December 6, 2011

To: Todd Lee
   Assistant Chancellor, Budget and Planning

Re: **Recharge Activities**  
   *Audit Report No. 08-11-00006*

As part of the 2010-11 annual audit plan, Audit and Advisory Services conducted an audit of campus Recharge Activities. Enclosed is the audit report detailing the results of our review.

The purpose of the audit was to determine whether adequate procedures and internal controls have been implemented at the University of California, Santa Barbara (UCSB) to ensure that campus recharging practices are in compliance with University policies and procedures, local guidelines, and external regulations. The review included discussions with Office of Budget and Planning (OBP) staff and administrative personnel at selected campus service centers with recharging activities, evaluation of recharge center rate development practices, and assessment of billing practices at each center by performing limited testing of fiscal year 2009-10 customer billings. Additionally, we evaluated whether Office of Budget and Planning and Income and Recharge Committee (IRC) practices were providing sufficient guidance and oversight of campus recharge activities.

The audit identified a considerable lack of compliance with University recharge policies and procedures and federal regulations, and indicate that this key campus business process is not operating as intended or required. The results of work performed within the scope of the review identified several significant internal control weaknesses and deficiencies in compliance practices and procedures. The more significant of these include:

- Two recharge centers that have not submitted rate proposals for certain rates in almost 12 years.
- Different rates charged for departmental customers vs. non-departmental customers.
- A service center using rates that have not been approved through the OBP or IRC.
- Rates developed to recover certain typically F&A costs.
- A department recharge account that has retained an approximate $150,000 deficit for more than two years.

Additionally, three rate proposals submitted to the OBP by the selected recharge centers during the 2008 to 2009 time frame had yet to be approved by the IRC at the time of the audit.

In our opinion, management should conduct a study of recharge rate development, approval, and customer billing processes and best practices at other Universities and UC campuses, in order to identify and adopt an improved campus model that will streamline the process, reduce administrative overhead, and improve policy and regulatory compliance.
We have included a copy of our detailed observations and management corrective actions. The management corrective actions provided indicate that each recommendation was given thoughtful consideration and that positive measures have been planned to implement the corrective actions. The cooperation and assistance provided by Office of Budget and Planning and recharge center administrative staff during the review was sincerely appreciated. If you have any questions, please feel free to contact me.

Respectfully submitted,

Robert Tarsia
Acting Director
Audit and Advisory Services

Enclosure

Distribution:

Chemistry and Biochemistry
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Director David Siegel
MSO Kathy Scheidemen

Instructional Development
Executive Director George Michaels
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Director Mark Brzezinski
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cc: Chancellor Henry Yang
Executive Vice Chancellor Gene Lucas
Associate Vice Chancellor Ron Cortez
UCSB Audit Committee
Senior Vice President and Chief Compliance and Audit Officer Sheryl Vacca
Assistant Director Arliene Shelor
Recharge Activities
Audit Report No. 08-11-00006

Performed by:
Sam Hartline, Principal Auditor

Approved by:
Robert Tarsia, Acting Director

UCSB Audit and Advisory Services
December 2011
Purpose
The purpose of the audit was to determine whether adequate procedures and internal controls have been implemented at the University of California, Santa Barbara (UCSB) to ensure that campus recharging practices are in compliance with University policies and procedures, campus guidelines, and external regulations.

Scope, Objectives and Methodology
The scope of the review included campus recharge activities conducted during fiscal year 2009-10. Audit objectives were developed for:

- Recharge Policies and Procedures
- Recharge Center Rate Development Practices
- Recharge Center Customer Billing Practices
- Information Technology
- Income and Recharge Committee

Table 1 in this section details the audit objectives for each review area.

To accomplish our objectives, we obtained an understanding of current University policies and procedures, Office of Budget and Planning (OBP) guidelines, and federal regulations related to recharge activities. We also selected a sample of four departments with recharge activities during fiscal year 09-10. In consultation with the OBP, Accounting Services and Controls (AS&C), and departmental management, we selected one recharge center managed by each of the four departments. The departments and recharge centers selected were:

- Chemistry & Biochemistry - Machine Shop
- Institute for Computational Earth System Science (ICESS)\(^1\) - Compute Team
- Instructional Development - Classroom Services
- Marine Science Institute (MSI) - Analytical Lab.

We held discussions with OBP staff and administrative personnel at the selected departments, and completed internal control questionnaires covering each service center’s operations. We also evaluated key recharge center rate development practices by reviewing the last completed rate proposal for each center prepared and submitted to the OBP, and performed a limited test of customer billings to assess each center’s practices. Additionally, we evaluated whether the OBP and Income and Recharge Committee (IRC) practices were providing sufficient guidance and oversight of campus recharge activities.

\(^1\) In fall 2010, subsequent to the audit period included in our scope of work, ICESS and the Institute for Crustal Studies combined to form the Earth Research Institute.
<table>
<thead>
<tr>
<th>Review Area</th>
<th>Objectives</th>
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</thead>
<tbody>
<tr>
<td>Recharge Policies and Procedures</td>
<td>Ensure that campus-issued recharge policies/procedures are relevant and up-to-date.</td>
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</tbody>
</table>
| Recharge Center Rate Development Practices | Ensure that:                                                                                     
|                                          | • Recharge services are in line with the University’s mission, are unique, do not inappropriately compete with local commercial sources, and are in sufficient demand.    |
|                                          | • Centers are operating on a break-even basis and recovering all operational costs, including depreciation for any non-federally funded inventorial equipment.                                       |
|                                          | • Rate proposals detail how the center’s goods/services are provided and operational costs funded.                                                                                                          |
|                                          | • Rate proposals utilize an acceptable rate calculation methodology, are mathematically accurate, and include distinct rates for each level of service provided.                                                  |
|                                          | • Center costs and income included in the proposal rate calculations and financial reports are consistent with the general ledger.                                                                           |
|                                          | • The proposal includes a recharge center operational budget, and the budget is appropriately monitored by the department against actual financial results.                                                      |
|                                          | • The proposal was appropriately approved and the rates are published, or otherwise sufficiently communicated to all customers.                                                                               |
| Recharge Center Billing Practices        | Ensure that:                                                                                     
|                                          | • Customers receive adequately supported and mathematically accurate recharge center billings on an appropriate, timely basis.                                                                               |
|                                          | • Center billings are sufficiently detailed to enable customer verification against their ordering and receiving records.                                                                               |
|                                          | • Rates billed agree to the rates approved by the IRC.                                                                                                                                                |
|                                          | • Rates are applied so that all campus customers are charged the same rate for the same services, and any external customers are charged rates that include a sufficient mark-up for overhead (indirect costs). |
|                                          | • Units of goods/services billed agree to supporting customer orders.                                                                                                                                   |
| Information Technology                  | Evaluate whether adequate and appropriately maintained systems are in place at each recharge center that effectively support operational and financial activities.                                           |
| Income and Recharge Committee            | Evaluate whether practices provide sufficient guidance and oversight of campus recharge activities.                                                                                                      |
Background

Recharge centers are departmental operating units that provide ongoing services to campus departments, research projects, and, in some limited cases, external customers. The centers recover the costs of goods and/or services from the customer on a “recharge” rate basis. During fiscal year 2009-10, campus recharge income totaled approximately $25.4 million.\(^2\)

The service centers develop recharge rates, through a proposal process, to consistently and equitably recover the costs of center operations, including the costs of personnel salaries/benefits, materials and supplies, and equipment depreciation. External customer rates typically include an assessment for campus administrative overhead, and sales to external customers are referred to as “income.” Campus departments are expected to have current, appropriate rates in effect for each fiscal year, and are responsible for the management of their recharge centers. The centers are expected to operate on a break-even basis.

The OBP website provides recharge rate proposal formats and guidelines, and the office is responsible for providing guidance to recharge department personnel, receiving completed rate proposals, performing an initial proposal review, coordinating proposal review and approval by the IRC, and providing ongoing fiscal review of the campus’s recharge operations. The IRC serves as an advisory committee to the Executive Vice Chancellor (EVC) on all campus recharge activities. The committee is responsible for oversight of the income and recharge process, and for approving the establishment of all new recharge units and rates, all surplus/deficit reduction plans approved through the department control point, and certain types of rate proposals listed below. The Assistant Chancellor of Budget and Planning serves as the IRC Chair.

The types of proposal review, after new rates for goods/services have been established, are:

- **Self-Certification Reviews** are performed by the OBP only, and apply when there are no significant changes to rates, costing methodology, business practices, or annual sales from those presented in the prior rate proposal.
- **Rate Revision Reviews** are performed by the IRC, and apply when new rates are developed and there are significant changes in methodology, business practices, or personnel of the recharge center.
- **On-Cycle Reviews** are detailed rate development reviews performed by the IRC when recharge center income exceeds $200,000 per year, and are required every 3 years. If center income is between $50,000 - $200,000 per year, the review is required every 5 years.

\(^2\) This amount includes only “typical” interdepartmental recharge income generated by those campus recharge centers subject to IRC review.
A number of University policies and procedures and external regulations apply to recharge center operational and rate development practices. Table 2 lists the most significant of these relative to this review.

### Table 2: Major Policies, Procedures, and Regulations Applicable to Recharge Activities

<table>
<thead>
<tr>
<th>UCSB</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Policy 1300</td>
<td>Establishment and Revision of Recharge Rates</td>
</tr>
<tr>
<td>Policy 1210</td>
<td>Instructional Charge Rates for Resources Equipment and Facilities</td>
</tr>
<tr>
<td>Policy 1215</td>
<td>Establishing Charges for Learning Resources Audio Visual Equipment Use and Rental</td>
</tr>
<tr>
<td>BFB A-47</td>
<td>University Direct Costing Procedures</td>
</tr>
<tr>
<td>BFB A-56</td>
<td>Academic and Support Unit Costing and Billing Guidelines</td>
</tr>
<tr>
<td>BFB A-59</td>
<td>Costing and Working Capital for Auxiliary and Service Enterprises</td>
</tr>
<tr>
<td>BFB BUS-72</td>
<td>Establishment and Review of Auxiliary Enterprises</td>
</tr>
<tr>
<td>Federal</td>
<td></td>
</tr>
<tr>
<td>CASB DS-2</td>
<td>Cost Accounting Standards Board Disclosure Statement</td>
</tr>
</tbody>
</table>

Source: Auditor Analysis

At a minimum, campus policies and practices require an annual review of the financial results of recharge centers by departmental management, and a revision of rates if a significant increase in costs is expected or the financial results necessitate. The campus Cost Accounting Standards Board Disclosure Statement (CASB DS-2) certifies to federal agencies that the campus performs an assessment of recharge service center income and expenditures on an annual basis, and OMB A-21 requires that rates be adjusted biennially, at a minimum, and take into consideration over/under applied costs of the previous period(s).

Recharge rate proposals are required to be certified by the department head/chair, and reviewed and approved by the department’s control point, prior to submission to the OBP. Subsequent to the review process, proposals are approved by the IRC chair and the EVC.
Summary Opinion

The audit identified a considerable lack of compliance with University recharge policies and procedures and federal regulations, and indicate that this key campus business process is not operating as intended or required. The results of work performed within the scope of the review identified several significant internal control weaknesses and deficiencies in compliance practices and procedures. The more significant of these include:

- Two recharge centers that have not submitted rate proposals for certain rates in almost 12 years.
- Different rates charged for departmental customers vs. non-departmental customers.
- A service center using rates that have not been approved through the OBP or IRC.
- Rates developed to recover certain typically F&A costs.
- A department recharge account that has retained an approximate $150,000 deficit for more than two years.

Additionally, three rate proposals submitted to the OBP by the selected recharge centers during the 2008 to 2009 time frame had yet to be approved by the IRC at the time of the audit.

In our opinion, management should further study ways to streamline the recharge rate development, approval, and customer billing processes, in order to identify and adopt an improved campus model that will reduce administrative overhead and improve policy and regulatory compliance.

Audit observations and management corrective actions are detailed in the remainder of the audit report.
Detailed Observations and Management Corrective Actions

A. Recharge Policies and Procedures
   The audit included a review of campus policies and procedures that address recharge operations. The operative policy on the campus recharge rate development process (P-1300) is dated June 1, 1985, and was issued through Academic Affairs. Although the policy appears to be substantially current regarding overall requirements for the campus recharge rate development and approval process, the audit found that the perceived relevance to campus users of a policy that has not been updated in over 25 years could be questioned.

   Additionally, two campus policies relate specifically to Instructional Development’s Classroom Services (CS) recharge center. The policies were issued through the Academic Affairs division on November 1, 1972. Policy 1210 appeared to remain relevant to CS operations, although certain elements of the policy require updating. Policy 1215 relates to CS internal recharge rate development procedures, although, many of the procedures appeared to be outdated.

   To improve user-perceived relevance and compliance with campus recharge policies, each of these policies should be reviewed and, through consultation with the campus policy and information stewardship coordinator, either updated and reissued with a revised date, or rescinded as determined appropriate.

   Management Corrective Actions
   Agree with recommendations. This is primarily a perception issue as campus policies related to recharges have not changed materially since the last update; however, given the issue dates they may appear to many to be old and possibly outdated. The campus policies associated with recharge centers are currently under review and will be either updated or rescinded as necessary, with a goal to complete this work by the end of this academic year.

   Audit and Advisory Services will follow up on this corrective action by July 31, 2012, to ensure it has been implemented.

B. Recharge Center Rate Development Practices
   The audit found that significant improvements are needed in recharge rate development practices to ensure the appropriateness of rates charged to campus departments, sponsored projects, and external customers. Current practices do not ensure that recharge rates are revised as often as required by policy, that rates recover all applicable operational costs of the recharge center, and that revised rates are reviewed and approved on a timely basis.
Table 3 summarizes the significant observations of our review by recharge center.

<table>
<thead>
<tr>
<th>Recharge Center</th>
<th>Audit Observations and Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemistry/Biochemistry</td>
<td>• The last rate development proposal was submitted to the OBP in 1999; rates were implemented during FY1999-00. No evidence of proposal review and approval by the IRC and EVC could be located.</td>
</tr>
<tr>
<td>Machine Shop</td>
<td>• Rates appeared to have been developed to recover certain typically F&amp;A costs expended from departmental operating funds.</td>
</tr>
<tr>
<td></td>
<td>• The salaries of certain shop employees were being partially subsidized through departmental operating funds. University policy requires that recharge centers develop rates that include all readily identifiable costs associated with the furnishing of goods/services, including wages and wage-related costs.</td>
</tr>
<tr>
<td></td>
<td>• Rates were not being formally published.</td>
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<tr>
<td></td>
<td>• The shop's operational budget was not being adequately monitored against actual performance on a periodic basis.</td>
</tr>
<tr>
<td>ICESS</td>
<td>• The last labor rate development proposal was submitted to the OBP in July 2009, and rate implementation was planned for August 2009.</td>
</tr>
<tr>
<td>Compute Team</td>
<td>• Director and control point approval of the proposal could not be located and the rate proposal remained under review by the IRC at the time of the audit.</td>
</tr>
<tr>
<td></td>
<td>• The prior deficit ($150,000) of a currently defunct ICESS recharge center remained in the department’s recharge account. A verbal agreement had been made that the Office of Research (OR) would provide funds to ICESS in order to incrementally reduce the deficit. However, deficit repayment plans have not been formalized by management, and a date for eliminating the deficit has not been established.</td>
</tr>
<tr>
<td></td>
<td>• Rates were not being formally published.</td>
</tr>
<tr>
<td>Instructional Development</td>
<td>• The last labor rate development proposal was submitted to the OBP in 2008. Proposed interim rates were implemented spring quarter 2009, and the full cost-recovery rates, which are used currently, were implemented in July 2009.</td>
</tr>
<tr>
<td>Classroom Services</td>
<td>• The rate proposal had been approved by the executive director and control point, but had not been reviewed or approved by the IRC and Executive Vice Chancellor at the time of the audit.</td>
</tr>
<tr>
<td></td>
<td>• The last equipment rental rate development proposal had been submitted to the OBP in September 2000; rates were implemented in FY2000-01 and are used currently. No documentation to support IRC review and approval of the rates could be located.</td>
</tr>
<tr>
<td>MSI</td>
<td>• The last rate development proposal was submitted to the OBP in April 2009; rates were implemented in May 2009 and are used currently.</td>
</tr>
<tr>
<td>Analytical Lab</td>
<td>• The proposal contained approval of the acting director and control point; rate proposal remained under review by the IRC at the time of the audit.</td>
</tr>
<tr>
<td></td>
<td>• Part of the lab manager's salary was being subsidized from departmental operating funds. University policy requires that recharge centers develop rates that include all readily identifiable costs associated with the furnishing of goods/services, including wages and wage-related costs.</td>
</tr>
</tbody>
</table>

Source: Auditor Analysis
To improve recharge center rate development practices and ensure compliance with University policies and procedures, campus guidelines, and external regulations, Audit and Advisory Services recommends the following:

- An appropriate recharge rate development or assessment proposal that includes all current labor, materials mark-up, and other rates in use at the center, should be prepared and submitted to the OBP on an annual basis.
- Recharge rate proposals should be reviewed and approved by the department head/chair, control point, IRC, and the EVC in accordance with campus rate proposal certification practices and OBP guidelines. Approval documentation should be retained by both the department and the OBP, in accordance with University procedures and campus best practices (i.e., at a minimum, rate proposal approval and supporting documentation should be retained for five years, or until the next rate revision proposal has been approved by all required authorities).
- Typically F&A costs expended from departmental operating funds should not be included in rates charged to federally-funded departments or projects, in order to prevent double-charging of these costs to federal agencies, which pay the campus indirect cost rate under each contract or grant.
- Departments should publish all approved recharge center rates on their departmental, or recharge center, website in order to enhance compliance with University policy and OBP income and recharge guidelines.
- Any recharge center's readily identifiable and allowable costs incurred through provision of the center's services that are planned to be subsidized, in whole or part, from departmental operating funds, should be specified in the rate proposal along with the account/fund source(s) for the subsidy. Based on conversations with OBP, the practice of subsidizing recharge operational costs from departmental operating funds is an acceptable management decision. However, University policy (BFB A-47 and A-56) requires that recharge centers develop rates that include all costs associated with the furnishing of goods/services, including wages and wage-related costs. The OBP should clarify policy intent as relates to this practice and coordinate revision of University policy, if determined to be necessary.
- Departments should establish monitoring practices for each of their recharge centers that include periodic comparisons to actual financial results. In order to facilitate the budgetary review process, those recharge centers with fiscal year recharge income of $200,000 or more should have a general ledger fund established specifically for financial operations of the center.
ICESS should pursue a formal agreement with the Office of Research regarding the recharge account deficit repayment plans that have been verbally agreed upon, and consult with AS&C to determine whether appropriate receivable and payable transactions should be established in the general ledger.

Management Corrective Actions

To help ensure that guidelines are followed, the Office of Budget and Planning (OBP) will send out semi-annual notices to both control points and service providers reminding them of the following:

- Campus guidelines and policy require appropriate recharge rate development or assessment proposal be submitted to the OBP on an annual basis. The proposals need to include all current labor, materials mark-up, and other rates in use at the recharge center.
- Rate proposals should be reviewed and approved by the department head/chair, control point, IRC, and the EVC in accordance with campus rate proposal certification practices and OBP guidelines.
- Approval documentation must be retained by both the department and the OBP, in accordance with University procedures and campus best practices. In addition, it will be recommended that any Dean or Vice Chancellor Office that reviews a proposal also keeps a copy of the proposal.
- Typically F&A costs expended from departmental operating funds should not be included in rates charged to federally-funded departments or projects, in order to prevent double-charging of these costs to federal agencies, which pay the campus indirect cost rate under each contract or grant.
- Departments should publish all approved recharge center rates on their departmental, or recharge center, website in order to comply with income and recharge guidelines.
- Any recharge center's readily identifiable and allowable costs incurred through provision of the center's services that are planned to be subsidized, in whole or part, from departmental operating funds, should be specified in the rate proposal along with the account/fund source(s) for the subsidy.
- Proposed rates should include all costs associated with the furnishing of goods/services, including wages and wage-related costs.
- Departments should establish monitoring practices for each of their recharge centers that include periodic comparisons to actual financial results. In order to facilitate the budgetary review process, most recharge centers will have a unique general ledger fund established specifically for financial operations of the center.
In cases where a recharge center is operating in deficit, a deficit repayment plan that has been approved by the department and control point must be included as part of the center’s annual rate proposal.

The charging of different rates for certain campus departments does not comply with University policy, is inconsistent with the campus’s CASB DS-2, and violates OMB A-21, which requires that service center charging practices do not “...discriminate against federally supported activities of the institution, including usage by the institution for internal purposes.” All campus departments, including the recharge center’s home department, should be charged the same rates for the same goods/services.

A copy of the center’s billing statement will be required to be part of the rate proposal. As part of the review process, the bill will be reviewed to determine if adequate detail is provided.

Departments should implement the practices and procedures necessary to ensure recharge rates, proposed and approved through the IRC, are correctly implemented following any implementation guidance provided by the OBP or IRC. Part of the rate review process will compare the center budget, as proposed, against actual expenses as reported in the general ledger.

Billing cycles are determined by departmental management; however, they should weigh the cost/benefit of processing minor recharge transactions on a monthly basis, and consider reasonable alternatives (e.g., quarterly billing of smaller charges) in an effort to reduce department and campus administrative overhead.

Audit and Advisory Services will follow up on the above corrective actions by July 31, 2012, to ensure they have been implemented.

C. Recharge Center Billing Practices

The audit found that billing practices were adequate for two of the four recharge centers. We identified the need to improve billing practice for the two other centers to enhance compliance with University policy requiring campus service center billings to be adequately detailed, and to apply only those recharge rates that have been appropriately approved through the OBP or IRC.

Table 4 summarizes the significant observations of this audit area by recharge center.
# Table 4 Recharge Center Billing Practices

<table>
<thead>
<tr>
<th>Recharge Center</th>
<th>Audit Observations and Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemistry/Biochemistry</td>
<td>• Customer billings were insufficiently detailed.</td>
</tr>
<tr>
<td><strong>Machine Shop</strong></td>
<td>• The current labor recharge rate used by the shop had not been submitted for approval of the IRC.</td>
</tr>
<tr>
<td></td>
<td>• The last proposed materials mark-up rate did not appear to be the rate currently used for billing customers.</td>
</tr>
<tr>
<td></td>
<td>• Different rates were being charged for Chemistry/Biochemistry customers vs. non-departmental customers.</td>
</tr>
<tr>
<td>ICESS Compute Team</td>
<td>• The most recently developed labor rates (July 2009) were not being applied for all Compute Team staff members.</td>
</tr>
<tr>
<td>Instructional Development</td>
<td>• No significant observations.</td>
</tr>
<tr>
<td>Classroom Services</td>
<td></td>
</tr>
<tr>
<td>MSI Analytical Lab</td>
<td>• No significant observations.</td>
</tr>
</tbody>
</table>

Source: Auditor Analysis

The audit also found that, in some cases, recharge centers were billing customers for relatively minor charges (less than $10.00). In many of these cases, the costs of processing the recharge very likely exceeded the amount being recharged.

To improve recharge center billing practices and enhance compliance with University policies and procedures and applicable external regulations, Audit and Advisory Services recommends the following:

- Recharge center billings should provide sufficient detail of the goods/services provided and the rates used to calculate the total charges billed. Labor charges should be broken out by the employee hours required for each separate service provided, at the applicable employee or employee group labor rate. Total charges for materials should be broken out by the number and cost for each category of material, and the mark-up rate(s) applied.

- All campus departments, including the recharge center’s home department, should be charged the same rates for the same goods/services. The practice of charging different rates for certain campus departments does not comply with University policy, is inconsistent with the campus's CASB DS-2, and violates OMB A-21, which requires that service center charging practices do not “…discriminate against federally supported activities of the institution, including usage by the institution for internal purposes.”

- Departments should implement the practices and procedures necessary to ensure recharge rates, proposed and approved through the IRC, are correctly implemented following any implementation guidance provided by the OBP or IRC.
Departmental management should weigh the cost/benefit of processing minor recharge transactions on a monthly basis, and consider reasonable alternatives (e.g., quarterly billing of smaller charges) in an effort to reduce department and campus administrative overhead.

Management Corrective Actions
Agree. The update of campus guidelines addressed in report section B will reflect recommendations as outlined in this section.

Audit and Advisory Services will follow up on these corrective actions by July 31, 2012, to ensure they have been implemented.

D. Information Technology
No significant observations resulted from the review of general IT controls in place over the systems that support each of the four recharge center’s operational and financial activities.

E. Income and Recharge Committee
Our review identified areas to improve OBP and IRC recharge activity oversight.

1. Recharge Process, Guidance and Training
The audit results demonstrate that campus recharge rate development, review, and approval processes are not currently functioning as intended or required. Management should consider conducting a study of recharge rate development, approval, and customer billing processes and best practices at other Universities and UC campuses, in order to identify and adopt an improved campus model that would streamline the process, reduce administrative costs, and improve policy and regulatory compliance.

We also observed that, in the past, the OBP provided campus recharge centers with a sufficiently detailed "UCSB Income and Recharge Guidelines" document that included service provider responsibilities and requirements, rate development and budget monitoring processes, and recharge policy and regulatory compliance information. The guidelines were withdrawn several years ago; the OBP website currently provides slides from income and recharge training sessions ("Policies, Procedures and Proposal Preparation"), presented in May 2007. Although the existing campus training materials provide abridged information on recharge rate development, recharge center operations, and applicable policies and external regulations, some department personnel interviewed during the audit stated that the training document is not as useful or informative as the prior guidelines.
Campus departments with recharge centers should be provided more authoritative and detailed guidance on rate development, proper billing practices, recharge center operational monitoring and evaluation, and other University business practices that facilitate policy and regulatory compliance. The UC Davis website provides a good example of detailed guidelines for recharge activities.

The OBP should consider revising the former guidelines or modifying the UC Davis website resources to reflect campus practices. The revised guidelines should be published and the recharge training program should be offered on a more regular basis.

Management Corrective Actions
In developing the Income and Recharge training sessions, the practices at other campuses were reviewed and incorporated into the training presentation. At that time, the more detailed narrative of the process was replaced on the OBP website in favor of the more user-friendly training presentation. In response to the recommendation, the guidelines, as well as the training presentation, will be placed on the OBP website prior to January 1, 2012.

2. Rate Proposal Tracking, Review and Approval
The OBP and IRC do not have consistent practices in place for informing campus departments of the review and approval status of their submitted recharge rate proposals, or for notification to the departments when submitted proposals have been approved by the IRC and Executive Vice Chancellor. The current process does not appear to include standard practices for timely review of all rate proposals, informing departments of proposal review status, and providing copies of IRC and EVC approved proposals to departments.

The OBP recharge rate proposal tracking, review, and approval processes should be improved in order to better provide information to recharge departments on the current review status of their rate proposals, and whether the proposals have been approved. The department should be provided a copy of the final, approved proposal containing all required signatures.

Management Corrective Actions
To provide greater flexibility to departments in recent years, the OBP and IRC moved away from strict submittal guidelines to a flexible process that allowed units to submit proposals throughout the year. This greater flexibility has not worked as anticipated; effective January 1, 2012, a more structured process will be implemented that requires submittals by a specific date in order for new rates to become effective on another specified date. For example, proposals might need to be submitted by February 1 in order to be implemented...
on July 1, or by August 1 to be implemented by January 1 of the next year. The exact schedule will be developed by January 1, 2012, to provide adequate notice to the campus. The schedule will be announced as part of the semi-annual notice to the campus (see responses to Section B recommendations).

3. Financial Status Verification of Rate Proposal Information
The OBP and IRC do not currently have the resources to verify the operational results presented in rate proposals and used as the basis of the rates developed. This capability would help improve compliance with the requirement that recharge activities with material accumulated operating surpluses or deficits adjust their rates to operate on a break-even basis.

If resources are available in future periods, OBP management should independently extract reports of recharge center financial activities to compare with the financial data included in rate proposals.

Management Corrective Actions
No corrective action at this time. We agree this would be helpful, if resources were available. Until additional resources are available to support the proposal review process, these reviews can only occur on a periodic basis. These reviews normally take place as a result of customer questions, or inconsistencies between the proposal and the general ledger that are noted during the review process.

Audit and Advisory Services will follow up on the status of this issue by July 31, 2012, and will make a determination at that time as to whether the matter should be closed.