

The logo for UC Irvine, featuring the text "UCIRVINE" in a large, black, serif font. The letters "U" and "C" are significantly larger than the other letters, and the "I" is a thin vertical line. The text is set against a light yellow background.The logo for Internal Audit Services, featuring the text "INTERNAL AUDIT SERVICES" in a black, serif font. The text is set against a light yellow background.

Food and Meal Expenses Charged on Federal Awards

Internal Audit Report No. I2017-107
March 5, 2018

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RE: Food and Meal Expenses Charged on Federal Awards Audit
Report No. I2017-107

Internal Audit Services has completed the review of Food and Meal Expenses Charged on Federal Awards 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.

Mike Bathke

Mike Bathke
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee
Nancy Lewis – Executive Director, Sponsored Projects Administration
Beata Najman – Director, Extramural Funds Accounting
Sandra Stevens – Associate Director, Sponsored Projects Administration

I. MANAGEMENT SUMMARY

In accordance with the audit plan, Internal Audit Services (IAS) reviewed the processes, internal controls, and policy compliance of food and meal expenses charged on federal awards at the University of California, Irvine (UCI).

Based on the review, safeguards are generally implemented in such a way as to reduce the opportunity for improper activity. However, opportunities for improvement were noted in the following area.

Potentially unallowable food/meal expenses – IAS sampled 133 transactions in 35 awards sponsored by nine agencies for policy compliance. IAS noted that 51 transactions (38 percent) in 14 awards have food or meal-related expenses that may not be allocable or allowable according to Uniform Guidance (UG) and/or National Institutes of Health (NIH) or National Science Foundation (NSF) guidelines. This observation is discussed in section V.1.

II. BACKGROUND

The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR 200), also known as UG, was issued by the White House's Office of Management and Budget (OMB) and became effective on December 26, 2014. UG combines and supersedes the eight OMB circulars that governed administrative, accounting, and audit rules and principles for grants management. According to the Grants.gov website, the aim for UG is "to reduce the administrative burden on award recipients and, at the same time, guard against the risk of waste and misuse of Federal funds." Among other things, the OMB's UG does the following:

- Removes previous guidance that is conflicting and establishes standard language;
- Directs the focus of audits on areas that have been identified as at risk for waste, fraud and abuse;
- Lays the groundwork for federal agencies to standardize the processing of data;
- Clarifies and updates cost reporting guidelines for award recipients.

Therefore, all expenses charged to federal awards must conform to the cost principles specified in UG. In this planned audit for FY 2016-17, food related expenses being posted to a federal award are being reviewed for appropriateness, allowability, allocability, and reasonableness and that internal controls are functioning as intended.

III. PURPOSE, SCOPE AND OBJECTIVES

The purpose of this audit is to perform a general review of the internal controls and policy compliance around food/meal expenses on federal awards from July 1, 2015 through December 31, 2016. IAS established the following objectives:

- Obtain an understanding of food/meal charges as allowed by UG and grant specific guidelines;
- Determine whether food/meal charges on federal awards comply with applicable policies and procedures;
- Evaluate the controls related to charging of food/meal expenses;
- Identify, using data analytics, all food/meal expenses on federal awards;
- Identify, using data analytics, all food/meal expenses on federal and federal flow-through awards that are not self-identified through food/meal object codes; and
- Determine whether the food/meal expenses conform to cost principles as specified by federal policy.

IV. CONCLUSION

Based upon the results of the work performed within the scope of the audit, internal controls related to food and/or meals charged on federal funds can be strengthened.

Observation details and recommendations were discussed with management, who formulated action plans to address the issues. Details are presented below.

V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Unallowable Food/Meal-related Expenses

Background

Between July 2015 and December 2016, IAS identified 975 transactions expending over \$500,000 on food/meal expenses charged to federal awards. Approximately 897 transactions costing over \$474,000 were not previously reviewed by the Contracts and Grants Compliance Officer (CGCO) and became the basis for the IAS samples. IAS judgmentally selected 133 transactions in 35 federal awards spanning nine different agencies to test. NIH funded 50 of the transactions, NSF funded 62, and seven other agencies funded the other 21 transactions.

IAS reviewed the transactions according to UG, NIH, and NSF guidelines regarding definitions of conferences, meetings, and allowable meal costs. Budget and justification details submitted with the proposals were reviewed for food and/or meal allowability. Based on this information, IAS reviewed transactions to determine whether the award’s budget and justification allowed for food, whether the food costs were for participant support, and whether the food or meal costs were an integral and necessary part of the meeting or conference.

Observation

IAS sampled 133 transactions of food and meal-related expenses in 35 federal awards spanning nine different agencies. Those transactions that did not meet the criteria noted in the paragraph above were recorded and the results are listed in Table 1 below.

Table 1: Unallowable Transactions

| Agency | Number of transactions where the budget and justification did not include food/ meals expenses | Number of transactions where food/meals provided did not appear to meet the definition for participant support | Number of transactions where food/meals were not integral or a necessary part of the meeting/ conference |
|----------------|--|--|--|
| NIH | 1 | 3 | 4 |
| NSF | 7 | 7 | 16 |
| Other agencies | 3 | 7 | 3 |
| Totals: | 11 | 17 | 23 |

IAS identified 51 transactions as possibly unallowable or unallocable to the federal award on which it was expended. Although some of the transactions do not comply with UG or grant specific guidelines, they appear to be bona-fide business expenses and should be reimbursed separately on unrestricted departmental funds.

Furthermore, IAS notes that Contracts and Grants compliance resides with one staff member and with the anticipated increase in research expenditures, post-audit reviews of high-risk transactions may not be completed in a timely and effective manner.

Failure to properly adhere to the cost principles contained in UG and grant specific guidelines may incur disallowance of expenses, financial penalties, and may endanger future funding.

Management Action Plan

Recommendations: Based upon the results of the samples tested by IAS, Contracts and Grants Accounting (CGA) should review those transactions already identified by IAS as potentially unallowable as well as those transactions noted but not reviewed in the Post Audit Federal Fund Reimbursement Activity Report and determine whether those transactions should be transferred to non-federal funds. IAS will aid in the monitoring of future food related charges on federal awards by incorporating this review during the course of scheduled departmental audits. Moreover, CGA should continue post-audit reviews of future expenses on federal awards to validate that food/meal expenses are appropriate. Management should explore the inadequacy of current resources to maintain timely and effective compliance of post-audit reviewed transactions. CGA, in conjunction with Sponsored Projects Administration, should also identify and implement a training solution to educate staff and principal investigators in determining whether food or meal-related expenses are allocable, allowable, and reasonable to charge against federal awards.

Response: CGA proposes the implementation of a Corrective Action Plan (Plan) in response to the review and recommendations made by IAS. This Plan incorporates a three-tier system to strengthen and enhance internal control procedures by effectively minimizing the reoccurrence of improper activity. The intent is for the Plan to be pro-active as well as re-active in its approach to ensuring proper compliance and to help strengthen the collaborative effort

with Sponsored Projects Administration and the funded departments. What follows is a synopsis of the Plan and several important points that detail the strategic direction that CGA proposes in its efforts to improve efficiency and effectiveness of compliance in research administration.

The initial tier which is in line with the recommendation by IAS consists of a revitalized training component which will include:

- Updating content of training modules to include a wider range of examples clarifying food and meal expenses as they apply to federal contracts and grants in various travel and business meeting scenarios (completed December 2017); and
- Revising the format of research administration training from primarily classroom and in-person to online instruction, and, as a result, making it readily accessible in the effort of increasing training participation.

The second tier of the Plan is to expand and improve the CGA website to include the following features:

- Information specific to food/meal expenses, including links to the sponsor websites with the agency-specific clarifications and requirements; and
- Suggestions on how departments can strengthen their own internal processes and controls to ensure compliance.

The final tier seeks to strengthen the audit procedures essential for the responsibilities of the CGCO in working with the funded departments to include:

- Regularly scheduled post-audit reviews of expenses;
- Reviewing and requesting correction, as necessary, for the potentially unallowable or unallocable transactions identified through post-audit reviews and/or by IAS; and
- Providing guidance to departments on conducting their own internal reviews and audits prior to the post-audit conducted by the CGCO and/or IAS.

CGA proposes introducing portions of each tier in incremental phases before June 2018. Components proposed above may be modified or intensified based on the needs of individual departments. As such, the strategic direction of the Plan is to incorporate the pro-active and re-active elements discussed for the

trainings, website, and post-audits. In addition, this strategy and its components will continue to evolve and be improved based on the ongoing evaluation and assessment of its effectiveness. Finally, while CGA will be responsible for these changes, it should be noted that system upgrades and enhancements are to be considered in order to further guarantee the efficiency and effectiveness of grants compliance.