UCLA HENRY SAMUELI SCHOOL OF ENGINEERING AND APPLIED SCIENCE

UCLA ELECTRICAL ENGINEERING DEPARTMENT

Audit REPORT #17-5001

Audit & Advisory Services

September 2017

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Background

In accordance with the Campus fiscal year 2016-17 audit plan, Audit & Advisory Services (A&AS) conducted an audit of the UCLA Electrical Engineering department (Electrical Engineering).

The mission of Electrical Engineering is to produce highly qualified, well-rounded, and motivated graduates possessing fundamental knowledge of electrical engineering who can provide leadership and service to California, the Nation, and the World; to pursue creative research and new technologies in electrical engineering and across disciplines in order to serve the needs of industry, government, society, and the scientific community by expanding the body of knowledge in the field; to develop partnerships with industrial and government agencies; to achieve visibility by active participation in conferences and technical and community activities; and to publish enduring scientific articles and books.

Electrical Engineering is one of seven academic departments within the Henry Samueli School of Engineering and Applied Sciences (HSSEAS). The department grants degrees as follows: Bachelor of Science (B.S.), Master of Science (M.S.), and Doctor of Philosophy (Ph.D.) in electrical engineering. For Fall 2015, approximately 1,100 students were enrolled across all three degree programs. The Management Services Officer (MSO) reports to the Department Chair, who oversees the department’s 45 ladder faculty and 31 career employees. In fiscal year 2015-16, the department reported total revenues of approximately $41.5 million, and expenditures of approximately $38.9 million.

The department emphasizes relationship building with the electrical engineering industry as one of its missions. Electrical Engineering collaborates with and receives funding from many highly recognized industry partners. In fiscal year 2015-16, Electrical Engineering received approximately $22.1 million in contracts and grants and $3.8 million in gifts and endowments. Also, the Center for High Frequency Electronics (CHFE) and the UCLA Nanoelectronics Research Facility (Nanolab) operate under the department. These two labs provide sophisticated facilities, equipment, and services to both internal and external users at established rates. Total revenue in fiscal year 2015-16 for the CHFE and Nanolab were approximately $259,000 and $1,953,000, respectively.

Purpose and Scope

The purpose of the audit was to determine whether there are adequate internal controls over key departmental administrative and financial processes. Compliance with University policies and procedures was also evaluated when applicable. The scope of the audit covered the following areas:

* Research Administration
* Cash Handling
* Equipment Inventory
* Financial Management
* Information Technology and Security
* Conflict of Commitment
* Faculty Hiring and Diversity
* Budgeting and Planning Processes

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and included interviews, tests, and other procedures considered necessary in achieving the audit purpose.

Summary Opinion

Based on the results of the work performed within the scope of the audit, internal controls should be further strengthened to ensure that the financial and administrative objectives of the department are met. Implementation of the following will also help ensure compliance with University policies and procedures and improve current business practices:

*Research Administration*

* Management should ensure that deficits are addressed in a timely manner. Specifically, sponsored projects should be cleared of any overdrafts by transferring excess expenses to an unrestricted fund source.
* Management should ensure that employee appointments are not extended past the award end date in the Employee Database (EDB), when applicable. Also, management should perform period spot checks to ensure that payroll costs are appropriately charged to sponsored projects.
* Management should remind fund management staff to properly justify expenditure adjustments. Also, justifications should be properly documented to ensure that all expenses are appropriate and in compliance with award terms and conditions.
* To ensure compliance with University and federal regulations, cost transfers should be processed timely.  Untimely cost transfers can be viewed as an indicator of weak internal controls by federal auditors.
* Management should closeout sponsored project funds and ensure that all required reports are sent to the sponsor agency in a timely manner. Also, management should conduct periodic reviews of federal awards to ensure that funds that have ended are properly closed out, in accordance with University and federal regulations.
* Reconciliations between expenditures and general ledgers should be performed on a monthly basis. This reconciliation should be documented to evidence the review. Also, funds should be regularly monitored to ensure that expenditures are consistent with project purposes, and the terms and conditions of the award. Further, on a periodic spot check basis, management should verify that reconciliations are performed regularly.
* Management should ensure that sponsored project award appropriations on the campus general ledger are reallocated to the appropriate budget categories in a timely manner.
* Management should continue to send periodic notifications to principal investigators (PI’s), reminding them that technical progress reports and other required certifications should be completed and sent to the awarding sponsor/agency by the designated due date.
* The Electrical Engineering Accounting and Human Resource & Academic Personnel units should establish better channels of communication. Also, management should evaluate the current reporting structure of fund managers, and should consider establishing a reporting line between fund managers that report directly to PI’s, and the Accounting Manager or MSO. Improving the reporting structure and communication channels will help strengthen controls over financial transactions, including those relating to sponsored projects.

*Cash Handling*

* Management should evaluate the volume of cash receipts to determine which type of cash storage options will provide the required level of physical security for areas that store cash.
* Management should remind units to deposit monies to the bank (via the armored service carrier) at least weekly, or whenever collections exceed $500.
* When preparing deposits, monies should be jointly verified and documented.
* Management should ensure that individual accountability is established and maintained, as required by University policy, for all cash transfers. Procedures should be established to require staff to verify and document that collections are intact when transferred between personnel. Verifications should be done in the presence of both persons transferring funds.
* Mailed-in payments should be opened by two individuals. A log should be used to document when mailed-in payments are received and by whom. An independent person should review the dual-signed log, and verify that all payments on the log were deposited intact.
* To ensure that a record is established at cash acceptance for key deposits, a receipt should be provided to payers. Payments received for key deposits should be recorded on an official University pre-numbered, multiple-part receipt, and a copy should be provided to the payer. Original copies of receipts (including voids) should be maintained for reconciliation and auditing purposes.
* Checks should be restrictively endorsed "for deposit only" with an official stamp, immediately upon receipt.
* Notices accompanying request for payment should designate that checks must be made payable to the "UC Regents."
* To ensure that cash receipts are accurately recorded and properly deposited in a timely manner, an independent individual should regularly, on at least a spot check basis, reconcile cash receipts to the general ledgers and to related bank statements. Documentation should be maintained to evidence this review.
* To provide for an adequate separation of duties, management should designate an independent individual to reconcile deposits to the general ledgers, who does not also have responsibility for collecting payments and preparing deposits. Proper separation of duties should be maintained to ensure that no one individual has complete control over cash collecting, depositing, and reviewing related items.

*Equipment Inventory*

* Electrical Engineering staff should conduct a full physical inventory of their inventorial equipment. Any changes or discrepancies noted during the physical inventory should be updated in the Asset Management System (AMS). Also, the Annual Certification of Equipment Inventory should be completed and submitted to UCLA Equipment Management. The department should perform a physical inventory of all inventorial equipment at least once every two years, in accordance with University policy.
* Electrical Engineering staff should update AMS records to accurately reflect inventory on hand. Going forward, management should continue to ensure that AMS records are complete and up-to-date.
* To ensure proper identification and to minimize risk of loss or theft of University assets, property tags should be affixed to all inventorial items. For those items that a property tag cannot be easily affixed, management could maintain a notebook with the tags and a notation of where the particular equipment items are located.
* AMS records should be updated to properly reflect equipment transfers. The department should notify Equipment Management of any equipment transfers, obtain the proper approval, and ensure that all necessary procedures are followed. In addition, management should work with Equipment Management to address the two incorrectly processed equipment transfers identified during the audit.
* Management should ensure that unused equipment is properly utilized or disposed of in compliance with University policies and procedures. For the unused equipment identified during the audit, management should work with Equipment Management to properly dispose of the item, including sending proceeds to the federal government (since this item was partially purchased using federal funds), if required, or finding an alternate use for the item.

*Financial Management*

* Nanolab and CHFE management should review and revise their rate structure and submit a revised fund application to the UCLA Sales and Services unit. Management should periodically review and update the rate structure to ensure that rates are appropriate, in accordance with University policies and procedures.
* Management should provide communication to staff, reminding them that only vendors from the University vendor list should be used for the procurement of repair services. This will help ensure that vendors performing services on campus have adequate insurance coverage.

*Information Technology and Security*

* Management should continue to follow-up with faculty and staff who do not complete the mandatory Cybersecurity Awareness training by established due dates.
* To help management monitor non-inventorial, but theft sensitive electronics, the department should work with HSSEAS Information Technology (IT) to create an inventory of desktop computers, laptops, mobile devices, etc. The database should be periodically reviewed by management to ensure that the listing is up-to-date and accurate.

*Conflict of Commitment*

* Management should send periodic reminders to faculty to complete their Annual Report of Category I and II Outside Activities and Additional Teaching Activities forms by November 1st of each reporting year.

The audit results and recommendations are detailed in the remainder of this audit report.

Audit Results and Recommendations

| **#** | **FINDING** | **RECOMMENDATION** | **MANAGEMENT RESPONSE** |
| --- | --- | --- | --- |
| **RESEARCH ADMINISTRATION** | | | |
| Audit work included the following:   * Discussions with personnel to determine the department’s processes for monitoring and administering sponsored projects. * Review of two judgmentally selected sponsored projects, funds 22709 and 80173, and associated documentation, including financial reports (general ledger, fund summary, payroll distribution report, etc.) and award documents (contracts, budgets, proposals, closeout reports, etc.).   *Fund 22709 – THZ (Terahertz) Electro-Optic Modulators*   * + Award Type: Grant   + Sponsor: U.S. Navy, Office of Naval Research   + Project Period: October 1, 2011, to September 29, 2015   + Total Funds Awarded to Date: $450,000   *Fund 80173 – Smart Air-Conditioner Vent Registers (SAVER) for Improved Personal Comfort and Reduced Electricity Consumption*   * + Award Type: Subgrant   + Sponsor: Stoney Brook University (Prime Sponsor: Department of Energy)   + Project Period: May 5, 2015, to May 4, 2016   + Total Funds Awarded to Date: $166,461   + Note: As of audit review, Electrical Engineering is in negotiations with the sponsoring agencies to modify award terms. * Review of propriety and timeliness of effort reporting certification for key personnel for the two selected funds. For sponsored projects awards above, selected one PI for each fund for testing. Reviewed award documentation and effort certification statements that were certified during fiscal year 2015-16, for each award. Based on a judgmental sample of effort reports reviewed for the above two funds, effort reports were properly certified and recorded. * Review of propriety and timeliness of a sample of cost transfers made to and from the funds, where applicable. * Discussions with personnel to determine the controls over technical progress reports. * Discussions with personnel to determine adequacy of controls over international research activities and export controls. Based on discussions with management, ongoing efforts are made to disseminate communication to faculty and staff regarding requirements in these areas.   Issues noted are summarized below. | | | |
| 1 | Sponsored Project Administration:  Monitoring of Electrical Engineering’s sponsored projects financial activities warrants improvement.    Based on financial reports (fund summary and general ledger) reviewed for fund 22709, the following were noted:   * Fund 22709 is in overdraft of $22,692 as of December 31, 2016. The award end date for the fund was September 29, 2015. * The Recharge ID for this fund was not properly turned off at the end of the award period, which resulted in expenditures charged to the fund after the award end date. A total of $14 was recharged to the fund on June 30, 2016, more than six months after the award end date.     \_\_\_\_\_\_\_\_\_\_\_\_\_  Criteria:    UCLA Policy 910 Management of Sponsored Projects, policy V:   * Principal Investigators (PI’s), with assistance from administrative staff, are expected to ensure "that expenditures do not exceed the total amount of funds obligated." * Department chair has the responsibility to ensure that administrative staff "provide the PI with accurate and timely information about expenditures confer with the PI in order to make adjustments as may be necessary to ensure that the general ledger is cleared of any expenses not applicable to the Sponsored Project. Such adjustments may include transferring outstanding liens, transferring items of expenses not allowable under that particular Award, and transferring overdrafts to other permissible fund sources." | Management should ensure that deficits are addressed in a timely manner. Specifically, sponsored projects should be cleared of any overdrafts by transferring excess expenses to an unrestricted fund source. | The fund manager for this PI has changed several times since 2015. We agree excess expenses should be handled in a timely manner and we will be more cognizant to do this for all funds.  A final close-out packet was processed in May 2017, but the account remains open. An initial response from EFM stated they were back-logged. We are checking again to see why this has not closed. |
| 2 | Personnel and Payroll:  Personnel and payroll transactions for sponsored projects are not always appropriately administered.    The following issues with regards to personnel and payroll were observed for fund 22709:   * One individual was paid from the fund after the award end date of September 29, 2015. A total of $9,800 of payroll cost was charged to the fund after the end date. These payroll expenses were eventually transferred off the fund in August 2016 (11 months after the fund end date). * The same individual's appointment in the EDB system was inappropriately extended past the award end date. Review of the Post Authorization Notification (PAN) relating to appointment extension showed that the individual's appointment was extended to June 30, 2017, over a year and a half after the end of the award.   To ensure agreement with general contract terms and conditions, expenses should not be charged to an award after an award end date.  \_\_\_\_\_\_\_\_\_\_\_\_\_  Criteria:    UCLA Policy 910 Management of Sponsored Projects, policy V:   * Principal Investigators (PI’s), with assistance from administrative staff, are expected to ensure "that expenditures do not exceed the total amount of funds obligated." * Department chair has the responsibility to ensure that administrative staff "review and approve financial transactions related to personnel… for consistency with project purposes and the terms and conditions of the Award.” | Management should ensure that employee appointments are not extended past the award end date in EDB, when applicable. Also, management should perform period spot checks to ensure that payroll costs are appropriately charged. | We have new staff in Human Resources (HR), and we are working together to implement better controls for managing appointments on funds and having PI’s, fund managers, and the payroll department sharing information regarding transactions.  Those entering payroll transactions will work with the finance team to ensure the correct fund numbers are being used accordingly. |
| 3 | Cost Transfers - Justifications:  Cost transfers are not always properly justified.  Based on review of fund 22709, a total of three cost transfers (two non-payroll cost transfers and one payroll cost transfer) were made to or from the selected fund during the duration of the award. In two instances, the justification for the cost transfer was not adequate, in accordance with UC Business and Finance Bulletin A-47, “Direct Costing Procedures” (A-47):   * For one non-payroll cost transfer, while the justification documented in the Online Financial System Reports (OFSR) explained why the original transactions were incorrect, it did not provide adequate justification for why fund 22709 was the correct fund to charge. The justification documented states, "To charge expenses to appropriate project." * For the other non-payroll cost transfer, the justification documented in the OFSR stated "Transferring expenses to appropriate account/project," which is not sufficient.     \_\_\_\_\_\_\_\_\_\_\_\_\_  Criteria:    UC Business and Finance Bulletin A-47 (BFB-A-47), Policy III.3.B.4, expenditure adjustments "must be fully explained, justified, and approved by the unit administrator" and "an explanation which merely states that the adjustment being made is 'to correct an error,' 'to transfer to correct project,' or 'expenditure inadvertently charged to incorrect account/fund' is not sufficient.” | Management should remind fund management staff to properly justify expenditure adjustments. Also, justifications should be adequately documented to ensure that all expenses are appropriate, and comply with award terms and conditions. | All cost transfers now have six questions that must be answered in order to process the transaction. This will ensure appropriate justifications are documented. |
| 4 | Cost Transfers - Timeliness:  Timeliness of cost transfers warrant improvement.  Based on review of fund 22709, in one instance, a cost transfer was not performed in a timely manner. The payroll cost transfer was performed on August 2016, approximately 11 months after the end of the award on September 29, 2015. The payroll cost transfer of $9,800.88 was for one individual for payroll expenses incurred over the pay period September 30, 2015, to July 31, 2016.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Criteria:    UC Business Finance Bulletin A-47 (BFB A-47) Direct Costing Procedures, Policy III.3.B.7, "transfer of recorded costs must be identified and processed expeditiously." | To ensure compliance with University and federal regulations, cost transfers should be processed timely.  Untimely cost transfers can be viewed as an indicator of weak internal controls by federal auditors. | Funds are regularly reviewed for overdrafts and we are working more closely with PI’s to monitor expenses. PI’s have also been cautioned to not use cost transfers as a means of balancing funds. |
| 5 | Closeout:  For fund 22709, which has an award end date of September 29, 2015, Electrical Engineering has not properly closed out the fund as of audit review.  As stewards of federal award funds, management should ensure that all required reporting is submitted in accordance with the Code of Federal Regulations and award terms and conditions.  \_\_\_\_\_\_\_\_\_\_\_\_\_  Criteria:  Code of Federal Regulations Section 200.343, the entity receiving Federal award "must submit, no later than 90 calendar days after the end date of the period of performance, all financial, performance, and other reports as required by or the terms and conditions of the Federal award." | For fund 22709, management should properly closeout the fund and ensure that all required reports are sent to the sponsor agency. Also, management should conduct periodic reviews of federal awards to ensure that funds that have ended are properly closed out, in accordance with University and federal regulations. | Two closeout packets were sent to EFM – one in December 2015, and another one in May 2017.  EE is in contact with EFM to bring this to conclusion. |
| 6 | Monitoring & Reconciliation:  Fund Managers are not always reconciling financial transactions to the general ledger on a monthly basis. Management indicated that reconciliations are not always performed on a monthly basis, because of the large workload for each fund manager. Typically, reconciliations are performed every other month.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Criteria:    UCLA Policy 910 Management of Sponsored Project, policy V, Department Chair or Organized Research Unit (ORU) Director, "Once an Award has been made, the department chair...has continuing responsibility to ensure that administrative staff...[m]aintain budgetary control through the use of departmental bookkeeping and cost control systems and monthly reconciliation with the general ledger." | Reconciliations between expenditures and general ledgers should be performed on a monthly basis. This reconciliation should be documented to evidence the review.  Also, funds should be regularly monitored to ensure that expenditures are consistent with project purposes, and the terms and conditions of the award. Further, on a periodic spot check basis, management should verify that reconciliations are performed regularly. | We are working together with all staff to have all documents filed so reconciliations can be efficient and expeditious. Management will be performing periodic spot checks. |
| 7 | Unallocated Appropriations:  A review of the Electrical Engineering fund summary for the two selected funds as of December 31, 2016, indicated that these grants had appropriated funds, which had not been reallocated into the appropriate budget categories.  Sub 08 Balances As of December 31, 2016:   * Fund 22709 - $316,083 * Fund 80173 - $148,796     Awarded monies are initially appropriated to the sub 08 budget category with the expectation that they will be reallocated by the department to salary, benefits, supplies, and equipment budget categories, in accordance with the grant budget.  Proper budgeting practices will help fund managers and PI’s monitor expenditures.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Criteria:    UCLA Policy 910 Management of Sponsored Project, policy V – Department Chair or Organized Research Unit (ORU) Director, "Once an Award has been made, the department chair...has continuing responsibility to ensure that administrative staff...[r]eallocate appropriated funds into the appropriate budget categories." | Without fund reallocation, it is difficult to ensure that sponsored project monies are being spent in accordance with their approved budget. In addition, lack of fund reallocation can be viewed as an indicator of weak internal controls by federal auditors. Management should ensure that award appropriations on the campus general ledger are reallocated to the appropriate budget categories in a timely manner. | Fund managers have been spoken to regarding the reallocation of funds to all sub categories when an award is made. |
| 8 | Technical Progress Reports:  Based on audit discussion, management relies on the PI to comply with reporting requirements for sponsored projects. UCLA Policy 910, Management of Sponsored Projects, states that it is expected that the PI will submit all required reports, certifications, statements, etc., to the award sponsor/agency.  Under the current setup, it is difficult for management to ensure that required reports are submitted to award sponsors, as required by award agreements.  \_\_\_\_\_\_\_\_\_\_\_\_\_  Criteria:    UCLA Policy 910 Management of Sponsored Projects, Policy V:   * PI’s are expected to "comply with the reporting requirements as stated in the Contract, Grant, Cooperative Agreement or Subaward documents, including the submission of periodic and final programmatic reports, financial reports, invention reports and inventory and equipment reports." * "It is reasonable and appropriate for the Principal Investigator (PI) to rely on administrative staff for assistance in carrying out responsibilities under a Sponsored Project." | Management should continue to send periodic notifications to PI’s, reminding them that technical progress reports and other required certifications should be completed and sent to the awarding sponsor/agency by the designated due date. | Fund managers typically remind PI’s to submit their technical reports and will continue to do so. |
| 9 | Communication and Reporting Structure:  Communication between Electrical Engineering Accounting and HR units can be improved. Based on interviews and review of fund 22709, the lack of communication between the fund manager and the HR employee contributed to an individual being paid from a closed fund, for a period of 11 months.  Also, the Accounting Manager and MSO are mandatory reviewers for financial transactions via the PAN system. However, there are six fund managers in the department that do not report functionally to the Accounting Manager or MSO (these individuals report to their respective PI’s). As a result, the Accounting Manager and MSO may not be effective reviewers under the current structure. | The Electrical Engineering Accounting and Human Resource (HR) units should establish better channels of communication.  Also, management should evaluate the current reporting structure of fund managers, and consider establishing a reporting line between fund managers that report directly to PI’s, and the Accounting Manager or MSO.  Improving the reporting structure and communication channels will help strengthen controls over financial transactions, including those relating to sponsored projects. | New HR staff is in place and steps have been initiated to have all staff work together more cohesively. However, contract fund managers still do work on their own and do not report to the Department managers. This area will be reviewed at the MSO and Chair level and policy will need to be established. |
| **CASH HANDLING** | | | |
| Audit work included the following:   * Discussion with personnel regarding departmental business practices for handling payments for Electrical Engineering key deposits, payments for the Nanolab, and payments for CHFE. * Review of fiscal year 2015-16 cash deposit data to determine adequacy of controls over cash receipts. * Review of deposit procedures, physical security over cash receipts, individual accountability, and separation of duties.   Issues noted are summarized below. | | | |
| 10 | Physical Security:  Current business practices of storing cash and cash equivalents do not provide the proper level of physical security, considering the volume of cash receipts, for key deposits, Nanolab, and CHFE. Based on analysis of cash deposit data for fiscal year 2015-16, the volume of cash/cash equivalents stored in each area range as follows:   * Key deposits - $50 to $1,410. Total deposits for fiscal year 2015-16 was $5,783. Monies are stored in a lockable cabinet, only accessible by one individual. * Nanolab - $4,960 to $167,428. Total deposits for fiscal year 2015-16 was $924,768. Monies are stored in a lockable desk drawer, only accessible by one individual. Revenue is collected for use of Nanolab cleanroom facilities, equipment, etc. * CHFE - $171 to $4,617. Total deposits for fiscal year 2015-16 was $23,367. Monies are stored in a lockable desk drawer, only accessible by one individual. Revenue is collected for use of CHFE facilities and equipment, for circuit board design and fabrication services, etc.   A&AS also notes that current deposit frequency is once every two weeks and is not in compliance with University policy, which requires depositing cash receipts at least once a week or whenever collections exceed $500 (see #11 below). Increasing the deposit frequency may change cash storage needs.    \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Criteria:  BUS 49, Policy IX.5:   * “Each Campus shall use lockable receptacles or burglarproof/fire resistant safes to store cash based on the following cash limits:  1. Up to $1,000 in a lockable receptacle 2. From $1,001 to $2,500 in a safe 3. From $2,501 to $25,000 in a steel-door safe, with a door thickness of not less than 1 inch and wall thickness of not less than ½ inch. 4. From $25,001 to $250,000 in a class TL-15 composite safe or better 5. Over $250,000 in a class TL-30 steel or better safe.”  * “Deviation from these procedures may jeopardize the University’s liability coverage.” | Management should evaluate the volume of cash receipts to determine which type of cash storage options will provide the required level of physical security for areas that store cash. | Management will discuss cash management policies and review this against campus policies.  Also, management will review monthly check receipts and will evaluate safe requirements. |
| 11 | Deposit Frequency:  Electrical Engineering is not depositing cash receipts at least once a week to the bank via Dunbar, the armored service carrier, or when collections exceed $500, in accordance with University policy (BUS-49).    Based on discussions with personnel involved with key deposits, the CHFE, and the Nanolab, deposits to the bank via Dunbar are made about once every two weeks. Additional analysis was performed on Electrical Engineering cash deposits data for fiscal year 2015-16, which showed that collections are not deposited at least on a weekly basis.  Timely deposits help to ensure that University assets are properly recorded and protected. Also, this helps to minimize risk exposure to loss, theft, or misappropriation of funds.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Criteria:  BUS 49, Policy XB.2, “Collections at...departments shall be deposited…at least weekly or whenever collections exceed $500.”  Policy 360, Attachment A, *Cash Receipts,* 3.c*,*  “Departmental cash receipts must be deposited with a major cashiering station at least weekly or whenever collections exceed $500.00. In addition, collections must be deposited by fiscal year end (June 30). The amount of funds held overnight should be minimized.” | Management should remind Electrical Engineering units to deposit monies to the bank (via the armored service carrier) at least weekly, or whenever collections exceed $500. | EE will coordinate with CHFE and the Nanolab to make sure we are in compliance with deposit policies. |
| 12 | Deposit Preparation:  Current business practices to prepare deposits for the Nanolab, CHFE, and the collection of key deposits, is performed by a single employee in each of the respective areas. Under the current setup, it would be difficult to determine if funds were to go missing.  \_\_\_\_\_\_\_\_\_\_\_\_  Criteria:    BUS 49, Policy XA.1, “Deposits must be validated and prepared under dual custody at all times in a safe and secure area.” | When preparing deposits, monies should be jointly verified and documented. | CHFE keeps a log of mailed-in payments by the Lab Manager, and those payments/checks are submitted to the Fund Analyst, who processes the deposit and then submits them to the department Accountant, who verifies the documents and final deposit amount.  Procedures will be reviewed to comply with joint custody controls. |
| 13 | Individual Accountability:  Individual accountability over key deposit payments is not always properly maintained. The Facilities Manager collects key deposits and related forms, and gives the monies and forms to the Electrical Engineering Grant Manager. The Grant Manager then prepares the deposit. This transfer of funds is not documented.    Under the current setup, if monies were to go missing, it would be difficult to hold any one person accountable.  \_\_\_\_\_\_\_\_\_\_\_\_  Criteria:  BUS 49, Policy IXA.3, “All cash transfers must be documented and the documentation of accountability maintained by category (i.e., currency, checks, and other forms of payment).”  Policy 360, Attachment A, *Cash Receipts*:   * 2.b: “Individual accountability for cash must be maintained throughout all cash handling operations from receipt through deposit. All transfers of accountability must be documented.” * 2.c: “Transfers of cash between two people are jointly verified in the presence of both.” | Management should ensure that individual accountability is established and maintained, as required by University policy, for all cash transfers. Procedures should be established to require staff to verify and document that collections are intact when transferred between personnel. Verifications should be done in the presence of both persons transferring funds. | Review of all cash handling policies with written policy is to be established, to ensure compliance with BUS 49. |
| 14 | Mailed-in Payments:  While the CHFE and Nanolab record mailed-in payments on an Excel spreadsheet, these payments are not adequately controlled, as they are opened by one person in their respective areas.  Mailed-in payments represent a majority of cash receipts for the Nanolab and CHFE. Proper controls will help to minimize loss, theft, and misappropriation, and help to maintain individual accountability.  \_\_\_\_\_\_\_\_\_\_  Criteria:  BUS 49, Policy VIIIA.1.3, “Mailed remittances shall be verified and processed by two employees.” | Mailed-in payments should be opened by two individuals. A log should be used to document when mailed-in payments are received and by whom. An independent person should review the dual-signed log, and verify that all payments on the log were deposited intact. | Mailed-in payments will be opened by two individuals, who will log and document when received (dually sign). CHFE will also immediately endorse checks with the UCLA Regents Deposit stamp. |
| 15 | Key Deposits – Payment Recording:  Receipts are not provided to payers when key deposit payments are made. The current practice is for key deposit payments to be recorded on a paper Student Key Record form, which is retained by the department.  Proper record keeping is essential to maintaining individual accountability over assets.  \_\_\_\_\_\_\_\_\_\_  Criteria:    BUS 49:   * Policy VIIIB.2, “An official University cash receipt shall be recorded for each collection. A copy of the receipt shall be provided to payers making an in-person payment...” * Policy VIIB.5, “A collection not recorded on cash register or point of sale equipment must be recorded on an official pre-numbered, multiple-part Cash Receipt.”   UCLA Policy 360 (Policy 360) Internal Control Guidelines for Campus Departments, Attachment A, Guidelines for Application of Internal Control Principles, *Cash Receipts,* 4.a:  “Cash Receipts are recorded on the day received. Receipts issued should be preprinted and consecutively numbered.   1. Departmental accounting personnel are responsible for safeguarding and issuing receipt documents to cashiering personnel. 2. An original dated receipt is provided to the payer 3. Copies of valid receipts and voided receipts are kept for audit and reconciliation purposes.” | To ensure that a record is established at cash acceptance, a receipt should be provided to payers. Payments received for key deposits should be recorded on an official University pre-numbered, multiple-part receipt, and a copy should be provided to the payer. Original copies of receipts (including voids) should be maintained for reconciliation and auditing purposes. | A receipt policy will be established. |
| 16 | Check Endorsement:  Checks are not immediately endorsed upon receipt by staff collecting key deposits, and for payments received at the CHFE.  Management indicated that checks are endorsed when the deposit is prepared. Typically, deposits are prepared approximately once every two weeks. All staff members in the department share one endorsement stamp, which is stored and maintained in the Grant Manager's office.  Endorsing checks immediately upon receipt helps to deter the misappropriation of funds and is a University requirement as part of BUS-49.  \_\_\_\_\_\_\_\_  Criteria:  UC Business and Finance Bulletin 49 (BUS 49) Policy for Cash and Cash Equivalents Received:   * Policy VIIIB.1, “Immediately upon receipt, checks must be restrictively endorsed ‘for deposit only’.”   Policy VIIIB1.1, “Each Cashier must be provided an official endorsement stamp or its mechanical equivalent, identifying the cashier and department.” | Checks should be restrictively endorsed "for deposit only" with an official stamp, immediately upon receipt. If feasible, management should provide each individual who accepts checks with an official endorsement stamp, or make the endorsement stamp more accessible. | Management will order additional endorsement stamps. |
| 17 | Check Handling:  The current Student Key Record form, which is completed and signed by individuals paying a key deposit, does not designate that checks should be made payable to the "UC Regents." Current practice is for the Facilities Manager, who collects key deposits, to verbally inform individuals making payments to make checks payable to the "UC Regents".  To provide greater assurance that checks are properly made payable to the “UC Regents,” instructions should be clearly stated on the Student Key Record form.  \_\_\_\_\_\_\_\_\_\_  Criteria:    BUS 49, Policy VIIB.1, “All checks must be made payable to the Regents of the University of California (‘UC Regents’). Notices accompanying a request for payment should instruct payers that checks will not be accepted if they are not properly made out to UC Regents." | Notices accompanying request for payment should designate that checks must be made payable to the "UC Regents." | Management will review and update the Student Key Record forms. |
| 18 | Deposit Monitoring and Reconciliation:  Current monitoring and reconciliation processes warrant improvement. Based on audit interviews with Electrical Engineering personnel:   * Key deposit cash receipts are not regularly reconciled to the general ledger and bank statements. * For Nanolab and CHFE cash receipts, while designated individuals reconcile deposits to the general ledgers, deposits are not reconciled to related bank statements.   \_\_\_\_\_\_\_\_\_\_\_\_\_  Criteria:  BUS 49, Policy XI.1, “Deposits to banks must be reviewed, approved and recorded to the General Ledger in a timely manner and during the appropriate month.”  Policy 360, Attachment A, *Cash Receipts, 4.b*.1, “Cash receipts are reconciled to deposits, and deposits are reconciled to financial system reports.” | To ensure that cash receipts are accurately recorded and properly deposited in a timely manner, an independent individual should regularly, on at least a spot check basis, reconcile cash receipts to the general ledgers and to related bank statements. Documentation should be maintained to evidence this review. | Departmental policies need to be established, to ensure compliance with BUS 49. |
| 19 | Separation of Duties:  With regards to the Nanolab and the CHFE, for each area, the same individuals who receive payments and prepares deposits, are also responsible for reviewing the general ledger for these transactions. As a result, there is a lack of proper separation of duties, as the same individual(s) who have responsibility for payment collection also prepare the deposit on their own, and review related transactions.    Proper separation of duties should be maintained to ensure that no one individual has complete control over cash collecting, depositing, and reviewing related items.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Criteria:  BUS 49, Policy VIIIA.1.2, “The person collecting cash, issuing cash receipts, and preparing the departmental deposit shall be someone other than the person performing the monthly review of the General Ledger or the person maintaining accounts receivable records.” | To provide for an adequate separation of duties, management should designate an independent individual to reconcile deposits to the general ledgers, who does not also have responsibility for collecting payments and preparing deposits.  Proper separation of duties should be maintained to ensure that no one individual has complete control over cash collecting, depositing, and reviewing related items. | Management will review practices, and a written policy will be established. |
| **EQUIPMENT MANAGEMENT** | | | |
| The department has 1,351 inventorial items listed in the AMS with a total active cost of approximately $44 million as of March 23, 2017.  Audit work included the following:   * Using data analytics to perform a review of the completeness of departmental records in AMS. * Sample testing and physical verification conducted on January 11 and 12, 2017 of 19 items, in order to verify the propriety of equipment information recorded in AMS, that property tags are secured to items, and that equipment is properly stored and safeguarded.   Issues noted are summarized below. | | | |
| 20 | Physical Equipment Inventory:  Controls over equipment inventory warrant improvement.   * Electrical Engineering is not performing a physical equipment inventory at least once every two years, in accordance with University policy. Based on data analytics performed, 1,170 of 1,351 items (87%) under the custody of Electrical Engineering had a "Last Inventory Date" of greater than two years, as of audit review. * Electrical Engineering is not completing the Annual Certification of Equipment Inventory on an annual basis, as required by Equipment Management. The last Annual Certification of Equipment Inventory completed was submitted to Equipment Management in April 2015.     Physical inventories help to ensure proper protection of, and accounting for, property owned by or in the custody of the University. Furthermore, according to guidelines from the Office of Research Administration (ORA), proper equipment inventory records is crucial as it affects the University Facilities & Administration (F&A) rate for contracts and grants.  \_\_\_\_\_\_\_\_\_\_\_\_  Criteria:  Business and Financial Bulletin 29 (BFB-BUS-29) Management and Control of University Equipment:   * Policy III.J.1, “At least every two years, the University shall make a physical inventory of all University Inventorial Equipment, Government Inventorial Equipment, Other Government Property and Other Inventorial Items.” * Policy III.H.2, “The head of the custodial department and the Principal primary responsibility to “ensure that all physical inventories are completed and returned to Equipment Management within the mandated period. “ | Electrical Engineering should conduct a full physical inventory of their inventorial equipment. Any changes or discrepancies noted during the physical inventory should be updated in AMS. Also, the Annual Certification of Equipment Inventory should be completed and submitted to Equipment Management.  The department should perform a physical inventory of all inventorial equipment at least once every two years, in accordance with University policy. | For this year and future inventory certifications, we will make sure these steps and all other recommendations are followed through. |
| 21 | Recordkeeping:  Inventorial equipment recordkeeping warrants improvement. Based on audit review, equipment inventory information in AMS is not always complete. The following were noted:   1. Data analytics showed that:  * 868 of 1,351 items (approximately 64%) were missing a room number. * 113 of 1,351 items (approximately 8%) were missing a serial number.      1. During the physical verification of 19 sampled items, the following issues were noted:  * In four instances, items did not have documented room numbers in the AMS. * In two instances, items had a separated employee listed as the user in the AMS, even though the employee separated from the University on April 30, 2016. * In one instance, an item did not have a documented serial number in the AMS.   Accurate records ensure proper accounting of inventorial equipment, and that items can be located for inspection or inventorial purposes within a reasonable time.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Criteria:  BFB-BUS-29, Policy III.H.1, “The head of the custodial department and the Principal Investigator have primary responsibility for the care, maintenance, physical inventory and control of all inventorial equipment and other property, regardless of title, under their jurisdiction. Specifically, they shall…[m]aintain up-to-date departmental records that reconcile to the official records maintained by the Equipment Management Office. The location – current building number and room number – of each item of inventorial equipment shall be maintained in such a manner that any item of can be located for inspection or inventorial purposes within a reasonable time. All manufacturer, model number and serial number information shall be completed for each equipment record.” | Electrical Engineering should update AMS records to accurately reflect inventory on hand. Going forward, management should continue to ensure that AMS records are complete and up-to-date. | We will make all corrections necessary to have all equipment up to date including room numbers, serial numbers, and active users. |
| 22 | Property Tags:  Five of 19 inventorial equipment items judgmentally selected for audit testing and physical observation did not have a University property tag attached to the item.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Criteria:  BFB-BUS-29, Policy III.F.1, "A bar-coded property tag is provided to the Custodial department, to be affixed, when practical, to the asset." | To ensure proper identification and to minimize risk of loss or theft of University assets, property tags should be affixed to all inventorial items. For those items in which a property tag cannot be easily affixed, management could maintain a notebook with the tags and a notation of where the particular equipment items are located. | The EE office of Facilities and Equipment has and will be making sure all equipment gets tagged upon arrival. A file will be created for any equipment that cannot be tagged. |
| 23 | Equipment Transfers:  Electrical Engineering personnel did not follow proper protocol and procedures, including obtaining proper approval, when transferring inventorial equipment off-campus.    During physical observation, A&AS could not physically observe two of the 19 selected, because the equipment was no longer located on UCLA premises. Electrical Engineering personnel explained that, for these two items, the PI’s separated from UCLA, and had taken the equipment with them to their new universities. The previous Facilities Manager/Equipment Custodian had updated the equipment location to "Off Campus" in AMS to indicate this transfer of equipment. There was no other documentation on file to evidence this transfer.  Review and approval of equipment transfers help to ensure that University property is protected, and, where applicable, payments for the transfer are made to the University.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_  Criteria:  BFB-BUS-29, Policy IV.G.4, It is the responsibility of the head of the custodial department and the PI to "notify Equipment Management in all cases where the [PI] separates from the University and intends to transfer equipment and other property to another institution, ensure that no University or other property is removed from the University location until all appropriate written approvals have been obtained and any required payments made to the University."  Business and Financial Bulletin 38 (BFB-BUS-38) Disposition of Excess Property and Transfer of University-Owned Property, Policy V.D.1:   * “University-owned property shall always be sold to the recipient institution at fair value, unless permitted by exception.” * “Prior to initiation of the sale, a written request must be made by the departing faculty member...” * “The request must be approved by the Department Head, Dean (or equivalent Officer or designee), and Equipment Administrator...” * “No sale may occur -- and no property shall be removed from the University location -- before all necessary procedures have been completed, all necessary approvals obtained in writing, and full payment has been received…” | Management should work with Equipment Management to address the two incorrectly processed equipment transfers identified during the audit, including whether the equipment should be returned to UCLA. AMS records should be updated to properly reflect the transfer. Going forward, the department should notify Equipment Management of any anticipated equipment transfers, obtain the proper approval, and ensure that all necessary procedures are followed. | The previous Equipment Custodian did not enter data in the equipment database correctly. We will make sure that this gets corrected, along with equipment management. |
| 24 | Unused Equipment:  Based on sample testing and observation, one of 19 items is currently unused and requires action from Electrical Engineering staff and Equipment Management. Electrical Engineering personnel confirmed that the item (active total cost of $46,790, per AMS records) is not in use**.** This item was originally purchased using a combination of federal and unrestricted funds.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Criteria:  BFB-BUS-29, Policy III.H.4, the head of the custodial department or Principal Investigator (PI) shall "identify unused equipment which should be processed for disposal and, every two years, identify any with a fair market value greater than $10,000 which is available for shared use or is temporarily or permanently not needed and report it to Equipment Management." | Management should ensure that unused equipment is properly utilized or disposed of (sold, transferred, removed, etc.). For the unused equipment identified, management should work with Equipment Management to properly dispose of the item, including sending proceeds to the federal government (since this item was partially purchased using federal funds), if required, or finding an alternate use for the item. | As mentioned, this was purchased by a combination of funds. We will be sure to find a use for this particular equipment or properly dispose of it, if it is still unused. |
| **FINANCIAL MANAGEMENT** | | | |
| Audit work included the following for fiscal year 2015-16:   * Review of Sales and Services activity for the Nanolab and CHFE. * Review of 40 judgmentally selected disbursements including, but not limited to, purchasing activity, travel and entertainment, and wire transfers. Documents reviewed included Bruin Buy documentation, general ledgers, invoices, PANs, receipts, and other supporting documentation. * Review of compliance with applicable UC and UCLA policies and procedures.   Issues noted are summarized below. | | | |
| 25 | Sales and Services:    The Nanolab and CHFE rate structures should be revised to minimize excess surplus and ensure compliance with University policy.    Based on audit fieldwork, the following were noted:   * As of June 30, 2016, the Nanolab has a balance of $785,593 and the CHFE has a balance of $380,798. Both are carrying a substantial surplus. * It appears that management of the labs have been aware of the surplus fund balance and, based on discussion, are saving for anticipated future expenses. Management indicated that lab equipment for their operations are expensive, therefore, the surplus balance would help them with eventual equipment replacements or upgrades. * The current rate structure for both funds includes depreciation expenses of equipment that has been fully depreciated. Consequently, the labs may be overcharging customers (some of which are federal sponsored projects) at the current rate.   \_\_\_\_\_\_\_\_\_\_\_\_\_  Criteria:    UCLA Policy 340 (Policy 340) Sales and Services Activity, policy II:   * "Sales and Services Activities should generally be self-supporting...and operate on a break-even basis." * "Annual rate and/or accounting adjustments must be done to eliminate any surpluses or deficits that are not related to approved purpose...and surpluses are not to exceed a prudent level."   UCLA Procedure 340.2, Section 2, Equipment Use Rate and Depreciation Guidance, "A rate structure that is intended to accumulate funds to replace Equipment based on the expected funding needed at a point in time in the future...would not be appropriate". | Nanolab and CHFE management should review and revise their rate structure and submit a revised fund application to the Sales and Services unit. Management should periodically review and update the rate structure to ensure that rates, and any surplus balances, are appropriate and comply with University policy. | CHFE has a balance of $472,822.88, however the equipment fund for this account is -$351,239.36. The real balance of the CHFE account is $121,583.52.  CHFE rates have not increased in 10 years. The rates charged are to maintain, replace parts, and service of lab equipment being used, in order to keep equipment functioning properly.  Management will review rates and will work with the Sales and Services unit. |
| 26 | Purchasing:  For 40 disbursement selections reviewed, 39 transactions were appropriately supported. However, for one selection, A&AS could not determine whether the transaction was an appropriate University expenditure for one item, based on supporting documentation available. The appropriateness of the vendor used could not be ascertained because the name, address, e-mail, and phone number on the invoice did not appear to be from a commercial business. A&AS could not determine the reason the vendor was selected, nor the qualifications of the vendor.  Also, it is unclear why the transaction was paid to a one-time payee. The transaction was for repair/maintenance services on a piece of equipment on campus. Only a vendor from the approved University vendor list should be used (and not a one-time payee) to ensure that vendors providing services on campus are properly vetted and have adequate insurance.    During audit fieldwork, this observation was brought to the attention of the Assistant Dean of the School of Engineering.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Criteria:  UCLA Policies 740 &741 – Attachment A, Purchasing Restrictions, a requisition is required for “services, repair or maintenance”. | Management should provide communication to staff, reminding them that only vendors from the University vendor list should be used for the procurement of repair services. This will help ensure that vendors performing services on campus have adequate insurance coverage, as required by the University. | Review of said purchase and determination of procedures will be established. Management will provide communication to staff on a periodic basis. |
| **INFORMATION TECHNOLOGY AND SECURITY** | | | |
| Audit work included the following:   * Review of compliance with mandatory Cybersecurity Awareness training for fiscal year 2015-16. * Review of controls over desktops, laptops, and mobile devices.   Issues noted are summarized below. | | | |
| 27 | Cybersecurity Awareness Training:  Faculty and staff Cybersecurity Awareness training completion rate for fiscal year 2015-16 was approximately 75%. A&AS supports management efforts to ensure that all faculty and staff complete the mandatory training. | Management should continue to follow-up with faculty and staff who do not complete the mandatory Cybersecurity Awareness training by established due dates. | Review of all required trainings and certifications will be assessed. |
| 28 | Desktops/Laptops/Mobile Devices Listing:  A listing of desktops, laptops, and mobile devices is not maintained within the department. While the HSSEAS IT department maintains a database of non-inventorial equipment items for other department units, Electrical Engineering is not currently using this database.    Maintaining a database of non-inventorial, but theft sensitive items such as desktop computers, laptops, and mobile devices can assist management in accounting for such items and be a detective control in the case of loss or theft. A listing of all devices that can connect to University servers is also essential to monitoring Cybersecurity. | Management should collaborate with HSSEAS IT to create a database of their desktop computers, laptops, mobile devices, etc. The database should be periodically reviewed by management to ensure that the listing is up-to-date and accurate. | Will meet with SEASNET to obtain a list of components to track in the department. |
| **CONFLICT OF COMMITMENT** | | | |
| Audit work included the following:   * Review of Faculty Annual Report of Category I and II Outside Activities and Additional Teaching Activities forms for fiscal year 2015-16. * Review of potential conflicts of interest.   Issues noted are summarized below. | | | |
| 29 | Conflict of Commitment:  Faculty are not always completing their Annual Report of Category I and II Outside Activities and Additional Teaching Activities forms by November 1st, in accordance with University policy.    Ten Electrical Engineering faculty annual reporting forms for July 1, 2015 to June 30, 2016 were reviewed, and the following were noted:   * In six instances, faculty members did not complete the form by November 1, 2016. The forms were overdue by 2 to 9 calendar days. * In one instance, a form reviewed was not dated by the faculty member, and timeliness could not be determined.     In addition, as of audit review, three faculty members have not completed an annual report for 2015-16.    Failure to comply with this policy may subject faculty members to discipline, corrective action, or administrative remedies.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  Criteria:  The UCLA CALL, Appendix 19: Conflict of Commitment and Outside Professional Activities, 20, "Annual reports on Outside Professional Activities are due to the Department Chairs by November 1st." | Management should send periodic reminders to faculty to complete their Annual Report of Category I and II Outside Activities and Additional Teaching Activities forms by November 1st of each reporting year.  Also, the three faculty members identified should complete their 2015-16 annual report. | Policies will be put in place to follow up on reports due by Faculty.  Follow up to the three faculty members not in compliance will be completed. |
| **FACULTY HIRING AND DIVERSITY** | | | |
| Electrical Engineering is taking adequate steps surrounding recruitment, hiring, retention, and separation to establish and maintain a diverse staff and faculty population in the department. The HSSEAS diversity representative and the Office of Vice Chancellor for Equity, Diversion & Inclusion reviews pool of candidates for diversity for open faculty positions.  Interviews are only conducted after HSSEAS and the Office of Vice Chancellor for Equity, Diversity & Inclusion has determined that the pool of applicants meets diversity standards.  No significant control weaknesses were identified in this area. | | | |
| **BUDGETING AND PLANNING PROCESSES** | | | |
| Budget and planning processes appear to be adequately controlled. Electrical Engineering management works with the HSSEAS Dean's Office to develop and monitor budgets.  Budgets are developed based on historical spending trends, projections of new projects, departmental goals, enrollment, curriculum, etc. Variances between budget and actual amounts are reported to UCLA Academic Planning and Budgeting (APB) from a School level.  According to discussions with management, HSSEAS did not have significant variances (greater than 10%) for fiscal year 2015-16.    No significant control weaknesses were identified in this area. | | | |

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