



Audit Services

September 30, 2010

ERIC VERMILLION

Associate Vice Chancellor
Finance

**SUBJECT: Agency Funds
Audit Services Project #10-042**

As a planned audit for fiscal year 2009-2010, Audit Services conducted a review of Agency Funds at the University of California, San Francisco (UCSF). Agency Funds are used in instances where UCSF acts as an agent for outside agencies in order to record the administration of monies for which UCSF provides services for an outside principal; they are not considered UCSF monies or charitable contributions to the University. UCSF currently has 69 Agency Funds for which they provide provisions. The total amount of cash received for Agency Funds for FY 2009 was \$11,819,729 and total expenditures out of the funds was \$10,009,260.

The objectives of this review were to assess the administrative practices for set-up of agency funds, the procedures for oversight and monitoring of terms and conditions of agency funds; and compliance with applicable policies and regulations for the establishment and use of agency funds maintained by campus Accounting Office.

To complete the review, the following procedures were performed:

- Reviewed UCOP and UCSF Policies on Agency Funds for an understanding of the requirements.¹
- UCSF employees were interviewed to obtain background on Agency Funds and obtain an understanding of their function.

¹ UCOP Policy: A-54 and UCSF Policy: 300-12 Agency Funds.

A Sample of Agency Funds accounts were reviewed to ascertain whether:

- Set-up and approval process of agency fund were appropriate per the University policy.
- Activities and expenditures against agency funds appear to be reasonable and appropriate and that funds were spent in accordance with the Fund Agreement.
- Close-out and approval processes of agency fund were appropriate per the University policy.

Oversight and monitoring of agency funds were examined to ensure appropriate tracking and monitoring of agency funds by selecting three months during the period of review to assess reconciliations, deficit reviews and payroll reviews and verify whether:

- General Accounting received reconciliations for the Agency accounts
- General Accounting prepared a deficit review of the Agency funds. If there was any deficit, appropriate follow up was performed with the Department to clear the issue. Schools will be informed/involved if escalation is necessary.
- Payroll prepared reconciliations to identify employees who should not be paid through agency funds.

Compliance with applicable policies and regulations for Agency Funds was reviewed to determine whether:

- Funds were established for an outside party (Principal) that supports or enhances UC's mission.
- Funds established benefits both UC and Principal.
- Funds have one or more UC faculty or staff employee "Sponsors" authorized by the Principal to act on its behalf, responsible for proper administration and monitoring of the Agency Fund.
- Sponsor's responsibilities are not delegated.
- Monies are deposited by Principle before fund is active.
- Exceptions to the terms and conditions of agency funds can only be granted by the Chancellor.
- Funds are maintained with positive cash balance at all times.
- Funds deposited into the Agency Fund by the Principal are not a tax-deductible contribution to the University.
- Use was compliant with UC and UCSF policies obtained during the Preliminary Survey (limited services noted in policy).

The scope of the review was limited to the specific procedures described above and related to transactions and activities occurring between July 2008 and February 2010. Work performed was limited to the specific procedures described above; as such, this report is not intended nor can it be relied upon to provide an assessment of the overall administrative operations or state of controls regarding Agency Funds at UCSF.² Fieldwork was conducted between January and May 2010.

² A-133 audit for Gladstone Institute was completed in May 2006 and no material deficiencies in internal controls were reported.

Based on work performed, it appears that the Accounting Office is largely responsible for the establishment and monitoring of Agency Funds. While the set-up and close-out of selected funds were in compliance with applicable policy, funds did not always maintain the necessary cash balances to operate in surplus, a violation of University policy. Additionally, while the necessary approvals were secured to initiate the funds examined, the approval process for Agency Funds, as identified in the policy, was found to be antiquated as the responsibility of each approver was not clearly defined. Further, the Agency Funds policy also does not specify the requirement of a fund renewal process or the need for a definitive end date for funds to ensure that idle and non-current funds are addressed in a timely manner.

Specific enhancements were identified that would further improve the management of Agency Funds:

A. *Outdated Agency Funds Policy*

The current Agency Fund Policy is out of date and has not been updated since February 1997. There are several deficiencies in the current policy that pose potential risks. The policy does not clearly state the responsibilities of each reviewer requested for approval and sign-off as noted in the policy and "Agency Request Form." Lack of clear responsibility could allow important review criteria to be missed or overlooked and can lead to inappropriate acceptance and set-up of Agency Funds. It is also unclear the level of Principal and Sponsor involvement or participation during the life of the fund, as currently, the Principal and Sponsor do not need to be involved after initial set-up of the fund. Unclear responsibility and involvement could result in unnecessary liability as well as damages to the reputation of the University, as it may be unclear who is ultimately accountable for addressing any questions or issues that arise, consequently creating delayed or insufficient responses to Agency Fund issues.

Additionally, the policy also does not require an end date for agency funds processed at UCSF. Therefore, no renewal process is necessary as all agency funds do not have an expiration date. There should be an end date on the request form which can be tracked in PeopleSoft to ensure that all current agency funds are active and appropriate; this end date will also help to manage closing dates and renewal requests. The absence of a defined process to expire Agency Funds could create opportunities for misuse of agency funds. Finally, there were a number of accounts found to be operating on a cash reimbursement basis; while the UCSF Policy on Agency Funds clearly prohibits accounts to operate on a cash reimbursement basis; it is not prohibited in the UCOP Policy. This is one of a few inconsistencies between the two policies. The UCSF Policy on Agency Funds should be in alignment with the UCOP Policy to ensure consistency in the operation of Agency Funds at the University.

Management Corrective Action

By June 30, 2011, Finance will update the Agency Funds policy to include the following:

- The specific responsibilities of each reviewer requested for approval and sign-off as noted in the policy and “Agency Request Form”, including the level of Principal and Sponsor involvement or participation during the life of the fund, should be clearly defined.
- A requirement to establish an end date/expiration date which can be tracked in PeopleSoft should be included to ensure funds are closed when appropriate.
- A renewal process should be established to assure continual usage of the fund is appropriate in support of the University’s mission.
- A clarification as to whether funds can actually run on a cost reimbursement basis.

Please feel free to contact my office should you need assistance in devising methods to improve compliance with required controls.

Sincerely,

Peter Cataldo
Interim Director

c: Assistant Vice Chancellor Hawkins
Assistant Controller Lin

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