



AUDIT AND ADVISORY SERVICES
Tel: (510) 642-8292

611 UNIVERSITY HALL #1170
BERKELEY, CALIFORNIA 94720-1170

February 3, 2021

Stephen C. Sutton
Vice Chancellor for Student Affairs
Division of Student Affairs

Vice Chancellor Sutton:

We have completed our audit of Recreational Sports as per our annual service plan in accordance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and the University of California Internal Audit Charter.

Our observations with management action plans are found in the accompanying report. Please destroy all copies of draft reports and related documents. Thank you to the staff of Recreational Sports for their cooperative efforts throughout the audit process. Please do not hesitate to call on Audit and Advisory Services if we can be of further assistance in this or other matters.

Respectfully reported,

Jaime Jue
Director

cc: Assistant Vice Chancellor Samuel Santos
Assistant Vice Chancellor and Dean of Students Sunny Lee
Assistant Vice Chancellor and Chief of Staff Anne Jones
Director Brigitte Lossing
Controller Michael Riley
Associate Chancellor Khira Griscavage
Senior Vice President and Chief Compliance and Audit Officer Alexander Bustamante



AUDIT AND ADVISORY SERVICES

Recreational Sports
Audit
Project No. 20-742

February 3, 2021

Prepared by:

Robert Asato
Auditor-in-Charge

Reviewed by:

Jennifer Jones
Associate Director

Approved by:

Jaime Jue
Director

University of California, Berkeley
Audit and Advisory Services
Recreational Sports

Table of Contents

OVERVIEW	2
Executive Summary	2
Source and Purpose of the Audit	3
Scope of the Audit	3
Subsequent Events	3
Background Information	3
Summary Conclusion	4
SUMMARY OF OBSERVATIONS & MANAGEMENT RESPONSE AND ACTION PLAN	6
Strategic Plan and Alignment with the Division of Student Affairs	6
Program Portfolio Lifecycle Review	7
Funding Model	8
Administrative Structure and Staffing	9

OVERVIEW

Executive Summary

The purpose of the audit was to assess departmental procedures and controls designed to mitigate operational, financial, and compliance risks associated with selected Recreational (Rec) Sports' operations and activities.

Areas of audit focus included recreational program development, staffing, risk management, and oversight and selected business activities central to unit operations, including strategic planning, equipment maintenance and other health and safety considerations.

Based upon the results of the audit work performed, we observed the following opportunities to strengthen controls and practices to support the effectiveness and efficiency of Rec Sports' operations and activities:

- *Strategic Plan and Alignment with the Division of Student Affairs:* Rec Sports has worked with Student Affairs to develop a long-range plan that serves to highlight and propose solutions to a range of financial, programmatic, and infrastructural imperatives. In addition, the unit's vision and mission is also being actively considered in response to the vision of wellness articulated as a priority by campus leadership. As part of this ongoing effort, we note a related opportunity for management to develop a clear strategic plan to help guide and inform planning and decision-making in refining the mission and defining goals for Rec Sports.
- *Program Portfolio Life Cycle Review:* Rec Sports manages an extensive portfolio of program offerings. To optimize decision-making around program initiation and delivery and to ensure the appropriate and timely assessment of financial viability, compliance and operational risks, we note an opportunity for management to further formalize protocols and criteria for evaluating program offerings at both the individual program and portfolio levels.
- *Funding Model:* Rec Sports has been largely successful in funding its own operations without central or divisional financial support; however, revenues have not been sufficient to cover necessary capital improvements that, as an auxiliary, are expected to be self-funded. As such, it is imperative that funding models for Rec Sports be developed that account for Rec Sports' auxiliary status and allow the unit the financial capacity to make appropriate investments in its physical infrastructure.
- *Administrative Structure and Staffing:* The delivery of Rec Sports programs is a multi-faceted undertaking with a wide range of activities that entail operational and compliance risk. We observed certain gaps in process and control activities that indicate a need for enhanced central coordination and oversight and we recommend that the current approach for managing administrative activities be assessed accordingly.

Management agrees with our observations and has developed management action plans that we believe are appropriately responsive to the risks noted.

Source and Purpose of the Audit

The purpose of the audit was to assess departmental procedures and controls designed to mitigate operational, financial, and compliance risks associated with selected Rec Sports operations and activities.

The audit was included as a planned project on our fiscal year 2020 audit plan in part due to the unit's recent organizational repositioning and changes in leadership.

Scope of the Audit

The audit scope included inquiry with respective staff and review of current administrative processes and internal controls related to

- governance of the unit, including strategic and programmatic planning;
- program risk management and compliance, including staffing, insurance, waivers, and oversight; and
- selected business activities central to the Recreational Sports Facility and operations, including those related to facilities and equipment, health and safety, and key financial controls.

Our fieldwork included interviews and process walkthroughs with unit staff and the Division of Student Affairs, EH&S, UCPD, the Controller's Office, and Berkeley Regional Services as well as review of related documentation.

Our fieldwork was performed during the November to February 2020 timeframe and entailed an assessment of procedures and controls in place at that time.

Subsequent Events

Subsequent to audit fieldwork but prior to the issuance of this report, campus operations, including those of Rec Sports, were significantly impacted by the COVID-19 related shelter-in-place order resulting in the temporary closure of Rec Sports facilities and the cessation of all in-person programs. As a result, although the observations are still pertinent and have been agreed to by management, the timing and nature of management responses and action plans necessarily are dependent on the resumption of normal operations and/or may need to be adjusted in the context of larger campus, division, and unit response and recovery efforts.

Background Information

Rec Sports is considered an auxiliary unit as defined by the criteria set forth in the relevant University of California policy, Business and Finance Bulletin BUS-72 *Establishment of Auxiliary Enterprises*. Rec Sports has operated on this basis since 2003 when it was decoupled from Intercollegiate Athletics. Rec Sports' mission is primarily to serve student recreational needs but the unit also offers extensive programming to the broader campus and local communities.

From 2003 to 2017 the unit reported into the campus Administration and Finance organization and was led throughout that period by a single long-term director until his retirement in 2016. At that

time, campus leadership convened a committee “to review the scope of the Department, identify challenges, and make recommendations.” The review committee made a number of recommendations, including that the unit’s reporting structure “be tied to greater campus wellness strategies and positioned near like services.” In July 2017, as part of campuswide efforts to align services supporting the student experience, Rec Sports was transitioned into the Division of Student Affairs.

At the time of our audit, Student Affairs management had taken steps to merge staffing and operations for selected functions; however, a full strategic, operational, and financial assessment had not yet been completed pending the hiring of a new permanent director for Rec Sports. In June 2020, a new permanent director was named.

The size, complexity, and reach of Rec Sports has grown extensively over time and in fiscal year 2018-19 the unit served over 30,000 student members and over 10,000 non-student members, as well as non-members through a broad range of youth-focused and other programs available to the public.

Summary Conclusion

Based upon the results of the audit work performed, we observed the following areas for opportunities to strengthen controls and practices to support operational and financial effectiveness and efficiency of Rec Sports’ activities and programs:

- *Strategic Plan and Alignment with the Division of Student Affairs:* Rec Sports has worked with Student Affairs to develop a long-range plan that serves to highlight and propose solutions to a range of financial, programmatic, and infrastructural imperatives. In addition, the unit’s vision and mission is also being actively considered in response to the vision of wellness articulated as a priority by campus leadership. As part of this ongoing effort, we note a related opportunity for management to develop a clear strategic plan to help guide and inform planning and decision-making in refining the mission and defining goals for Rec Sports.
- *Program Portfolio Life Cycle Review:* Rec Sports manages an extensive portfolio of program offerings. To optimize decision-making around program initiation and delivery and to ensure the appropriate and timely assessment of financial viability, compliance and operational risks, we note an opportunity for management to further formalize protocols and criteria for evaluating program offerings at both the individual program and portfolio levels.
- *Funding Model:* Rec Sports has been largely successful in funding its own operations without central campus or divisional financial support; however, revenues have not been sufficient to cover necessary capital improvements that, as an auxiliary, are expected to be self-funded. As such, it is imperative that funding models for Rec Sports be developed that account for Rec Sports’ auxiliary status and allow the unit the financial capacity to make appropriate investments in its physical infrastructure.
- *Administrative Structure and Staffing:* The delivery of Rec Sports programs is a multi-faceted undertaking with a wide range of activities that entail operational and compliance

risk. We observed certain gaps in process and control activities that indicate a need for enhanced central coordination and oversight and we recommend that the current approach for managing administrative activities be assessed accordingly.

Management agrees with the audit observations and has developed management action plans that we believe are appropriately responsive to the noted risks. Subsequent to audit fieldwork but prior to the issuance of this report, campus operations, including those of Recreational Sports, were significantly impacted by the COVID-19 related shelter-in-place order, resulting in the temporary closure of facilities and the cessation of all in-person programs. As a result, the timing and nature of the management responses and action plans necessarily are dependent on the resumption of normal operations and may need to be adjusted in the context of larger campus, division, and unit response and recovery efforts.

SUMMARY OF OBSERVATIONS & MANAGEMENT RESPONSE AND ACTION PLAN

Strategic Plan and Alignment with the Division of Student Affairs

Observation

Rec Sports has a primary mission of serving Berkeley student recreational needs and interests, while also offering programs to the broader campus and local communities. Consistent with its student focus, the department was organizationally repositioned into Student Affairs in 2017 and management has taken steps to integrate staffing and operations, where deemed appropriate.

Rec Sports has worked with Student Affairs to develop a long-range plan that serves to highlight and propose solutions to a range of financial, programmatic, and infrastructural imperatives. In addition, the unit's vision and mission is also being actively considered in response to the vision of wellness for the campus and local community articulated as a priority by campus leadership.

As part of this ongoing effort, we note a related opportunity for management to develop a clear strategic plan to help guide and inform planning and decision-making in refining the mission and defining goals for Rec Sports. Such a plan should align with both Student Affairs and campus priorities, balancing the perspectives and needs of key stakeholder groups, and entail a holistic consideration of Rec Sports' overall service to the campus, as well as its delivery model where other campus units may provide overlapping or complementary services.

We note that a strategic plan would be of particular potential benefit to the Rec Sports organization, due to the size and complexity of its operations, the wide range of constituencies served, and, as an auxiliary, its need to balance revenue generation imperatives with its student focus. A strategic plan would provide a vetted and consistent framework for evaluating tradeoffs and priorities in programmatic, staffing, and capital renewal decisions to further enhance the overall contribution of Rec Sports to the campus.

Management Response and Action Plan

Rec Sports management has been engaged in annual division level strategic planning activities in recent years, an undertaking that has resulted in a re-envisioning and updating of the unit's mission and values framework.

Subsequent to the conclusion of this audit, Recreational Sports abruptly ceased operations in March 2020 due to local government shelter-in-place orders. Rec Sports operations continue to be largely suspended due to the ongoing COVID-19 situation, which has severely impacted the financial condition of the unit. In response to these events and the uncertainty of the timing for return to normal operations, Rec Sports leadership is in progress of holistically evaluating the future portfolio of programs and services, given that various offerings and associated revenues may be constrained for the foreseeable future.

Management will consider the audit recommendations as part of this effort and in light of the larger imperatives of long term financial sustainability and alignment with campus and Student Affairs priorities.

Program Portfolio Lifecycle Review

Observation

Rec Sports manages an extensive portfolio of program offerings that includes 11 types of intramural sports, 35 competitive and recreational clubs, a variety of youth classes and camps for the broader community, and a wide range of outdoor activity, esports, aquatics, martial arts, and inclusive recreation programs.

Potential offerings are identified based on suggestions from the campus and extended community, and also through management's own knowledge of emerging programs and trends in wellness and recreation at large. When determining whether to launch programs, management considers a number of factors, including expected demand and the availability of space. In addition, management tracks participation in programs once launched and may take action in case of significant changes in enrollment or program costs or risks.

To optimize decision-making around program initiation and delivery, we note an opportunity for management to further formalize protocols and criteria for evaluating programs at the proposal/initial review stage and on an ongoing periodic basis to assess continuation, modification, or termination options.

The evaluation framework should include a consideration of how programs align with overall unit goals and plans, whether similar or complementary programs already exist within Rec Sports or elsewhere on campus, the feasibility of staffing and space requirements, and any associated compliance or operational risks. In addition, careful analysis regarding program financial viability should be performed, taking into account varying models of enrollment demand and different program costing and pricing structures to ensure consistency with university costing policies and that program profitability targets are met. Financial measures should be considered at both the individual program and portfolio levels.

Management Response and Action Plan

Subsequent to the conclusion of this audit, Recreational Sports abruptly ceased operations in March 2020 due to local government shelter-in-place orders. Rec Sports operations continue to be largely suspended due to the ongoing COVID-19 situation, which has severely impacted the financial condition of the unit. In response to these events and the uncertainty of the timing for return to normal operations, Rec Sports leadership is in progress of holistically evaluating the future portfolio of programs and services, given that various offerings and associated revenues may be constrained for the foreseeable future.

Management will consider the audit recommendations as part of this effort and in light of the larger imperatives of long term financial sustainability and alignment with campus and Student Affairs priorities.

Funding Model

Observation

Rec Sports is considered an auxiliary unit, as defined in university policy, Business and Finance Bulletin BUS-72, *Establishment of Auxiliary Enterprises*. According to the policy, a defining characteristic of an auxiliary enterprise is that it is "essentially self-supporting", although the policy does allow that campuses may subsidize the enterprise with available central funds.

Rec Sports has been largely successful in funding its own operations without central campus or divisional financial support and ended fiscal year 2018-19 with a surplus of more than \$2.6 million, after covering in-unit costs and division and campus assessments. Fiscal year 2018-19 unit revenues of \$15.4 million primarily derived from program and membership fees (\$8.1 million) and secondarily from student fees (\$6.8 million) that were historically directed for Rec Sports' facilities and programs and have continued over time. In addition, Rec Sports received approximately \$600,000 in campus support in this same year, as well as approximately \$260,000 from the division, and also had revenues of approximately \$500,000 from gifts, donations, and endowment funds.

We note that in spite of these positive results, Rec Sports revenues have not been sufficient to cover necessary capital improvements that, as an auxiliary, are expected to be self-funded. As such, it is imperative that funding models for Rec Sports be developed that account for Rec Sports' auxiliary status and allow the unit the financial capacity to make appropriate investments in its physical infrastructure. Additionally, we note that current financial models for Rec Sports presume a rate of steady growth that is dependent on program expansion. Especially in light of recent current events, it is critical that management diversify and build revenue generating capacity through other channels, including increasing programmatic fees where appropriate, and pursuing business development partnerships and additional donor fundraising opportunities to address potential revenue shortfalls and a possible decline in demand for its programs and activities due to unforeseen circumstances.

Management Response and Action Plan

In Spring 2020, Rec Sports initiated a project to analyze costs and pricing strategies with the goal of identifying potential options for better supporting annual capital requirements for expansion, addition of new facilities, and renovation of existing infrastructure. In addition, Rec Sports has begun to participate in campus fundraising activities to expand donor engagement. Business development activities are currently managed at the division level and staffing has been reduced due to budget actions.

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Management will consider the audit recommendations as part of this effort and in light of the larger imperatives of long term financial sustainability and alignment with campus and Student Affairs priorities.

Administrative Structure and Staffing

Observation

The delivery of Rec Sports programs is a multi-faceted undertaking with a wide range of activities that entail operational and compliance risk, including health and safety concerns associated with physical/outdoor activity programs and facilities/equipment maintenance; working with minors; the use of contractors and volunteers; business development partnerships; and cash and cash-equivalent handling.

At the time of our audit, the Rec Sports structure for overseeing these activities had recently undergone changes as part of the unit's transition into Student Affairs with coordination of activities either managed centrally within Student Affairs or on a more decentralized basis within Rec Sports.

Based on our audit fieldwork, we observed certain gaps in process/control activities that indicate a need for enhanced central coordination and oversight and we recommend that the current approach for managing administrative activities be assessed accordingly. Examples of the process/control concerns noted are outlined below.

- *Personnel matters* — Our review of training records for Rec Sports staff whose job responsibilities include working with hazardous materials identified that not all employees have taken required safety training courses. For Rec Sports programs, we also noted that the decisions regarding the staffing model for each program, including whether and how to use volunteers as well as the identification and fulfillment of program staff training requirements, are managed by each program director without the benefit of central guidance or oversight.
- *Equipment maintenance* — While it appears that Rec Sports fitness equipment is regularly maintained, there is no tracking or monitoring by management to provide assurance that equipment has received the maintenance or inspections as scheduled, potentially resulting in compliance or reputational risks.
- *Financial controls* — We noted a consistent pattern of procurement card transactions not having been reviewed and approved in the BFS financial system as required. A review of procurement card transaction approvals for Rec Sports for fiscal year 2018-19 found that the approval rate was 86%. During this fiscal year, there were a total of 1,185 transactions amounting to approximately \$596,000; of these transactions, 172 totaling approximately \$93,000 were not approved.

Conversely, we understand that with the transition of Rec Sports marketing/communications personnel to Student Affairs, plans for improving the Rec Sports website have been delayed due to the volume of competing communication priorities at the division level. For Rec Sports, with its external constituencies and its revenue generating goals, we note a potential value in local

control (with division oversight) over certain functions in order to allow for more flexibility and expediency in the implementation of critical and time sensitive tactical plans.

Management Response and Action Plan

As part of Rec Sports reorganization into Student Affairs in Fall 2017, a number of administrative positions were consolidated at the division-level including those related to finance, business development, IT, and communications/marketing. Given the unique business and operating needs of Rec Sports, this model may not be optimal with respect to ensuring that core service needs are met and management will explore the possibility of transitioning to a hybrid model similar to what exists for other auxiliary units residing within Student Affairs.

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Management will consider the audit recommendations as part of this effort and in light of the larger imperatives of long term financial sustainability and alignment with campus and Student Affairs priorities.