

October 16, 2014

DEBBIE RICO
Interim Controller
0951

**Subject: *Recharge Operations – Central Oversight
Audit & Management Advisory Services Project 2014-03***

The final audit report for the above referenced audit is attached. We would like to thank all members of the department for their cooperation and assistance during the audit.

Because we were able to reach agreement regarding corrective actions to be taken in response to the audit recommendations, a formal response to the report is not requested.

The findings included in this report will be added to our follow-up system. While management corrective actions have been included in the audit report, we may determine that additional audit procedures to validate the actions agreed to or implemented are warranted. We will contact you to schedule a review of the corrective actions at the appropriate time.

UC wide policy requires that all draft audit reports, both printed (copied on tan paper for ease of identification) and electronic, be destroyed after the final report is issued. Because draft reports can contain sensitive information, please either return these documents to AMAS or destroy them at this time.

David Meier
Director
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Attachment

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UC San Diego

AUDIT & MANAGEMENT ADVISORY SERVICES

Recharge Operations – Central Oversight
October 2014

Performed By:

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Project Number: 2014-03

***Recharge Operations – Central Oversight
Audit & Management Advisory Services Project 2014-03***

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ATTACHMENT A – Recharge Rate Proposal Review and Approval Summary

ATTACHMENT B – Recharge Rate Review and Approval Log Data

*Recharge Operations – Central Oversight
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I. Background

Audit & Management Advisory Services (AMAS) has completed a review of Recharge Operations – Central Oversight as part of the approved audit plan for Fiscal Year 2013-14. This report summarizes the results of our review.

UCSD operates a number of service enterprise and academic support units that provide goods and services primarily in support of academic and administrative activities. These units establish recharge rates to recover the costs associated with providing goods and services to internal UCSD customers (i.e. departments, faculty staff and students). In limited circumstances these units can also provide goods or services to customers not affiliated with UCSD, albeit at a higher rate than that used to charge internal customers.

UC Business and Finance Bulletin A-47, *University Direct Costing Procedures*, requires that recharges for services provided by service enterprises, and academic support activities provide for recovery of actual costs, and that prices be adjusted at least annually to eliminate any surpluses or deficits. The policy further states that recharge activity rates and prices be reviewed and approved by the Chancellor or his/her delegate.

The recharge rate proposal review and approval process at UCSD varies depending on the type of activity, and whether or not the activity will exceed \$250 thousand in recharges annually. The recharge rate proposal and review process for service enterprise and academic support activities is provided at **Attachment A**. As noted in the attachment, the process is supported by the Financial Analysis Office (FAO), General Accounting Office (GAO) and the Recharge Rate Review Committee. The Controller is responsible for final approval of recharge rates.

The Recharge Rate Review Committee is a committee comprised of eight appointed representatives, one from each Vice Chancellor area, and four ex-officio representatives. Upon receipt of proposals for recharge activities exceeding \$250 thousand annually, FAO emails the proposal to all committee members, and requests that any questions or concerns be elevated within two weeks. If FAO does not receive any responses, it is assumed that the committee approves the rate, and the rate is sent to the Controller for final approval. This process allows each member to assess how the proposal may impact their respective Vice Chancellor area.

Between July 2012 and January 2014, 60 recharge rate proposals were submitted for review and approval. Of these, about half exceeded the annual threshold requiring Recharge Rate Review Committee approval.

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II. Audit Objective, Scope, and Procedures

The objective of our review was to evaluate the effectiveness of central oversight for campus recharge activities, including the role of the Recharge Rate Review Committee, supporting campus offices, and the timeliness of the recharge rate proposal process to support new lines of business and revenue.

In order to achieve our objectives we completed the following:

- Reviewed applicable University policies and procedures;
- Conducted interviews with personnel in the General Accounting and Financial Analysis Office responsible for processing recharge rate proposals;
- Examined online and manual logs of recharge rate proposal activity during the period under review; and
- On a test basis, reviewed available records related to the processing of a small sample of rate proposal requests during the period under review.

III. Conclusion

We concluded that central oversight for campus recharge activities is generally effective to ensure that proposals are reviewed and approved in accordance with University policy, but that the approval process is not always completely timely.

IV. Observations and Recommendations

A. Recharge Rate Proposal Review/Approval Process

The workflow to review and approve recharge rates, which relied on emails and manual spreadsheets for tracking, was not effective for ensuring that all recharge rate proposals are reviewed and approved in a timely manner.

The recharge rate proposal review and approval workflow, as summarized at **Attachment A**, is a process that heavily relies on emails and phone calls between the parties involved. For many proposals, most of the communication occurs via email between the VC area and either GAO or FAO in order to resolve questions or concerns that GAO or FAO have about the proposal. GAO maintains a manual log to keep track of various details about each recharge rate proposal submitted, including the submittal date, approval date and/or the current status of the proposal.

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The log data maintained by GAO was, in some cases, incomplete. The date of final approval by the Recharge Rate Review Committee was sometimes unknown, and final approval by the Controller was not logged. Further, records supporting the documentation maintained in the logs tend to be dispersed and fragmentary, consisting for the most part in the form of emails which are not collected into a central repository. In some cases, communications related to rate proposal processing are accomplished via telephone conversations rather than by email. For these reasons, we were unable to reconstruct precise processing time data for all proposal submitted for Fiscal Years 2012-13 and 2013-14.

Based on the data that was available, it appears that 60 recharge rate proposals were submitted for review and approval between July 2012 and January 2014. The time between initial submission and final approval by the Recharge Rate Review Committee ranged from five to 553 days, and averaged 118 days per proposal. A complete listing of these recharge rate proposals, as well as the available submission and approval dates, is provided at **Attachment B**.

Based on email threads supporting the review and approval of the 10 proposals that took the longest to approve, six appeared to have been unnecessarily delayed for up to two months due to communication issues that occurred at GAO, FAO, or the Controller's Office. In two of these email threads, participants in the process acknowledged that emails requesting them to take action simply "fell through the cracks."

Because recharge activities must maintain a costing structure that limits surpluses or deficits, it is imperative that proposals to adjust rates be reviewed and approved in a timely manner. Approvals that are unnecessarily delayed put the activity at risk of further increases of surpluses or deficits. In addition, departments that perceive that the proposal review and approval process is untimely may be incentivized to bypass the formal approval process by the Recharge Rate Review Committee and the Controller.

In an effort to improve the recharge rate review and approval process, GAO has created business requirements documentation to support the development of a web-based online recharge rate approval tool. GAO believes that this tool would provide a more effective way to track the progress and route the proposals from start to finish. As of the date of this review, the business requirements document was substantially complete, and GAO was working with Administrative Computing and Telecommunications (ACT) on resourcing the development of the tool.

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Management Corrective Action:

GAO and FAO will continue to work with ACT to evaluate the resources necessary to develop a web-based recharge rate proposal review and approval tool.

B. Published Listing of Approved Recharge Rates

The listing of approved recharge rates published on Blink was out of date and did not reflect recent rate proposal approval activity.

UC Business and Finance Bulletin A-47 states that "*All recharge activities shall publish a schedule of rates and prices which shall be reviewed and approved by the Chancellor or his/her delegate.*" At UCSD, approved recharge rates and prices are published online in Blink. The publication of approved recharge rates helps ensure that only properly approved rates are used.

Approved recharge rates have historically been published by FAO on a Blink website titled "Approved Recharge Activities and Rates."¹ As of the date of our review, the website was significantly out-of-date. The website did not include recharge rates that went into effect subsequent to September 2006.

The lack of a current published listing of all approved recharge rates increases the risk that billing rate errors, if they occur, might go undetected.

Management Corrective Action:

FAO will develop a process to ensure that a published listing of all approved recharge rates and prices is maintained on an ongoing basis.

¹ <http://www-fao.ucsd.edu/RechargeActivity/Display.cfm>

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 Attachment A

Recharge Rate Proposal Review and Approval Summary			
Step No.	Description of step	if less than \$250 k	if greater than \$250 k
1.	Proposal is prepared by the originating department.	X	X
2.	Proposal is approved by the VC of the originating department.	X	X
3.	Proposal is submitted electronically to General Accounting.	X	X
4.	Proposal is logged by General Accounting.	X	X
5.	Proposal is reviewed by General Accounting.		X
6.	Proposal is sent to the Financial Analysis Office.	X	X
7.	Proposal is reviewed by the Financial Analysis Office.	X	X
8.	Proposal is sent to the Recharge Rate Review Committee.		X
9.	Proposal is reviewed by all members of the Recharge Rate Review Committee.		X
10.	Proposal is sent to the UCSD Controller for final review and approval.	X	X

Process note: If questions arise during any stage of the review process, the proposal is returned to the originating department for correction or clarification as needed.

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 Recharge Rate Review and Approval Log Data

No.	Fund	Activity Name	Date Rec'd	Amount	Final Official Approval By R3	Approval by UCSD Controller	Days from Receipt to R3 Committee Approval
1	64405A	Biogem - Req for Approval for New Svc Rates	12/21/2011	>200K	6/26/2013	6/30/2013	553
2	64401A	CFMRI - Request to Change rates	5/2/2012	>200K	7/16/2013	7/15/2013	440
3	64437A	Health Sciences Simulation Center Recharge	7/11/2012	>200K	7/16/2013	7/15/2013	370
4	62256A	Chemical Sensor Recharge Facility	8/27/2013	<250K	4/3/2014	4/3/2014	219
5	64416A	Fund 64416A - Request to modify rates >200K	9/13/2012	>200K	4/17/2013	data not available	216
6	62216A	Chronopolis Digital Preservation Recharge	9/26/2012	>250K	4/17/2013	4/17/2013	203
7	62012A	Lab Support Services	2/29/2012	>200K	9/11/2012	9/12/2012	195
8	64337A	Fund: 64337A-Transgenic Mouse >200K Modification of Rates	12/21/2012	>250K	7/1/2013	6/30/2013	192
9	NEW	VCHS: Behavioral Testing Core	9/5/2013	>250K	3/4/2014	3/14/2014	180
10	62006A	VCAA: Biology - Animal Facility Services	8/28/2013	>250K	2/12/2014	data not available	168
11	64120A	Calit2 IT Recharge rate proposal package	9/14/2012	>200K	2/25/2013	data not available	164
12	64405A	Biogem - Rate Revision and Addition >200K	11/6/2012	>250K	4/17/2013	data not available	162
13	62101A	SDSC's Comm Vault Storage Offering	7/12/2012	data not available	12/14/2012	data not available	155
14	64115A	Calit2 Event Space	4/16/2012	<200K	9/13/2012	data not available	150
15	62154A	Stock Center-Add'l Services	6/28/2012	<200K	11/16/2012	10/23/2012	141
16	66073A	Event Services Recharge Modification Request	11/29/2012	<250K	4/17/2013	data not available	139
17	66073A	Intallation and Repair Recharge Modification Request	12/3/2012	<250K	4/17/2013	data not available	135
18	62005A	Animal Care Program IACUC	7/16/2012	>200K	11/27/2012	data not available	134
19	64220A	SD-NAP Facility: Request to Revise Rates (REVISED)	9/27/2012	<200K	2/5/2013	data not available	131
20	64428A	NMR Recharge Facility	7/25/2012	<200K	11/27/2012	data not available	125

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No.	Fund	Activity Name	Date Rec'd	Amount	Final Official Approval By R3	Approval by UCSD Controller	Days from Receipt to R3 Committee Approval
21	62215A	New Recharge Proposal: RCI Triton Shared Compute Cluster (TSCC)	12/13/2012	>250K	4/15/2013	data not available	123
22	64413A	Request to add/modify rates >250K (CTRI)	3/22/2013	>250K	7/16/2013	data not available	116
23	64412A	HESCCF -Rate Revision >200K	3/5/2013	>200K	6/26/2013	data not available	113
24	64117A	Request to modify rates for Design and Fabrication Recharge Lab	1/22/2013	<200K	5/7/2013	data not available	105
25	64407A	Neurosciences Microscopy Facility	6/25/2012	>200K	10/5/2012	data not available	102
26	62052A	VCHS: Professional Development Center	11/7/2013	<250K	2/10/2014	data not available	95
27	64307A	Neurocytology	6/27/2012	<200K	9/13/2012	data not available	78
28	66073A	Project Management Engineering Support Recharge Modification Request	12/3/2012	<250K	2/14/2013	data not available	73
29	62002A	Biology Shops Rate Modification	8/5/2013	>250K	10/9/2013	data not available	65
30	60742A	New Activity- REU Application Management System	2/12/2013	<250K	4/17/2013	data not available	64
31	62006A	Zebrafish Facility	5/22/2013	<250k	7/16/2013	data not available	55
32	62133A	Cryo Electron Microscopy	2/14/2014	<200K	4/4/2014	4/4/2014	49
33	64407A	Microscopy Shared Facility	8/26/2013	>250K	10/9/2013	data not available	44
34	62056A	VCHS: Center for Research in Biological Systems	4/3/2013	<250K	5/16/2013	data not available	43
35	62258a	VCMS: ICPMS Recharge Facility	7/23/2013	<250K	9/3/2013	data not available	42
36	64438A	IGM High Genomics Facility	7/22/2013	>250K	8/29/2013	data not available	38
37	62257A	VCMS: ICP-OES Recharge Facility	7/23/2013	<250K	8/28/2013	data not available	36
38	62099A	VCAA: ACMS Desktop Support Svc Rate Modif	8/5/2013	< 250K	9/5/2013	data not available	31
39	64436A	Telerad Imaging Services	10/18/2012	<200K	11/16/2012	data not available	29
40	64475A	New Activity Request Proposal <200K - Lipidomics Core	1/7/2013	<250K	2/5/2013	data not available	29
41	64115A	Calit2 Project Events Services Modify Rates <250K	5/14/2013	<250K	5/29/2013	data not available	15

Source: Log data initially provided by GAO. Additional data, when available, was provided by FAO.

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No.	Fund	Activity Name	Date Rec'd	Amount	Final Official Approval By R3	Approval by UCSD Controller	Days from Receipt to R3 Committee Approval
42	62129A	VCAA:Chemistry/Biochemistry - Molecular Mass Spectrometry	3/21/2014	data not available	4/3/2014	data not available	13
43	62142A	VCR: Natural Reserve System	2/6/2014	<250K	2/16/2014	data not available	10
44	62175A	Request to establish PDEL Recharge Facility	1/28/2013	<200K	2/5/2013	data not available	8
45	62259A	VCMS GRD New Recharge Activity Request - IRMS-EA	10/1/2013	<250K	10/9/2013	data not available	8
46	62109A	VCMS: IOD-CIS Rate Modification Request	10/1/2013	<250K	10/9/2013	data not available	8
47	68101A	VCHS: Training & Conference	8/7/2013	<250K	8/12/2013	data not available	5
48	62078A	Biology Fly Kitchen	10/28/2011	data not available	unknown	data not available	data not available
49	62154A	Bio Stock Ctr	2/24/2012	<200K	unknown	data not available	data not available
50	64114A	Calit2 Nano3	data not available	>200K	unknown	data not available	data not available
51	64115A	Calit2 PES Recharge Proposal	data not available	data not available	9/13/2012	data not available	data not available
52	62005A	ACP Per Diem Rates Proposal	7/6 & 11/16	data not available	Pending	data not available	data not available
53	66073A	Engineering Services Recharge Notification	12/3/2012	<250K	Pending	data not available	data not available
54	693906	Request-to-establish-modify-activities-academic MCL8364	11/19/2012	<250K	Pending	data not available	data not available
55	62058A	Marine Science Development Center (MSDC) - Rate Revision >200K	3/8/2013	>250K	data not available	data not available	data not available
56	64438A	VCHS: IGMGF - Revised Rates	9/30/2013	>250K	data not available	data not available	data not available
57	62029A	VCAA: Nuclear Magnetic Resonance Facility	10/23/2013	>250K	data not available	data not available	data not available
58	NEW	VCHS:Center for Translational Imaging and Personalized Medicine (CTIPM) - Request New Activity	1/14/2014	>250K	data not available	data not available	data not available

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No.	Fund	Activity Name	Date Rec'd	Amount	Final Official Approval By R3	Approval by UCSD Controller	Days from Receipt to R3 Committee Approval
59	62070A	VCMS: MPL Machine Shop: Request to Revised Rates	3/28/13 & 1/16/14	>250K	data not available	data not available	data not available
60	64421A	VCHS: Biorepository Core	2/18/2014	>250K	data not available	data not available	data not available