

July 19, 2013

**VICE CHANCELLOR TRAINA  
INTERIM VICE CHANCELLOR REESE**

Subject:        Audit Report No. M13A005  
                  Grant Processing – Pre Award and Post Award

Attached is the final report for Audit No. M13A005: Grant Processing – Pre Award and Post Award. It includes action plans that were developed by members of your staff. These action plans will be entered into the TeamCentral Database and monitored until completion. With the issuance of this final report, please destroy any previous draft versions.

I appreciate the assistance provided to me by the staff in the Sponsored Projects Office and Contracts and Grants Accounting during the review. If you should have any questions, please feel free to contact me.



Todd Kucker  
Internal Audit Director  
UC Merced Internal Audit Services

Attachment

cc:     SVP Vacca  
          Chancellor Leland  
          Assistant Vice Chancellor Ahmed  
          Director Salazar  
          Director Vicari

**UNIVERSITY OF CALIFORNIA, MERCED  
INTERNAL AUDIT SERVICES**

**Grant Processing – Pre Award and Post Award  
Report No. M13A005**

**July 19, 2013**

Work Performed by:  
Todd Kucker, Internal Audit Director

## **Purpose and Scope**

Internal audit has completed an audit of UC Merced's pre award and post award processes, which was part of the fiscal year 2013 audit plan. The primary purpose of the audit was to evaluate controls over grant processing from the point that a proposal is prepared and submitted until final closeout of the grant. The audit objectives were to:

- Determine whether grant proposals are properly reviewed and approved;
- Determine whether expenses charged to grants are allowable based upon the requirements in the award letters; and,
- Determine whether grant requirements and spending are properly monitored.

The audit focused on grants where funds were open in the campus financial system during fiscal year 2013. We reviewed 29 grants from various federal, state, and private sponsors where the amounts awarded totaled \$9,729,160. Ten of the federal grants selected were from the National Science Foundation (NSF) and seven were from the National Institute of Health (NIH). Of all sponsors, these two federal agencies fund the most research at UC Merced.

To fulfill the objectives of the audit, the following processes were included in the audit testing:

- Review and approval of grant proposals and award letters;
- Disclosing conflicts of interest;
- Identifying and implementing new federal requirements;
- Review and approval of spending on grants;
- Review and approval of cost transfers;
- Completing effort reporting requirements; and,
- Communicating timely results to sponsors.

Grant documentation maintained by the Sponsored Projects Office, Contracts and Grants Accounting, and school/department research administrators was reviewed.

## **Background**

Grant funded research awards have continued to increase at UC Merced. During fiscal year 2011-2012, grant funded research increased to \$22.3 million from \$18 million in the prior year. To help Principal Investigators (PI's) obtain and manage grants, the UC Merced "Research Administration Eco-System" is composed of groups within the Office of Research and the Business and Administrative Services Division.

Research Development Services (RDS) helps faculty with proposal development. RDS works to identify potential extramural funds and helps faculty put together the details in their proposals.

The Sponsored Projects Office (SPO) reviews proposals before submittal and reviews and accepts awards on behalf of the University. Throughout the award, SPO helps

manage the relationship with the sponsor. For example, if the PI would like to request a no-cost extension or a change to the approved budget, SPO would make the requests to the sponsor.

After the award has been accepted, Contracts and Grants Accounting (CGA) sets up the grant in the financial system. CGA helps monitor the spending on grants and handles payments from sponsors.

Research administrators in the schools and departments help PI's manage their grants by providing guidance related to grant spending and help with other grant management concerns.

This audit focused on the pre award reviews completed by the Sponsored Projects Office and the post award processes handled by Contracts and Grants Accounting and the research administrators. Limited scope audits of the pre award and post award processes at the Sierra Nevada Research Institute and the Center for Educational Partnerships were completed at the same time as this audit and separate audit reports will be issued for these audits.

## **Conclusion**

Based on the review, we concluded that the pre award and post award processes are effectively managed by the Sponsored Projects Office, Contracts and Grants Accounting, and the research administrators. During the audit, we noted some issues that could be better handled with a more robust grant management system. Overall, we noted the following areas for improvement:

### Areas for improvement

- A grant management system that could be utilized by the different groups managing grants should be considered
- Coding of expenses should be improved
- Reporting processes should be set up to comply with Federal Funding and Transparency Act requirements
- Grant spending should be closely reviewed when there are changes in Federal Regulations
- Funds in the financial system should be closed in a more timely manner

## **Observations and Management Action Plans**

1. A grant management system that could be utilized by different groups managing grants should be considered

During the audit, we noted that information related to grants is in many different locations around campus.

- SPO maintains electronic documents and a paper file for each grant. Much of the information maintained by SPO is in e-mails received from sponsors. During January 2013, the campus e-mail system was down for days. From this outage, SPO employees learned that a large part of their work depends on being able to access the information in the e-mail server.
- CGA also maintains a separate paper file. Much of the information maintained in these paper files is the same information maintained by SPO, but there is also information they need to manage the sponsor payments.
- Research administrators in the schools and departments also maintain a separate paper file which contains much of the same information maintained by the other groups.

Considering the information in the files maintained by the different groups gives a better picture of the entire life cycle of the grant. For example, grant proposals are maintained by SPO. After the budget is entered into the financial system by CGA, they do not have easy access to the budget justifications provided by the PI in the proposal. Also, closeout checklists are maintained by the research administrators and CGA, but SPO is also involved in the closeout processes.

We also noted that different research administrators have different ways to tracking cost share requirements. Spreadsheets are used to keep track of particular costs that will count for cost share. CGA does not have easy access to the cost share information in order to monitor that it is being kept up to date.

During the audit, we also noted there is not a current way to track unsuccessful grant proposals. Reviewing trends in unsuccessful proposals might improve the current processing of proposals.

Overall, the lack of a grant management system results in the various groups not having access to all of the information related to the grant. Also, a system could consolidate some of the information that is in many locations around campus and help to streamline the work of the different groups involved with the management of the awards.

***Management Action Plan:***

In late Fiscal Year 2013, the Office of Research purchased a software package to support real time proposal development and error checking for submittals to Grants.gov. In Fiscal Year 2014, the Office of Research plans to purchase a proposal and grants management system which will extend these capabilities to all extramural sponsors and provide post-award management tools for PIs, administrators and staff. In addition, the grants management system will allow for the consolidation of the grant files creating an institutional master file for external awards which would be accessible by all.

This action plan is scheduled to be completed by June 30, 2014.

2. Coding of expenses should be improved

During the audit, we noted amounts charged to grants that would raise red flags for an auditor. Object codes for such items as office supplies, telephone expense, and custodial and cleaning supplies were noted on various grants. In all cases, good explanations for why these costs, which would usually be covered in the indirect costs, were charged as direct costs. There are “project specific” object codes, such as “project specific office supplies”, which would show that justification was considered when charging the expenses to grants.

Also, we noted an instance where the same month to month expense was charged to three different object codes on a grant. A recharge from another campus was charged covering the same type of expense was coded as “Printing of Publications”, “Art/Photo Services”, and “Books and Maps for Department Use”.

Training related to the use of object codes could result in more consistent coding.

***Management Action Plan:***

As part of the Facilities and Administration Rate proposal process, a task force was formed in late 2012 to review object code usage across campus and ensure that training is provided to all staff regarding proper usage and the consequences of coding expenses incorrectly. As of June 2013, most object code usage for the prior fiscal year has been examined and potential problem areas identified. A presentation was made to Management Service Officer’s (MSO’s) in April 2013, which showed the preliminary results of the review and began to discuss where there may be misunderstandings regarding usage. This presentation also provided the MSO’s with online tools which are available to users to assist them in determining the correct object code for an expense. Further training is planned for late 2013.

The action plan is scheduled to be completed by December 31, 2013.

3. Reporting processes should be set up to comply with Federal Funding and Transparency Act requirements

The Federal Funding and Transparency Act of 2006 (FFATA) ensures that the public can access information on all entities and organizations receiving federal funds.

As of March 1, 2011, recipients of federally awarded grants must disclose information about subawardees and vendors that are paid over \$25,000. This includes one-time payments and cumulative amounts paid. While the campus has been reporting when a subawardee receives \$25,000 or more, processes for identifying and reporting vendors have not yet been set up.

The Sponsored Projects Office and Contracts and Grants Accounting are currently working with the Purchasing department and Administrative Computing and Systems to consistently obtain this information.

***Management Action Plan:***

Contingent upon the purchase of an electronic grants management system, the Sponsored Projects Office and Contracts and Grants Accounting will work with the outside vendor to write a program which will pull information needed for FFATA reporting from the system.

The action plan is scheduled to be completed by December 31, 2013.

4. Grant spending should be closely reviewed when there are unexpected changes in grant requirements

During the audit, we noted an instance where a PI's monthly salary exceeded the NIH salary cap. NIH caps the amount that an employee can charge to an NIH grant. During 2011, the annual cap dropped from \$199,700 to \$179,700. The monthly allowable amount dropped from \$16,392 to \$14,975. We noted that in the summer of 2012, the monthly salary for one PI was set at \$16,600 which exceeded the new monthly cap by \$3,250. After the error was identified during this audit, the extra amount charged was moved to an unrestricted funding source.

The current financial system does not have a mechanism for identifying when salaries charged to NIH grants are over the salary cap.

When changes are made to federal requirements, the impact on open grants should be reviewed and the resulting spending reviewed.

***Management Action Plan:***

Because of current system limitations, the campus uses training of departmental administrator's in the correct charging and review of grant expenditures as the primary means to prevent this type of activity. As the campus reviews various grants management systems, one system functionality requirement will be the ability to identify and potentially restrict the charging of salary over the cap. Additionally, there is discussion at the UC Path level about the potential to provide a warning in the PeopleSoft system when one is allocating salary to a fund which is subject to a salary cap. As a mitigating control, the Financial Controls and Accountability department will perform an annual review for salary cap compliance and make adjustments if and when necessary.

The action plan for the mitigating control is scheduled to be completed by June 30, 2014.

5. Funds in the financial system should be closed in a more timely manner

During the audit, we noted that there are funds in the financial system are kept open long after the grants have been closed out. In many cases, the final closeout of the related grants happened years ago.

When a new award is received, CGA sets up a new fund number for the award in the financial system. After the grant has been closed out and amounts reconciled, the fund should be closed to keep additional amounts from being incorrectly recorded in the fund. Although amounts incorrectly recorded in these funds are reviewed and moved to another fund, keeping the funds open can result in these additional transfers.

During the final closeout of the grant, it is important to determine whether overpayments are owed back to sponsors or amounts are still due from the sponsors. During the review of older funds that are still open, we noted various grants where it appears that insignificant amounts are owed back to sponsors. The amounts spent and received should be closed out to verify that the balances are correctly handled.

***Management Action Plan:***

Contracts and Grants Accounting embarked on a project to clean up expired but unclosed funds in early 2013. As part of the project, two reports were developed to assist with the tracking of both expired but open funds and funds expiring within 30-, 60-, and 90- days. These reports were implemented recently and will be used to better track the closeout of grants in the accounting system. The current goal for CGA is to have all grants, which have been expired for more than 120 days, closed in the financial system before the end of calendar year 2013.

The action plan is scheduled to be completed by December 31, 2013.