

The logo for UCIrvine, featuring the letters 'UCIRVINE' in a large, black, serif font. The 'U' and 'C' are connected, and the 'I' is a thin vertical line. The 'R' and 'V' are also connected. The 'E' is a simple horizontal bar. The logo is set against a light yellow background.

UCIRVINE

The text 'INTERNAL AUDIT SERVICES' in a black, serif font, arranged in two lines. The text is set against a light yellow background.

INTERNAL  
AUDIT SERVICES

## School of Humanities

*Internal Audit Report No. I2018-105*

April 4, 2018

***Prepared By***

Mike Shead, Senior Auditor

***Reviewed By***

Niran Joshi, Associate Director

***Approved By***

Mike Bathke, Director



INTERNAL AUDIT SERVICES  
IRVINE, CALIFORNIA 92697-3625

April 4, 2018

**GEORGES VAN DEN ABBEELE Ph.D.**  
**DEAN**  
**SCHOOL OF HUMANITIES**

**RE: School of Humanities Audit**  
**Report No. I2018-105**

Internal Audit Services has completed the audit of the School of Humanities and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.

A handwritten signature in black ink that reads "Mike Bathke".

Mike Bathke  
Director  
UC Irvine Internal Audit Services

Attachment

C: Audit Committee  
Penny Portillo – Assistant Dean, Resources and Planning, School of Humanities  
John Bodenschatz – Director of Finance, School of Humanities

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## I. MANAGEMENT SUMMARY

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In accordance with the fiscal year (FY) 2017-18 audit plan, Internal Audit Services (IAS) reviewed School of Humanities (SoH) financial history and trends, the current status of SoH finances, and emerging financial trends.

1. **Financial History and Trends** – By the end of FY 2016, SoH had accumulated a \$2.3 million deficit in state-provided general (19900) funds. Key causal factors, including budget cuts, increases to benefits costs, faculty hiring, and SoH-supported lecturer salary costs all contributed to the deficit. In FY 2017, corrective measures were undertaken to reduce the deficit.
2. **Current Status of SoH Finances** – Corrective measures implemented by SoH in FY 2017 were successful in reducing the FY 2016 \$2.3 million deficit to \$1.1 million, currently. The following measures provided the greatest impact.
  - **Extramural Research** – SoH realized an increase in extramural funding of approximately \$887,000, or 352 percent between FY 2015 and FY 2017. While these funds were not utilized to pay down the deficit directly, some of the funds offset existing expenses (such as graduate support) and allowed the school to maintain operations at a consistent level in a time of budget constraints.
  - **Reductions to temporary instructional allocations** – Temporary instructional allocations for areas other than Academic English, Composition, and Core were reduced by \$630,000.
  - **Increased support for undergraduate writing instruction** – Additional funding provided by the EVC helped to meet the demand for undergraduate writing instruction, without overburdening the SoH general operating budget.
3. **Current and Future Trends** – Although SoH made progress in FY 2017 towards resolving the deficit, the gains achieved may be temporary given the unpredictability of the costs involved. In particular, decreases in faculty salary savings and/or persistent increases in employee benefit and lecturer salary costs will continue to challenge SoH in balancing their budget. Volatility in

faculty salary savings, employee benefits and lecturer salary costs create uncertainty for future SoH financial trends.

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## II. BACKGROUND

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SoH serves as UC Irvine's core liberal arts school, with 13 departments, over 20 majors and several interdisciplinary programs. Humanities includes the disciplines of history, philosophy, literature, world languages, and art history, in addition to critical and cultural theory, ethnic and gender studies, and film and media studies. Ranked graduate programs are all in the top 35; three are in the top 26. Faculty and alumni have won several prizes, including the National Humanities Medal, Pulitzer Prize, and Von Humboldt prize.

SoH enrolls approximately 1,900 students, including more than 300 graduate students. SoH employs approximately 170 faculty members, with an annual operating budget of approximately \$50 million. Three Associate Deans report to the Dean. They are responsible for academic oversight, academic personnel, and research. Business-related operations are the responsibility of the Assistant Dean, who also reports to the Dean. The Assistant Dean is supported by Directors of Finance, Personnel, Computing, and Facilities, and additional SoH staff members.

The School of Humanities has a Work Assignment Policy in place, which is a general policy for senate faculty (faculty) work assignment. The policy indicates that research-active faculty members whose courses generate a minimum of 320 student credit hours (SCH) per year are eligible for a four-course assignment. However, faculty who are not research-active are asked to teach five or more courses per year. Faculty members may earn course releases by serving in campus or school administrative leadership roles, appointment and retention agreements, and by securing extramurally-funded research support.

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### III. PURPOSE, SCOPE AND OBJECTIVES

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The purpose of the audit was to analyze past financial history and trends, current financial standing, and emerging financial trends for SoH. The audit scope included a review of FY 2017 and prior fiscal years' business operations and financial activities. The following audit objectives were included in the review.

1. Determine the key causal factors that influenced the SoH operating deficit; examine the financial trends of accounts in which the deficit occurred.
2. Ascertain the current financial standing of the deficit; assess corrective measures undertaken in FY 2017 to reduce the deficit.
3. Discuss emerging financial trends; evaluate existing influences that could adversely affect these trends.
4. Review of the SoH Work Assignment policy and course releases provided to SoH faculty members.

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### IV. CONCLUSION

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At the end of FY 2016, SoH had accumulated a \$2.3 million deficit on its general ledger for state-provided general (19900) funds. Key causal factors contributing to the accumulated deficit began as early as FY 2006. Some key factors were created by SoH senior management decisions, such as faculty hiring; other key factors were outside the scope of SoH influence, such as budget cuts and increases in benefits costs and lecturer salaries. In FY 2017, SoH management developed a five-year deficit elimination plan and undertook several deficit reduction measures. By the end of FY 2017, these corrective measures had substantially reduced the deficit.

Although SoH has made progress in resolving the deficit, the gains achieved may be temporary in nature given the behavior of the savings and costs involved. Ongoing increases to benefits and lecturer salary costs, and the volatile nature of faculty salary savings will continue to challenge SoH in balancing its budget. In

addition, the corrective measures in place do not appear to address the key factors that are outside the scope of SoH influence (i.e., increases in benefits costs and lecturer salaries).

A discussion of SoH financial history and trends, current financial status, and current/future trends follows, along with an observation pertaining to the Work Assignment Policy. Observation details were discussed with management, who formulated action plans to address the issues. These details are presented below.

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## V. DISCUSSION

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### A. Financial History and Trends

#### Overview

State-provided general (19900) funds are the largest portion of funds provided to SoH. Between FYs 2014 and 2016, the SoH budget carryforward for 19900 funds declined from a \$1 million surplus to a \$2.3 million deficit. A number of factors contributed to the deficit. While multi-year trends are presented for the following key factors, some of these factors have existed for longer periods of time.

#### Budget Cuts

In the decade preceding the FY 2016 operational deficit, SoH experienced more than \$4.6 million in permanent budget cuts (FY 2005, \$1.1 million; FY 2009, \$728,000; FY 2010, \$1.5 million; and FY 2012, \$1.3 million). The budget cuts were often the result of State of California-imposed cuts to the University of California budget, and/or inadequate state funds provided to support student enrollment growth. These cuts were often met by returning permanent staffing and operational funds. There have not been further budget cuts since FY 2013.

#### Benefits Cost Increases

Increases in employee benefits costs expanded the deficit. In FY 2012, SoH assumed responsibility for funding their benefit costs. In FY 2015, realized benefits costs exceeded budgeted benefits costs by approximately \$2.1

million. In FYs 2016 and 2017, realized benefits costs continued to outpace budgeted benefits costs by \$2.6 and \$2.8 million, respectively.

### **Faculty Retirement and Hiring**

The filling of open faculty positions and timing of retirements also influenced the deficit. The funds provided by these open positions had previously been used to assist in balancing the SoH annual budget. Between FY 2016 and FY 2017, funds available to SoH from open faculty positions decreased by \$959,000 to an available amount of \$1.5 million. To better align the SoH permanent budget, a request was made in FY 2017 to reallocate \$1.17 million of these funds to benefits.

### **SoH-supported Lecturer Salary Costs**

Increased salary costs for SoH-supported lecturers also added to the deficit. Between FYs 2015 and 2017, the average salary cost for a lecturer-led course increased by \$505. This cost increase, when multiplied by the number of courses taught in FY 2015, increased total lecturer salary costs by approximately \$427,000.

## **B. Current State of Finances**

By the end of FY 2017, the \$2.3 million accumulated deficit in 19900 funds had been reduced to \$1.1 million. Efforts continue in FY 2018 to reduce the remaining deficit. FY 2017 gains were realized in the following areas.

- **Extramural Research** – SoH realized an increase in extramural funding of \$887,000, or 352 percent between FY 2015 and FY 2017. While these funds were not utilized to pay down the deficit directly, some of the funds offset existing expenses (such as graduate support) and allowed the school to maintain operations at a consistent level in a time of budget constraints.
- **Reductions to temporary instructional allocations** - Temporary instructional allocations for areas other than Academic English, Composition and Core were significantly reduced. Between FY 2016

and FY 2017, SoH reduced the temporary instructional allocations by approximately \$630,000.

- **Increased support for undergraduate writing instruction** – Additional funding provided by the EVC helped to meet the demand for undergraduate writing instruction, without overburdening the SoH general operating budget.

### C. **Current and Future Trends in Finances**

Gains have been made towards resolving the SoH deficit. However, gains achieved may be temporary in nature given the behavior of the costs and savings. One matter of concern is that faculty salary savings related to research are volatile, as they require the faculty to apply for awards, the agencies to award funds, and the faculty to provide the effort to complete awarded projects. Furthermore, ongoing increases in employee benefit and lecturer salary costs will continue to challenge SoH in balancing their budget. The growth in these costs are outside the purview of SoH. Volatility in faculty salary savings, employee benefits and lecturer salary costs create uncertainty in future trends.

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## VI. **OBSERVATIONS**

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### Work Assignment Policy – Course Releases

#### **Background**

SoH has a Work Assignment Policy that offers guidance to faculty members pertaining to faculty workload. As such, the policy provides direction on teaching requirements in terms of student credit hours and courses taught. Policy guidance for course release approvals is also provided. In addition, the policy discusses how course releases can be earned and used by faculty members for sabbaticals or leaves of absence or for serving as department chairs, program directors, center directors, and directors of graduate programs.

IAS selected five departments (English, History, Art History, Asian American Studies, and African American Studies) for review and analysis of course release practices. In FY 2016-17, these five departments granted 122 course releases to 55 of 93 faculty members (59 percent). Of the 122 course releases, 47 were for sabbaticals or leaves, 48 were for serving as chairs or program directors, and 27 were for other purposes that are not specifically addressed in policy such as course buyouts, participation in seminars or residency groups, part of hire agreement, undergraduate advisor, journal editor, department service, faculty liaison, etc.

### Observation

Methods by which course releases are approved, earned and deferred are not always aligned with, or fully disclosed in the SoH Work Assignment policy.

1. **Course Release Approvals:** The Work Assignment Policy requires that all course releases be granted only by written exception from the Dean. However, a review of nineteen FY 2016-17 course releases disclosed the following results. For two course releases, proof of the Dean's written approval could not be located by SoH. SoH management disclosed that the course releases may not have been approved in writing.

Another course release was approved by the EVC for a faculty member serving as the Chair of the University Committee on Planning and Budget. The Dean's signature was not needed for approval, due to the previous approval by the EVC.

2. **Earned/Deferred Course Releases:** Methods by which course releases can be earned or deferred is not fully disclosed in the Work Assignment Policy. For example, in FY 2016-17 faculty members earned a course release by serving as a journal editor, an undergraduate advisor and as a faculty member substitute. However, none of these activities are mentioned in the policy.

To ensure consistency and fairness, processes for approving course releases should conform to the Work Assignment Policy. Furthermore, all methods by which course releases can be earned or deferred should be fully disclosed in the

Work Assignment Policy. In addition, the Work Assignment Policy should be updated, at the discretion of the dean, to reflect best practices, and to describe additional processes, such as course buyouts, deferred course releases, course releases provided for campus administrative service, hiring and retention workload agreements, etc., as needed.

### **Management Action Plan**

In response to the observation, the SoH Assistant Dean, Director of Finance, and the Director of HR met. At this meeting, we identified two sets of actions that address the noted concerns.

- Steps are being taken to improve the administrative workflow surrounding the course release process. To this end, we are establishing a shared central location for the course release documents to be housed, creating a clear workflow, and drafting communication to impacted staff members. We anticipate completion by June 1<sup>st</sup>.
- Pending Dean's agreement, by July 1<sup>st</sup>, we will improve the definition of the workload policy with regard to course release and provide examples to better reflect the actual cases where course release is awarded.

We think that these two steps will ensure that the documentation for course releases provided to SoH faculty is properly approved and retained.