvement within the SISS student and scholar recharge rate development process, monitoring of financial activity throughout Global Affairs, and the need for clarification surrounding the cost sharing for Hubert Humphrey Fellowship Program. Management has determined that the Provost Office's Business and Technology (BTS) team will provide resources and take the lead on the financial corrective actions.

We evaluated practices in support of the campus diversity goals and concluded that Global Affairs has strong hiring procedures in place for staff recruitment and retention. In addition, diversity practices supported campus diversity goals.

Our observations and recommendations are presented in the body of this report along with corresponding management corrective actions.

I. FINANCIAL AND OPERATIONAL OVERVIEW

(Exhibit A) In Thousands

Global Affairs	FY10	FY11	FY12	FY13	FY14	Projected FY15	Projected FY16
Total Sources	\$6,053	\$6,609	\$6,909	\$7,391	\$6,737	\$5,690	\$4,875
Carryforward	\$1,705	\$2,194	\$2,303	\$2,454	\$1,855	\$205	(\$1,407)
Base Budget	\$709	\$1,044	\$983	\$954	\$1,143	\$1,281	\$1,300
Current Year Adjustment	\$632	\$151	\$296	\$547	\$526	\$603	\$616
Total Revenue	\$3,008	\$3,220	\$3,327	\$3,436	\$3,213	\$3,601	\$4,366
Total Expenditures	(\$3,878)	(\$4,331)	(\$4,477)	(\$5,569)	(\$6,532)	(\$7,097)	(\$7,717)
Salaries & Benefits	(\$2,985)	(\$3,263)	(\$3,358)	(\$3,896)	(\$4,686)	(\$5,246)	(\$5,667)
Other Expenditures	(\$893)	(\$1,068)	(\$1,120)	(\$1,673)	(\$1,846)	(\$1,851)	(\$2,049)
Total Funds Available	\$2,175	\$2,278	\$2,432	\$1,822	\$205	(\$1,407)	(\$2,841)

STUDY ABROAD

In an effort to reduce carryforwards and incentivize more students to enroll in Study Abroad programs, Study Abroad was directed to reduce student program fees for Summer (FY12) and Quarter Abroad (FY13). Total sources from FY12 to FY14 decreased by 16% primarily due to lower revenues (\$503,000) from reduced student program fees as UC Davis Summer and Quarter Abroad enrollment did not change significantly (*See Appendix B Exhibit H*). Total expenditures from FY12 to FY14 increased by approximately 50% (\$1.2 million), with salaries/benefits increasing by \$830,000 and other expenditures by \$372,000. In FY13, three permanent FTEs were established with funding initially to be paid through reserves and then to be provided by campus. Expenditures have increased primarily due to lodging expenses, marketing costs, UCOP assessment fees, Shared Services charges, and space rental.

Currently, reserves have been depleted and no base funding has been allocated. As a result, Study Abroad began operating in a structural deficit⁵ starting in FY13 and is expected to operate similarly in FY15 & FY16, growing the deficit to \$1.3 million and \$2.1 million respectively (See *Appendix A Exhibit B*).

SERVICES FOR INTERNATIONAL STUDENTS AND SCHOLARS

Students

SISS student activities are funded through campus support and international student fees. Total sources from FY12-14 have increased 43% (\$224,000), with base budget and revenue growing by \$128,000 and \$70,000, respectively, and driven primarily by a larger presence (64% over FY10-14) of international students on campus (See *Appendix B Exhibit I*). Total expenditures during this same period have increased by 59% (\$253,000), with salaries and benefits growing by \$166,000 and other expenditures by \$87,000 (See *Appendix A Exhibit C*). The increase in salaries and benefits was a result of a permanent new hire in FY13 and increasing general assistance. Expenses increased dramatically in FY14 mostly due to temporary employment resulting from an increased workload and a career staff employee out on maternity leave, use of Shared Services, growing programming costs, and rising facilities costs and fees.

In FY15 & FY16, salaries and benefits are expected to grow. This is due to restructuring within the organization to accommodate the increased demands resulting from the 2020 Initiative: a shift in effort for the Director from scholar to student activities; a Provost approved, but unfilled, SAO II position using carryforward funds; and an SAO III-Supervisor position verbally approved for hire by the vice provost's office using carryforward funds, which is currently filled but unfunded to date. Other expenses during the two years are anticipated to be consistent with FY14. Note, SISS Scholar reserves have been paying for SISS student expenditures related to the Global Ambassador programming costs and the Global Affairs Vice Provost's assessment from FY13 thru FY15. However, the reserves are expected to be depleted by FY16. As a result, SISS student unit anticipates a deficit of approximately \$152,000 in FY15 which will grow to \$527,000 in FY16.

Scholars

SISS scholar finances ended FY14 with a balance of \$263,000, which included a deficit of \$60,000 related to SISS visa recharge activity (See *Appendix A Exhibit D*). In FY15, the carryforward reserves are being used to pay for the Sunapsis student/scholar tracking system implementation, computer equipment, and various SISS student expenses. The recharge rates are currently being reviewed and methodology evaluated because in February 2015 a projection was completed, and a deficit of \$105,000 was anticipated as of the end of March 2015; refer to Observation D for additional information.

⁵ Expenditures exceeded total sources excluding carryforward balances.

VICE PROVOST OFFICE, CONFUCIUS INSTITUTE & HUBERT HUMPHREY FELLOWSHIP

Total sources from FY12 to FY14 increased by 4% (\$49,000), while expenditures increased by 39% (\$275,000), with salaries/benefits and other expenditures growing by \$242,000 and \$33,000 respectively. Salaries and benefits increased from two new positions, development salaries, Hubert Humphrey Fellowship and Confucius Institute cost share, and equity increases while other expenditures grew primarily due to Shared Services charges, OP tax, Temporary Employment, and other general supplies/fees.

In the past two years the base budget has fluctuated (decrease of \$87,000 in FY13 and increase of \$128,000 in FY14) which has required the use of reserves to cover growing expenses. In addition, budgetary cuts have required Global Affairs to partially cover the salaries and benefits related to the Development Officer Position (approximately \$51,000 over FY12-14) and the Development Analyst position (approximately \$21,000 during FY12-13 and \$36,000 during FY14) through development and operational funds along with reserves⁶. The development officer position no longer resides within Global Affairs and the analyst has been reassigned new duties with the new title of International Initiatives Analyst. This position continues to be only partially funded (approximately \$40,728 per year is unfunded).

Reserves from the Vice Provost's Office have also been used to cover the cost share for salaries and benefits related to the Confucius Institute and Hubert Humphrey Fellowship which receive no base funding. The cost was approximately \$80,000 in FY14 and expected to be \$154,000(FY15) and \$188,000(FY16) for the Confucius Institute and \$20,000 (FY15 & 16) for the Humphrey Fellowship. Note, the cost related to the effort provided by the Program Operations Director, Associate Vice Provost, and Interim Vice Provost is not included within the calculated cost share amounts identified above. As a result of anticipated allocations for these positions, the Vice Provost's Office expects to generate a deficit of \$30,000 in FY15, which will grow to \$255,000 by FY16 (*See Appendix A Exhibits E, F, and G*).

(Please see the Appendices for further financial and operational detail about each unit).

II. OBSERVATIONS

A. Financial Monitoring and Reporting

Periodic financial monitoring and reporting of current and forecasted operations within Global Affairs could be used to improve the unit's financial controls.

Per discussion with Global Affairs management, staffing constraints have prevented financial monitoring and reporting of various programs and operational activity throughout the direct reporting units since FY2013. In addition, prior to fall 2014, there had been no long-term financial projections of each unit's programs and activities. Review of current year activity and short-term projections for the following fiscal year occurred only during the annual budgeting process with Office of the Provost.

⁶ Development Officer position was fully covered by development funds until FY13 when gift fees were restricted by the Office of the Provost due to large reserves. The Development Officer and Analyst positions were paid as follows: \$51,000 (FY12), \$43,300 (FY13), and \$17,000 (FY14) thru development funds, \$30,000(FY13) and \$51,300 (FY14) thru reserves, and \$21,000 (FY12) and \$19,600 (FY14) thru operational funds.

The lack of periodic financial monitoring and reporting has prevented Global Affairs from obtaining a timely understanding of their financial results and prevented them from assessing the long-term financial impact of various operational activities and managerial decisions, which contributed to growing projected deficits of \$1.4 million (FY15) and \$2.8 million (FY16).

Recommendation

Global Affairs management should develop periodic financial monitoring, reporting, and approval processes to ensure the financial stability of current and projected operations in a timely manner.

Management Corrective Actions

1. Global Affairs management will develop a quarterly process, beginning on 12/15/15, that requires financial reporting for each direct reporting unit on:
 - a. Current year-to-date activity.
 - b. Comparison to annual budget and any anticipated changes.
 - c. Detailed explanations of any surplus/deficits over 15% and any other concerns regarding financial and operational stability.
2. Global Affairs management will develop a monthly process to monitor financial activity throughout the entire Global Affairs unit beginning on 7/15/15.
3. On an annual basis, Global Affairs management will develop a process by 1/15/16 to forecast three years of financial activity for each direct reporting unit. The forecast will include:
 - a. Any request for additional funds and rationale.
 - b. Address growing surplus/deficit over 15%.
 - c. Any concerns regarding financial and operational stability.
4. Until current deficit position is resolved, Global Affairs management will obtain approval for all hiring decisions from the Provost and the Chief Financial Officer beginning on 4/15/15.

B. Study Abroad Funding

Funding model for Study Abroad programs needs to be evaluated to ensure fees are adequate for financial sustainability and are appropriately approved.

Each Study Abroad program is uniquely funded. Seminars and independent programs are funded solely through program fees; however, the established fees do not cover the cost of operations. For example, in FY15, the program fees are anticipated to cover only 10% of the cost.

Quarter, Summer, and Internship Abroad rely on program fees to supplement the course and tuition income⁷. However, the fees have not been recently reviewed to determine if they are adequate to supplement the cost of operations⁸. Additionally, expenditures related to startup costs (new programs), growth and development (existing programs), and contingencies related to unforeseen expenses such as cancellation of existing programs due to instructor availability, low enrollment, catastrophic events and international turmoil have not been incorporated within the existing funding model.

For UCEAP, campus-levied program fees have been discouraged by UCEAP leadership since campuses receive revenue sharing funds through UCOP based on the number of students enrolled in UCEAP each year. However, the funds are aggregated in the general campus allocation provided by UCOP and are not earmarked for Study Abroad. Moreover, in FY15, if the total amount of all general funds received by Study Abroad were used exclusively for UCEAP they would still cover only 65% of UCEAP-related program expenses, and leave no remaining general fund support for campus-based faculty-led programs.

Furthermore, Internship and Seminar Abroad program fees have not been appropriately approved by the Chancellor/delegate in accordance with UCOP Miscellaneous Fee Delegation of Authority 2559.

Because of flaws within the existing funding model, which does not ensure sustainability, deficits within Study Abroad are expected to grow to \$1,271,000 (FY15) and \$2,091,000 (FY16) (*See Appendix A Exhibit B*). There are also operational, financial, and reputational risks associated with implementing student fees that have not been appropriately approved.

Recommendations

Global Affairs management should work with Office of the Provost to evaluate the funding model associated with each Study Abroad program. The evaluation should include an analysis of the appropriate program fee based on the established funding model. Based on the established funding model, KFS account information should be reviewed and updated to accurately reflect the funding activity. In addition, the Internship and Seminar Abroad program fees should be appropriately approved.

Management Corrective Actions

1. Global Affairs, in collaboration with Office of the Provost, will evaluate the Study Abroad program funding models for short and long-term sustainability by 12/15/15.
2. Based on the established funding model, updates to the Study Abroad program fees will be made by 12/15/15.

⁷ Summer and Internship Abroad income is based on course fee per unit. Quarter Abroad income is based on a percentage of tuition returned to Study Abroad after return to aid.

⁸ Quarter Abroad had a deficit of \$59,000 (FY13), \$281,000 (FY14), and anticipates \$281,000 (FY15). Summer Abroad had a deficit of \$106,000 (FY14) and anticipates \$218,000 (FY15). Internship Abroad anticipates a deficit of \$155,000 (FY15) in its first year.

3. Based on the established funding model, Study Abroad KFS account information will be reviewed and updated by 12/15/15 to reflect the funding activity.
4. Global Affairs will obtain approval from the Chancellor/delegate by 12/15/15 for Internship and Seminar Abroad program fees. Going forward, proposed changes to the fees will be approved by the Chancellor/delegate prior to implementation.

C. Study Abroad chart of accounts and accounting practices

The financial activities of individual Study Abroad programs are not accurately reflected within the general ledger.

Revenue and expenditures for internship and UCEAP programmatic activities are comingled with accounts related to other Study Abroad programs. For Independent Study Abroad programs, the salary and benefit costs are not appropriately allocated to reflect the actual cost of operating the program.

As a result, the general ledger could misrepresent the financial results of programs, including the operating fund of the programs, and impede on management's ability to monitor program finances and ensure financial stability.

Recommendation

Global Affairs management should restructure existing chart of accounts to accurately reflect the financial results by program. Processes should be developed to accurately allocate programmatic expenditures to the appropriate accounts.

Management Corrective Actions

1. Global Affairs will restructure existing chart of accounts, with guidance from BIA, by 12/15/15 to accurately reflect the financial results by program.
2. A process will be developed and implemented by 12/15/15 to apportion programmatic expenditures to appropriate accounts in order to reflect the financial results by program.

D. SISS Visa Recharge Rates

SISS visa recharge rates do not recover the cost of providing their services.

SISS provides guidance to UC Davis departments on the appropriate visa for incoming international scholars and assistance with visa paperwork; it charges departments for these services via recharge rates. SISS offers services for the following 6 visas: J-1, H-1B, O-1, E-3, TN, and Permanent Residence. In FY14, there was a deficit of approximately \$60,000 and in February 2015 a deficit of \$105,000 was anticipated as of the end of March 2015 (*See Appendix A Exhibit D*). Furthermore, IAS reviewed visa rate calculations scheduled to be implemented in 2015⁹ and identified the following issues:

⁹ Per agreement between Global Affairs and the Office of the Provost, anticipated SISS visa recharge rate increases in February 2015 were purposely delayed to allow time to evaluate the current rate setting methodology/costs and implement management corrective actions as a result of the audit.

- Recharge rates were not reviewed on a semi-annual basis and updated in accordance with Policy and Procedure Manual section 340-25 (Recharge Activities).
- Surplus/deficits related to each recharge activity cannot be accurately identified due to shortfalls in KFS account structure and accounting processes.
- Recharge rate calculations were prepared using projected revenue and expenses for a 3-year period to avoid rate changes for the next 3 years.
- Projected number of visas to be processed was based on an average of prior 3-year activity.
- Benefits, general supplies expense, and reserve for improvement expenses were inappropriately calculated.

PPM 340-25 requires recharge activities to operate on a break-even basis; accordingly, the recharge rates charged must approximately match the costs incurred for each activity. Any year-end surplus/deficit in excess of 15% of prior year expenditures must be recovered within three years. Inappropriate rate calculations and inadequate rate review procedures contributed to the growing surplus and deficits within various visa recharge activities.

Recommendations

SISS management should strengthen controls over the current rate development process to ensure recharge rates are accurately developed per campus and federal guidelines. All rate calculations should take into account the historical and future demands of the recharge activities. Rates should also be periodically reviewed and updated.

Management Corrective Actions

1. SISS management will develop a process by 1/15/16 to revise an activity's budget annually to reflect past performance and anticipated revenue and expenses, review rate activity at least semi-annually, and update the rates as applicable, in accordance with PPM 340-25.
2. SISS management will modify their current accounting processes and KFS chart of accounts, if necessary, by 12/15/15 to ensure the surplus/deficit related to each recharge activity can be accurately identified.
3. SISS management will develop a process by 12/15/15 to calculate recharge rates based on revenue and expenses over a twelve month period. Going forward, recharge rates will be revised annually if necessary.
4. SISS management will develop a process by 12/15/15 to forecast the number of visas expected to be processed based on prior year activity along with current and anticipated changes in market conditions.
5. SISS management will develop a process by 12/15/15 to ensure recharge rate calculations are accurately completed in accordance with BIA rate calculation template and PPM 340-25.

E. SISS international student rates

SISS recharge rates for international student fees and express mail fee need to be evaluated as to whether they are a self-supporting activity or student fees and need to be appropriately approved.

Due to a decline in funds received from campus in FY10, SISS began assessing international students an administrative fee or an orientation fee (based on their reciprocity status) for services provided. An express mailing fee may also be assessed to international students and scholars should they decide to use SISS mailing services.

Currently, the SISS international student fees and express mail fee are identified as self-supporting operating funds within the financial system. Business and Finance Bulletin A-47 (Direct Costing Procedures), defines self-supporting activities by a central campus administrative office primarily funded from external income for identifiable services as a recharge activity. Therefore, the fees are deemed a recharge rate activity and should operate on a break-even basis. Per discussion with Global Affairs management, the fees were not intended to be a self-supporting activity but rather a miscellaneous fee that should supplement the decline in budgetary funds received from campus.

Given the increase of approximately 45% in international students from FY12-14 and projected growth, the determination of how the international student fee and express mailing fee need to operate is crucial in making timely management decisions to modify the rates and help reduce the deficit that is expected to be \$152,000 in FY15 and \$527,000 in FY16 (*See Appendix A Exhibit C and Appendix B Exhibit I*).

Furthermore, the rates were last updated on July 2010 and approved by the Vice Provost of Global Affairs per guidance provided by BIA. As of April 2011, UCOP miscellaneous fee delegation of authority 2559 requires all student rates to be approved by the Chancellor/delegate.

Recommendations

SISS management should work with Office of the Provost along with the BIA to determine the appropriate operating fund for the international student fees and express mailing fee based on an established funding model. A process should then be developed and implemented to update the fees in accordance with the operating fund and obtain appropriate approval. Thereafter, the fees should be periodically reviewed and updated in accordance with applicable UCOP policies.

Management Corrective Actions

1. SISS management will work with Office of the Provost and BIA to determine the appropriate operating fund for the international student fees by 12/15/15.
2. SISS management will no longer offer express mailing services as of 6/15/15. Management will work with Accounting & Financial Services to discuss disposition of remaining balances by 7/15/15 and will notify BIA that the activity is no longer operating and how the remaining funds were distributed by 7/15/15.
3. SISS management will develop and implement a process by 1/15/16 to review, update, and approve the international student fees in accordance with applicable UCOP policies. Thereafter, the fees will be reviewed at least semi-annually.

F. Financial Monitoring

Controls over monitoring pass-through accounts, bad debt expense, and encumbrances need to be strengthened.

To pay for housing and extracurricular activities, Study Abroad has two pass-through accounts for programs to record student funds which are then passed-through to vendors. The pass-through accounts have not been monitored since FY12 for any surplus/deficits and appropriateness of expenses. In addition, Study Abroad has recently had an increase in bad debt expense as campus allows a number of students each year to remain enrolled in programs despite not paying their balances in full. The bad debt related to such students is passed on to Study Abroad by the Registrar's Office and Student Accounting. Currently, there is no periodic monitoring of bad debt expense throughout Study Abroad programs.

Additionally, review of FY14 year-end encumbrances identified a pre-encumbrance (\$13,000) not established as a known obligation, a purchase order (\$250,000) that had been invoiced and should have been paid and deferred to FY15 before year-end instead of encumbered, and purchase orders managed by Shared Services that were not closed at year end.

Per discussion with Global Affairs management, lack of and poorly operating monitoring controls related to pass-through accounts, bad debt expense and year end encumbrances are directly attributable to staffing constraints.

Recommendations

Global Affairs management should work with Office of the Provost to identify means to perform necessary financial monitoring. In addition, Global Affairs should evaluate all student costs included in pass-through accounts for appropriateness and reestablish existing processes to review pass-through accounts on a periodic basis. Furthermore, processes to periodically monitor bad debt expense and encumbrances at year end should be developed and implemented.

Management Corrective Actions

1. Global Affairs management will work with Office of the Provost by 12/15/15 to determine how to identify means to perform necessary financial monitoring.
2. Global Affairs management will evaluate all student costs included in pass-through accounts for appropriateness by 11/15/15. Also, a process to quarterly monitor pass-through accounts will be reestablished by 12/15/15 to ensure there are no surplus/deficits within the account and expenses paid out of the account are appropriate. Additionally, a process will be developed by 12/15/15 to determine how to manage surplus/deficits related to pass-through accounts.
3. A process will be developed and implemented by 11/15/15 to monitor bad debt expense on a quarterly basis related to the Study Abroad programs. Additionally, a process will be developed and implemented by 1/15/16 to monitor the recovery of bad debt.

4. Global Affairs will develop and implement a process by 9/15/15 to review pre-encumbrances and external encumbrances prior to year-end to ensure they are appropriately established as committed and known obligations per BIA guidance, "Management of Campus Carryforwards and Reserves," and purchase orders are timely paid and closed out.

G. Hubert Humphrey Fellowship cost share

Because of uncertainties surrounding the university's cost sharing contributions, the FY 2014 final cost share report for the Hubert H. Humphrey Fellowship Program (Humphrey Program) has not yet been submitted to the granting agency.

The FY 2014 Humphrey Program budget included university cost sharing contributions totaling approximately \$330,000, of which approximately \$164,000 was labeled as *Out-of-State Tuition Differential* (Differential). This Differential was calculated using the UC Davis FY 2014 student fees for Part Time Nonresident Graduate Students of approximately \$15,000 for each of the 11 fellows. The Differential is intended to represent costs absorbed by the university in recognition of the fact that Humphrey Program fellows are permitted to attend certain classes at no cost to the fellows, the Humphrey Program, or Global Affairs.¹⁰ The following questions have arisen regarding the Differential and are still under discussion/consideration by various campus units.

- Because the Humphrey Program fellows are not graduate students pursuing a degree or even a specific course of study, is it appropriate to measure the Differential cost sharing contribution based on fees for Part Time Graduate Students?
- Because the Cost Share Tracking System (CSTS) is equipped only to capture expenses that are recorded in the general ledger, how can the Differential (which is not reflected in general ledger) be accounted for in CSTS and therefore included in the cost share report? (Historically, the Humphrey Program's cost share report has been prepared manually rather than through the CSTS.)

If the campus concludes that the Differential should be calculated on a basis other than the fees paid by Part Time Nonresident Graduate Students, the Humphrey Program will fall short of its total budgeted cost sharing contribution of \$330,000; the effect of this shortfall is not evident at the present time.

As a result of these uncertainties, the FY14 cost share report has not been submitted to the granting agency, the Institute of International Education (IIE). The final invoice for FY 2014 was sent to the IIE on 10/1/14, at which time the IIE Program Officer wrote: "I can wait on the cost share report [until] later." No further requests have been made for the report by the IIE Program Officer since October.

Recommendation

Global Affairs management should continue to work with BIA and Extramural Accounting to determine: (1) the proper basis for calculating the cost sharing Differential; (2) an effective means of recording the Differential in the CSTS; and (3) whether proactive communication needs to occur with the granting agency.

¹⁰ Fellows also attend courses through UC Davis Extension (Extension); these courses are recharged from Extension to Global Affairs at a discounted rate and are funded by the granting agency.

Management Corrective Actions

1. Global Affairs management will work with BIA and Extramural Accounting to perform the following:
 - a. Confirm the proper basis for calculating the cost share differential by 7/15/15.
 - b. Determine an effective means of recording the Differential in CSTS by 8/15/15.
 - c. Submit an updated cost share budget to the granting agency by 9/15/15.

Appendix A- Global Affairs 3 Year Trend

(Exhibit B) In Thousands

Study Abroad ¹¹	FY12	FY13	FY14	Projected FY15	Projected FY16
Total Sources	\$3,844	\$4,124	\$3,224	\$2,278	\$1,840
Carryforward	\$1,073	\$1,462	\$967	(\$362)	(\$1,271)
Base Budget	\$214	\$211	\$211	\$219	\$219
Current Year Adjustments	(\$53)	(\$121)	(\$59)	(\$17)	(\$75)
Total Revenue	\$2,610	\$2,573	\$2,107	\$2,438	\$2,967
Total Expenditures	(\$2,385)	(\$3,158)	(\$3,587)	(\$3,549)	(\$3,931)
Salaries & Benefits	(\$1,553)	(\$1,884)	(\$2,383)	(\$2,409)	(\$2,567)
Other Expenditures	(\$832)	(\$1,274)	(\$1,204)	(\$1,140)	(\$1,363)
Total Funds Available	\$1,458	\$967	(\$362)	(\$1,271)	(\$2,091)

(Exhibit C) In Thousands

SISS- Student	FY12	FY13	FY14	Projected FY15	Projected FY16
Total Sources	\$525	\$655	\$749	\$819	\$666
Carryforward	\$130	\$96	\$104	\$67	(\$152)
Base Budget	\$190	\$257	\$318	\$422	\$441
Current Year Adjustments	\$85	\$148	\$137	\$122	\$122
Total Revenue	\$120	\$154	\$190	\$208	\$255
Total Expenditures	(\$429)	(\$551)	(\$682)	(\$971)	(\$1,193)
Salaries & Benefits	(\$381)	(\$495)	(\$547)	(\$837)	(\$1,036)
Other Expenditures	(\$48)	(\$56)	(\$135)	(\$134)	(\$157)
Total Funds Available	\$96	\$104	\$67	(\$152)	(\$527)

(Exhibit D) In Thousands

SISS- Scholar ¹²	FY12	FY13	FY14	Projected FY15	Projected FY16
Total Sources	\$1,136	\$1,161	\$1,119	\$1,072	\$950
Carryforward	\$571	\$433	\$430	\$263	\$47
Base Budget	\$33	\$27	\$28	\$0	\$0
Current Year Adjustments	(\$66)	(\$7)	(\$30)	\$37	\$45
Total Revenue	\$597	\$708	\$692	\$772	\$858
Total Expenditures	(\$724)	(\$763)	(\$856)	(\$1,025)	(\$918)
Salaries & Benefits	(\$644)	(\$648)	(\$723)	(\$797)	(\$801)
Other Expenditures	(\$80)	(\$115)	(\$133)	(\$228)	(\$117)
Total Funds Available	\$412	\$397	\$263	\$47	\$32

¹¹ Excludes pass through and development accounts.

¹² Projected FY15 & 16 total revenue includes anticipated increase in SISS visa recharge rates as of February 2015. However, these rates are not anticipated to be increased until Fall 2015. Refer to Observation D.

(Exhibit E) In Thousands

Vice Provost's Office	FY12	FY13	FY14	Projected FY15	Projected FY16
Total Sources	\$1,143	\$1,189	\$1,192	\$1,056	\$870
Carryforward	\$479	\$437	\$348	\$211	(\$30)
Base Budget	\$546	\$458	\$587	\$640	\$640
Current Year Adjustments	\$118	\$292	\$258	\$205	\$260
Total Revenue	\$0	\$2	\$0	\$0	\$0
Total Expenditures	(\$706)	(\$841)	(\$981)	(\$1,086)	(\$1,125)
Salaries & Benefits ¹³	(\$633)	(\$714)	(\$875)	(\$1,001)	(\$1,071)
Other Expenditures	(\$74)	(\$127)	(\$107)	(\$102)	(\$105)
Total Funds Available	\$437	\$348	\$211	(\$30)	(\$255)

(Exhibit F) In Thousands

Hubert Humphrey Fellowship	FY12	FY13	FY14	Projected FY15	Projected FY16
Total Sources	\$262	\$262	\$249	\$256	\$264
Carryforward	\$50	\$27	\$6	\$0	\$0
Federal Grant	\$261	\$26	\$249	\$253	\$264
Current Year Adjustments	(\$49)	(\$26)	(\$6)	\$3	\$0
Total Expenditures	(\$234)	(\$255)	(\$249)	(\$256)	(\$264)
Salaries & Benefits	(\$147)	(\$154)	(\$155)	(\$165)	(\$169)
Other Expenditures	(\$87)	(\$101)	(\$94)	(\$91)	(\$95)
Total Funds Available	\$27	\$6	\$0	\$0	\$0

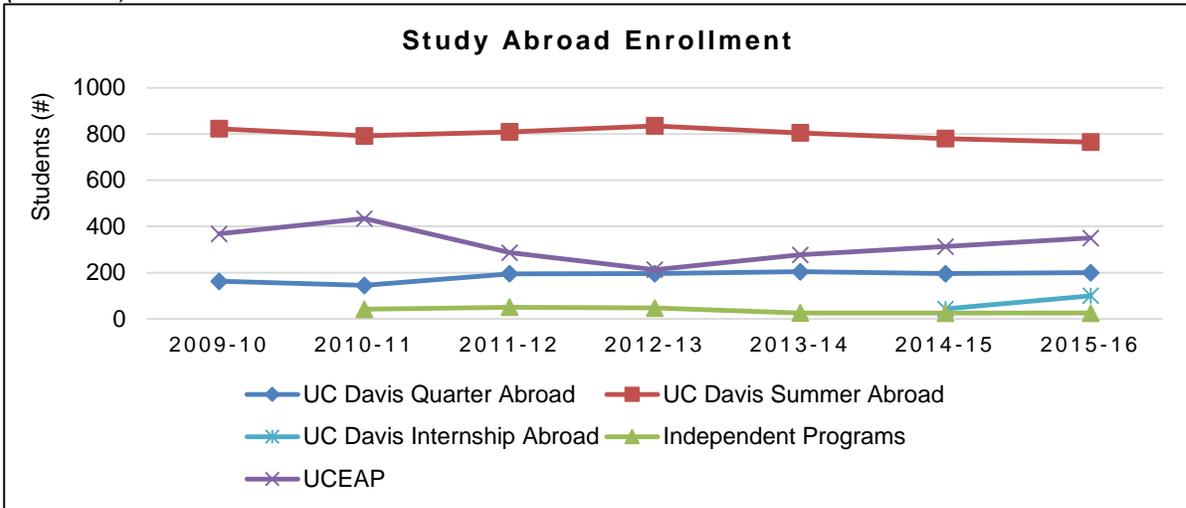
(Exhibit G) In Thousands

Confucius Institute	FY12	FY13	FY14	Projected FY15	Projected FY16
Total Sources	Program established in FY14		\$204	\$210	\$286
Carryforward			\$0	\$27	\$0
Chinese Ministry Funds			\$225	\$183	(\$286)
Current Year Adjustments			(\$21)	\$0	\$0
Total Expenditures			(\$177)	(\$210)	(\$286)
Salaries & Benefits			(\$4)	(\$54)	(\$74)
Other Expenditures			(\$173)	(\$156)	(\$212)
Total Funds Available			\$27	\$0	\$0

¹³Cost share related to Hubert Humphrey Fellowship and Confucius Institute have been included within the Vice Provost's office as no base funding has been provided.

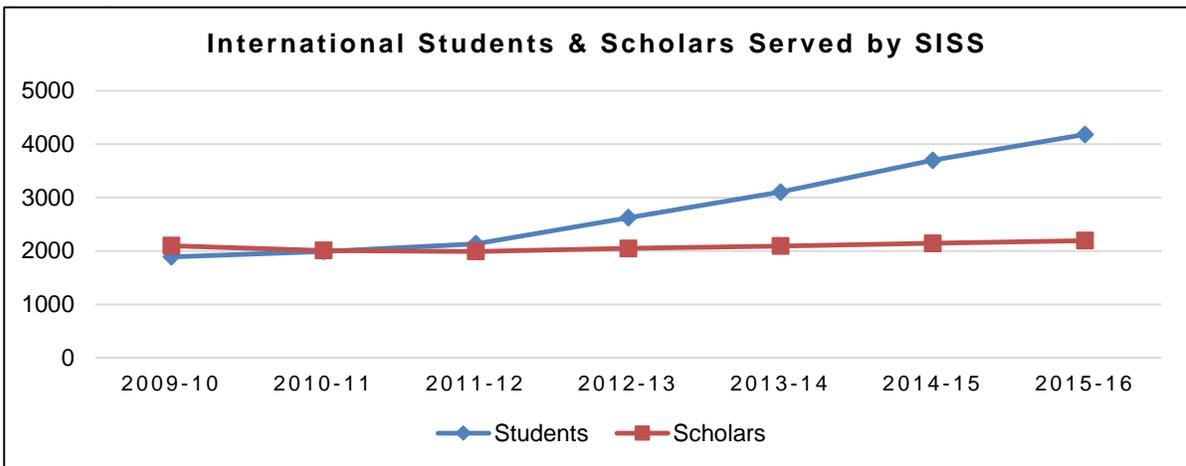
Appendix B- Operating Trends

(Exhibit H)



- UC Davis Internship Abroad began in summer 2014.
- UC Davis Internship & Summer Abroad are reported as heading programs (Summer 2014 reported in FY15)
- FY15 & 16 are projected Study Abroad enrollment

(Exhibit I)



(Exhibit J)

