September 17, 2018

SYLVIA LEPE
Assistant Vice Chancellor
Campus Budget Office
0936

Subject: Simplified Operating Fund Initiative (SOFI) Allocations Report 2018-02

The final report for Simplified Operating Fund Initiative (SOFI) Allocations, Report 2018-02, is attached. We would like to thank all members of the department for their cooperation and assistance during the review.

Because we were able to reach agreement regarding management action plans 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. We will contact you at the appropriate time to evaluate the status of the management action plans.

UC wide policy requires that all draft reports be destroyed after the final report is issued. We also request that draft reports not be photocopied or otherwise redistributed.

David Meier
Director
Audit & Management Advisory Services

Attachment

cc: Judy Bruner
    Alexander Bustamante
    Robert Hannahs
    Pierre Ouillet
    Holly-Ann Paiva
    Cheryl Ross
Simplified Operating Fund Initiative (SOFI) Allocations
Report No. 2018-02
September 2018

FINAL REPORT

Performed By:
Bella Chang, Auditor
Greg Buchanan, Manager

Approved By:
David Meier, Director
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ATTACHMENT A – Source of SOFI Funds

ATTACHMENT B – Compensation Proration Flowchart

ATTACHMENT C – Non-Compensation Proration Flowchart
I. EXECUTIVE SUMMARY

Audit & Management Advisory Services (AMAS) has completed a review of Simplified Operating Fund Initiative (SOFI) Allocations as part of the approved audit plan for Fiscal Year 2017-18. The objective of our review was to determine whether adequate internal controls are in place to ensure expenses were applied to legacy funds appropriately and applicable restrictions were enforced in accordance with University of California (UC) and UC San Diego (UCSD) policy.

In July 2016, UCSD implemented SOFI to improve the efficiency of expenditure accounting and fund management of non-restricted “core” resources that support the academic investment and general institutional operations. This strategy supports Goal 5 of UCSD’s Strategic Plan of “creating an agile, sustainable, and supportive infrastructure by ensuring a dedication to service, people, and financial stewardship.” Prior to SOFI, unrestricted financial resources were managed using over 60 different funds and represented approximately $1 billion of the primarily unrestricted resources on campus. In order to increase efficiency, these “legacy” funds were consolidated into two central funds: 99100A – University Core Fund and 99200A – Campus Core Fund.

In order to continue to meet the State’s reporting requirements on UCSD’s use of funds, a monthly proration process is completed to reallocate expenditures from the two SOFI funds to the appropriate legacy fund at the campus-wide operating ledger level. In general, the monthly proration mapping logic seeks to spend down legacy funds on a first-dollar principle; in other words, in order from most to least restricted as budget balances allow, with the goal of having carryforward balances accumulate on funds that are the least restricted.

We concluded that internal controls were generally adequate to ensure expenses were applied appropriately and restrictions on legacy funds were enforced in accordance with UC and UCSD policy. Most expenses were properly prorated to legacy funds in accordance with fund restrictions. However, we identified opportunities for improvement to ensure restricted/sensitive non-payroll account codes were not inappropriately prorated to legacy funds.

We also noted an unexpected variance, by fund, between the automatically-prorated compensation expenses and how compensation expenses mapped to legacy funds when following the proration flowchart. Management’s corrective actions to address these findings are summarized briefly below:

A. Restrictions on Legacy Funds
   1. For FY 2017-18 reporting, the CBO will manually move parking expenses off SGF to a less restrictive funding source.
   2. The CBO will work with ITS to update the lists of restricted/sensitive account codes to account for newly-identified restrictions, as appropriate.
   3. The CBO will continue to work with subject matter experts to ensure they have a comprehensive list of account codes restricted on legacy funds.
B. Compensation Variance
   The CBO will work with ITS to determine the source of the variance and whether the logic is working as intended.

Observations and related management corrective actions are described in greater detail in section V. of this report.
II. BACKGROUND

Audit & Management Advisory Services (AMAS) has completed a review of Simplified Operating Fund Initiative (SOFI) Allocations as part of the approved audit plan for Fiscal Year 2017-18. This report summarizes the results of our review.

In July 2016, UCSD implemented SOFI to improve the efficiency of expenditure accounting and fund management of non-restricted “core” resources that support the academic investment and general institutional operations. This strategy supports Goal 5 of UCSD’s Strategic Plan of “creating an agile, sustainable, and supportive infrastructure by ensuring a dedication to service, people, and financial stewardship.”

Prior to SOFI, unrestricted financial resources were managed using over 60 different funds and represented approximately $1 billion of the primarily unrestricted resources on campus. In order to increase efficiency, these “legacy” funds were consolidated into two central funds: 99100A – University Core Fund and 99200A – Campus Core Fund. Attachment A provides a listing of the legacy funds included in these two SOFI funds. The consolidation provides increased financial flexibility through simplified fund management, expense processing, and reporting processes.

In lieu of receiving budget allocations on individual legacy funds, the Campus Budget Office (CBO) provides each Vice Chancellor or department with budget allocations into their established SOFI indexes. In order to continue to meet the State’s reporting requirements on UCSD’s use of funds, a monthly proration process is completed to reallocate expenditures from the two SOFI funds to the appropriate legacy fund at the campus-wide Integrated Financial Information System (IFIS) operating ledger level. In general, the monthly proration mapping logic seeks to spend down legacy funds on a first-dollar principle; in other words, in order from most to least restricted as budget balances allow, with the goal of having carryforward balances accumulate on funds that are the least restricted.

The proration occurs using two distinct processes – a compensation process and a non-compensation process. The compensation proration process (Attachment B) considers the employee’s occupation type, function, payroll Description of Service (DOS) codes, title codes, and class title outlines. DOS codes, which identify the type of employee labor reported, are separated into three tables to manage legacy fund restrictions. Table A includes DOS codes that are allowable on State General Funds (SGF), Table B contains those that are allowable on tuition funds, but not SGF, and Table C contains all other DOS codes.

The non-compensation proration process (Attachment C) considers the function, non-payroll account codes, and organizations. For example, student financial aid expenses (functions 77, 78, and 79) are allocated to Tuition Fund (20095A), while Central UCSD development activities are allocated to Campus Core funds (68606A). Sensitive account codes (e.g. tobacco, alcohol, and gifts) and activities (e.g. lobbying) are included in lists entitled “Special/Sensitive Account Codes” and “Special/Sensitive Orgs,” and prorated to the least restricted legacy funds (e.g. Campus Core fund 07427A). Changes to the

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1 The Chart of Accounts uses a program code to identify the function associated with a transaction or balance. The first two digits of the program code defines the function associated with the program, (e.g. 40xxxx is Instruction while 61xxxx is Instruction, Extension).
overall spending plan for legacy fund balances are identified by the Campus Budget Office and then proration logic adjustments are provided to Information Technology Services (ITS) for implementation into the programming of the automated monthly back-end process.

The CBO Principal Administrative Analyst (CBO Analyst) tracks proration spending results on a monthly basis, including alignment with the strategic plan and effect on carryforward balances. At fiscal year-end, the CBO Analyst reviews the ledger for unallowable activity that may have been prorated to SGF in error or prior to the implementation of a new constraint. Additionally, the CBO Analyst analyzes the proration outcomes to identify under/over-spending based on established financial targets. Remaining carry-forward balances in legacy funds from prior years are also addressed during fiscal year-end.

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

The objective of our review was to determine whether adequate internal controls are in place to ensure expenses were applied to legacy funds appropriately and applicable restrictions were enforced in accordance with UC and UCSD policy. In order to achieve our objective, we performed the following:

- Reviewed various UC and UCSD policies, including G-28 (Travel Regulations), BUS-79 (Expenditures for Business Meetings, Entertainment, and Other Occasions), and D-371-35 (Honorarium Payments);
- Interviewed the CBO Analyst;
- Reviewed proration flowcharts for moving compensation and non-compensation expenses from SOFI funds to “legacy” funds, including DOS code tables and lists of special/sensitive account codes and organizations;
- Sampled and tested prorated expenses to verify that proration rules are working as intended; and
- Sampled and tested special account and DOS codes to verify whether they were inappropriately charged to restricted funding sources.

The scope of our review was limited to expenditures from July 2017 through April 2018.

IV. CONCLUSION

Based on our review, we concluded that internal controls were generally adequate to ensure expenses were applied appropriately and restrictions on legacy funds were enforced in accordance with UC and UCSD policy. Most expenses were properly prorated to legacy funds in accordance with fund restrictions. However, we identified opportunities for improvement to ensure restricted/sensitive non-payroll account codes were not inappropriately prorated to legacy funds. We also noted an unexpected variance, by fund, between the automatically-prorated compensation expenses and how compensation expenses mapped to legacy funds when following the proration flowchart.
V. OBSERVATIONS REQUIRING MANAGEMENT ACTION

<table>
<thead>
<tr>
<th>A.</th>
<th>Restrictions on Legacy Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Some restrictions on legacy funds were not included in the automated proration process, in accordance with UC or UCSD policy.</td>
</tr>
</tbody>
</table>

Risk Statement/Effect

Missing restrictions may inadvertently result in the charging of inappropriate expenses to partially restricted legacy funds.

Management Corrective Action

A.1 For FY 2017-18 reporting, the CBO will manually move parking expenses off SGF to a less restrictive funding source.

A.2 The CBO will work with ITS to update the lists of restricted/sensitive account codes to account for newly-identified restrictions, as appropriate.

A.3 The CBO will continue to work with subject matter experts to ensure they have a comprehensive list of account codes restricted on legacy funds.

A. Restrictions on Legacy Funds – Detailed Discussion

During our review, we noted a number of non-payroll account codes that appear to be restricted by policy, but were not included in the Special/Sensitive Account Codes list. For example, while University Policy indicates that state funds cannot be used for parking permits (UCSD Policy & Procedure Manual 545-2), the account code for parking recharges (637217) was not on the list of special/sensitive account codes. Additionally, honoraria payments cannot be made on state funds (UC Policy D-371-35), but account code 637900 for honoraria was not included either.

Of the $1.17m potentially restricted/sensitive expenses incurred during our audit scope, only $1.5k in parking recharges was inappropriately charged to SGF. Honoraria expenses totaling $5,200 had originally been charged to SGF, but had been identified and moved prior to our sample selection. Although the risk of unallowable non-compensation expenses appears to be low, including the potential restricted/sensitive account codes to the automated proration process would reduce the need for manual adjustments during the fiscal year-end process.

Throughout the fiscal year, the CBO Analyst maintained a list of items, including honoraria, that potentially should be included or moved in the Special/Sensitive lists and DOS code tables. The items were either brought to her attention by various subject matter experts or from her own research. Part of the fiscal year-end process is to determine whether the proration programs need to be updated with the newly-identified restrictions. The CBO Analyst plans to discuss the items with management and will work with ITS to update the programs for the following fiscal year.
B. Compensation Variance

There was an unexpected variance between the prorated compensation expenses and the mapped expenses by funding source for the period July 2017 through April 2018.

<table>
<thead>
<tr>
<th>Fund</th>
<th>Prorated Expenses Total</th>
<th>Mapped Expenses Total</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>07427A</td>
<td>$45,012,854</td>
<td>$45,033,166.72</td>
<td>($20,313.13)</td>
</tr>
<tr>
<td>19900A</td>
<td>$216,251,005</td>
<td>$216,178,844.63</td>
<td>$72,160.47</td>
</tr>
<tr>
<td>19933A/19934A</td>
<td>$47,199,695</td>
<td>$46,774,472.16</td>
<td>$425,222.74</td>
</tr>
<tr>
<td>19942A</td>
<td>$112,905,888</td>
<td>$112,184,393.37</td>
<td>$721,495.12</td>
</tr>
<tr>
<td>20095A</td>
<td>$164,888,266</td>
<td>$166,086,550.00</td>
<td>($1,198,284.14)</td>
</tr>
<tr>
<td>Grand Total</td>
<td>$586,257,708</td>
<td>$586,257,426.88</td>
<td>$281.06²</td>
</tr>
</tbody>
</table>

While the cause for the overall variance was identified, the variance at the fund level could not be explained. However, the risk of unallowable expenses on restricted funds appears to be low. The majority of noted restrictions on State General Fund 19900A are related to non-compensation expenses. Additionally, the only restriction for Fund 20095A (Tuition Fund) is that it cannot be used to support self-supporting graduate degree programs. Part of the CBO Analyst’s fiscal year-end process includes reviewing expenses for professional schools to ensure they are allocated to their respective fund appropriately. Therefore, while we could not determine whether any expenses on Fund 20095A were for self-supporting graduate degree programs, the risk of unallowable expenses on the fund appears to be low. We did not note any other restrictions on the remaining funding sources.

² The variance between the prorated and mapped totals is because one payroll expense had a CTO value of "*", which was not included in the proration flowchart, and therefore could not be mapped to a funding source.
# Simplified Operating Fund Initiative (SOFI) Allocations
**AMAS Project #2018-02**
**Source of SOFI Funds**

### ATTACHMENT A

#### UNIVERSITY CORE FUND: 99100A

<table>
<thead>
<tr>
<th>Fund</th>
<th>Fund Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>19900A</td>
<td>GENERAL FUND</td>
</tr>
<tr>
<td>19900R</td>
<td>GENERAL FUND-STATE AWARDS</td>
</tr>
<tr>
<td>19904A</td>
<td>S/A UTEP</td>
</tr>
<tr>
<td>19905A</td>
<td>REPL PR</td>
</tr>
<tr>
<td>19906A</td>
<td>S/A INSTR USE OF COMPUTER</td>
</tr>
<tr>
<td>19923A</td>
<td>PROGRAMS</td>
</tr>
<tr>
<td>19925A</td>
<td>S/A SUBSTANCE ABUSE/SF</td>
</tr>
<tr>
<td>19926A</td>
<td>SYSTEMS</td>
</tr>
<tr>
<td>19946A</td>
<td>LEASE PURCHASE PAYMENTS</td>
</tr>
<tr>
<td>19948A</td>
<td>LEASE PURCHASE DEPT SAVINGS</td>
</tr>
<tr>
<td>19969A</td>
<td>FINANCIAL AID</td>
</tr>
<tr>
<td>19990A</td>
<td>Y/E ADJ- GF</td>
</tr>
</tbody>
</table>

#### CAMPUS CORE FUND: 99200A

<table>
<thead>
<tr>
<th>Fund</th>
<th>Fund Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research ICR</td>
<td></td>
</tr>
<tr>
<td>05397A</td>
<td>EDUCATIONAL FUND</td>
</tr>
<tr>
<td>07427A</td>
<td>OPPORTUNITY FUND</td>
</tr>
<tr>
<td>69750A</td>
<td>CONTRACT AND GRANT ADMIN</td>
</tr>
<tr>
<td>69753A</td>
<td>NET-NEW INDIRECT COST RECOVERY</td>
</tr>
</tbody>
</table>

#### Internal Overhead Recovery

<table>
<thead>
<tr>
<th>Fund</th>
<th>Fund Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>68606A</td>
<td>ENDOWMENT COST RECOVERY-REGENTS</td>
</tr>
<tr>
<td>68607A</td>
<td>ENDOWMENT COST RECOVERY-FOUNDATION</td>
</tr>
</tbody>
</table>

#### Patent Income

<table>
<thead>
<tr>
<th>Fund</th>
<th>Fund Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>60506A</td>
<td>PATENT/IP DISCRETIONARY</td>
</tr>
</tbody>
</table>

#### STIP/TRIP Income

<table>
<thead>
<tr>
<th>Fund</th>
<th>Fund Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>69899A</td>
<td>VC-DEVELOP &amp; UNIV RELATIONS-STIP</td>
</tr>
</tbody>
</table>

#### Systemwide Tuition & Fees

<table>
<thead>
<tr>
<th>Fund</th>
<th>Fund Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>20095A</td>
<td>TUITION</td>
</tr>
<tr>
<td>20226A</td>
<td>PROF DEG SUPP TUITION</td>
</tr>
<tr>
<td>20225A</td>
<td>PROF DEG SUPP TUITION - MBA</td>
</tr>
<tr>
<td>20224A</td>
<td>SOP PROF DEGREE SUPP TUITION</td>
</tr>
<tr>
<td>20223A-R</td>
<td>IRPS PROF DEG SUPP TUITION</td>
</tr>
<tr>
<td>20290A</td>
<td>SUMMER SESSION-FISCAL YEAR</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fund</th>
<th>Fund Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>69991A</td>
<td>VICE CHANCELLOR-HEALTH</td>
</tr>
<tr>
<td>69992A</td>
<td>VICE CHANCELLOR-MARINE</td>
</tr>
<tr>
<td>69993A</td>
<td>VICE CHANCELLOR-BUSINESS &amp; FIN-STIP</td>
</tr>
<tr>
<td>69994A</td>
<td>VICE CHANCELLOR-ACADEM</td>
</tr>
<tr>
<td>69995A</td>
<td>VICE CHANCELLOR-RESOURCE</td>
</tr>
<tr>
<td>69996A</td>
<td>MGMT-STIP</td>
</tr>
<tr>
<td>99998A</td>
<td>DISTRIBUTIONS</td>
</tr>
</tbody>
</table>
SOFI Compensation Proration to Legacy Fund Mapping

as of Nov 2017

**Function**

First 2 Characters of Program Code
68: Student Services

**DOSC: Description Of Service Code**

Table A: ok for SGF i.e. REG, HST, NCB
Table B: Comp Plan Scale X', Y, Y'
Table C: all other

**Title Code**

0030: Chancellor
0066: Exec VC and Provost

**CTO: Class Title Outline**

A: Student Services
B: Clerical
C: Food & Linen Services
D: Comm, Arts & Graphics
E: Architecture, Engineering Services
F: Fiscal, Mgmt & Staff Services
G: Maintenance, Fab & Operations
H: Health Care
I: Sciences, Laboratory
J: Protective Services
M: Management
S: Academic Admin Officers
Z: Other
0: Faculty – Ladder Ranks
1: Faculty – Acting Ranks
2: Faculty – Lecturers
3: Other Faculty
4: Student Assistants
5: Research
6: Librarians
7: Cooperative Extension
8: University Extension
9: Other Academic Personnel

**ATTACHMENT B**
IFIS Expenditures

Fund 99100 or 99200

Lvl 1 Org = VC Adv

Special Account Code or Org

Function = 77, 78, 79

Function = 68

Function = 64

Account = 7xxxxx

Function = 40

Function 60, 43, 62

Function 66, 72

Function 44

Function 61, 76

20095A

68606A

07427A

67531A

19942A

19942A

20095A

75451A

20095A

50% 19900A

50% 20095A

(Previously 07427A in FY16/17)

20095A

19942A

(Previously 19900A in FY16/17)

20095A

19942A

(Previously 19933A in FY16/17)

ATTACHMENT C

SOFI
Non-Compensation Proration to Legacy Fund Mapping
as of Nov 2017

Special Account Code or Org

Function = 66, 72

Function = 44

Function = 61, 76

Function = 60, 43, 62

Function = 40

Function = 77, 78, 79

Function = 68

Function
First 2 Characters of Program Code
40xxxx Instruction
44xxxx Research
62xxxx Public service
42xxxx Teaching hospital
43xxxx Academic support
60xxxx Library
61xxxx Instruction, Extension
64xxxx OMP
66xxxx Institutional support
68xxxx Student services
72xxxx Institutional support
77xxxx Financial aid, undergraduate
78xxxx Financial aid, graduate
79xxxx Financial aid
80xxxx Budget provision

Special / Sensitive Account Codes
637455 Gifts, flowers, tickets
637465 Meals-Special Entertainment
637466 Meetings-Parties/Social
637490 MedCenter Emp Awards
637592 Prog Activity
637920 Restor Plan 415M Expense
638086 Tobacco
638094 Gifts/awards Emp Non-cash
638173 Beverages-Alcoholic
638190 Catering-Bus/Tech Events
638201 Catering-Bus w/ materials
652012 Athletics-Team Travel
652013 Athletics-Prof Travel
652014 Athletics-Recruiting Travel
652900 Travel-Out of State
652905 Travel-Out of State ClinTrial
652910 Travel-Out of State Conf
652911 Travel-Out of State Recruit

Special / Sensitive Orgs
436457 SIO Govt-Intl Relations
613700 Intl Relations & Pac Studies
660227 Chancellor Residence-Ops
660417 Univ Relations-Special Event
660437 UCSD Signature Events
723001 Univ Communications