

**UNIVERSITY OF CALIFORNIA, IRVINE  
ADMINISTRATIVE AND BUSINESS SERVICES  
INTERNAL AUDIT SERVICES**

**STEM CELL RESEARCH CENTER  
Report No. 2013-102**

**January 14, 2013**

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January 14, 2013

**PETER DONOVAN, PH.D.**  
**DIRECTOR**  
**STEM CELL RESEARCH CENTER**

**RE: Stem Cell Research Center**  
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Internal Audit Services has completed the review of the Stem Cell Research Center 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.



Bent Nielsen  
Director  
UC Irvine Internal Audit Services

Attachment

C: Audit Committee  
Sinqui Musto, Assistant Vice Chancellor, Administrative Operations & Planning  
Mark Warner, Associate Vice Chancellor for Administration

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**I. MANAGEMENT SUMMARY**

In accordance with the fiscal year 2012-13 audit plan, Internal Audit Services (IAS) reviewed the adequacy of internal controls and policy compliance for the Sue and Bill Gross Stem Cell Research Center (SCRC) at the University of California, Irvine (UCI). Business risks and control concerns were identified. Specifically, the following issues were noted.

**Non-Payroll Expenditures** – A review of PALCard and PayQuest transactions disclosed the following: lack of documentation for prior or proper approval, lack of proper supporting documentation, untimely administrative reviews of purchases, and a lack in the separation of duties. For some PayQuest transactions reviewed, the SCRC Director’s reimbursements were approved by his subordinate and, in one instance, he approved his own reimbursement. Furthermore, travel reimbursements were either not submitted in a timely manner or certified by the traveler. These observations are discussed in sections V.1 and V.2.

**Recharge Processing** – Internal controls were not established to ensure consistent and timely posting and review of recharges in accordance with policy. This observation is discussed in section V.3.

**Ledger Review/Reconciliation** – The ledgers were not properly reconciled, reviewed, and documented as required. IAS also noted a lack in the separation of duties. These observations are discussed in section V.4.

**Overtime** – Internal controls were not established to ensure that overtime for staff was appropriate and later properly paid. Prior approvals for overtime was not documented and later reviewed to verify that reported overtime was correct prior to payment. These observations are discussed in section V.5.

**Human Resources** – Several personnel in critical positions had not submitted to a background check. Also, necessary records were not maintained as required per policy. In addition, written performance evaluations were not completed on an annual basis for all staff employees and the performance evaluation code was not entered into the Payroll Personnel System (PPS). These observations are discussed in section V.6.

**Equipment Management** – Some inventorial equipment was not identified with the UCI property tag or accurately reported to the Equipment Management Office. In addition, equipment information were not properly or accurately entered or updated in the Equipment Management System (EQS). These observations are discussed in section V.7.

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**II. BACKGROUND**

The SCRC, a California Institute for Regenerative Medicine (CIRM) institute, is the first major stem cell center in Southern California to serve as a regional hub for stem cell research, training, and education. The SCRC is home to dozens of lab-based researchers, and contains a 10,000-square-foot laboratory with \$1.7 million worth of equipment critical to human embryonic stem cell research, training facilities, and clinical research space.

In addition to providing organizational structure and facilities for stem cell research, the SCRC offers premier graduate training, hosts guest researchers and annual meetings, and contributes to dialogue on the policy and ethical issues related to the use of stem cells.

**III. PURPOSE, SCOPE AND OBJECTIVES**

The purpose of the audit was to review internal controls and policy compliance from July 2011 to present. Based on the assessed risks, the following objectives were established:

1. Review non-payroll expenditures for proper approval and supporting documentation in compliance with policy;
2. Determine if the recharge activity complies with University policy;
3. Evaluate whether the ledgers are reconciled in a timely manner and properly reviewed;
4. Determine whether overtime approval and sick and vacation balance tracking comply with University policy;
5. Verify whether the required general, confidential, payroll, and medical documents are properly maintained and filed in personnel records; and
6. Evaluate inventory tracking procedures and sample inventorial items to ensure appropriate UCI tagging and location.

**IV. CONCLUSION**

We noted several business risks and control concerns in non-payroll expenditures, recharges, general ledger review, payroll expenditures, human resources, and equipment management. In addition to implementing the management action plans

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below, we recommend that management perform a risk assessment of the entire administrative area to ensure that the structure and procedures properly manage the identified risks.

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

**V. OBSERVATIONS AND MANAGEMENT ACTION PLANS**

**1. PayQuest Reimbursements**

**Background**

PayQuest is UCI's on-line check request system that is used to reimburse expenses to employees incurred during University business, including but not limited to business meetings, supplies and materials, and travel. In addition to other University policies, the reimbursements must also comply with the Office of Research (OR) internal policy, University of California Office of the President (UCOP) Business and Finance Bulletins 79, Expenditures for Business Meetings, Entertainment, and Other Occasions and G-28, Policy and Regulations Governing Travel.

**Observation**

IAS reviewed 25 PayQuest reimbursements from July 1, 2011 to June 30, 2012 for appropriateness and compliance with policy. The following is a summary of the observations.

- Eight of 25 (32 percent) transactions reviewed were not properly approved and/or lacked proper separation of duties. The SCRC Director's reimbursements were not approved by the OR Assistant Vice Chancellor as required per policy but by his subordinate, the SCRC Chief Administrative Officer, and on one occasion, the Director approved his own reimbursement.
- Fourteen of 25 (56 percent) transactions reviewed were not properly supported or justified. Required supporting documentation, such as invoices, hotel folios, written justifications for exceeding the maximum allowable amount, or staying offsite from the conference location, were not submitted or documented.
- Ten of 15 (67 percent) travel reimbursements reviewed were not submitted on a timely basis; anywhere from three to 199 days late.

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- For seven of 15 (47 percent) travel reimbursements reviewed, the traveler did not sign the reimbursement form, certifying the accuracy and validity of the travel expenses.
- Four of six (67 percent) reimbursements reviewed that required an exceptional approval per policy were not properly approved. Examples of these include exceeding the meal maximum allowable amounts, a reimbursement to an individual for a purchase that exceeded \$500, and travel expenditures incurred in the prior fiscal year.
- One of 10 (10 percent) non-travel reimbursements reviewed was not paid in a timely manner. The invoice, dated September 30, 2010, was an expense from the prior fiscal year.
- Five of six business meeting meal expenses reviewed were charged to state funds (199XX) although a guideline from the Vice Chancellor of Research disallowed this practice effective April 1, 2011 in a memorandum dated March 28, 2011.

IAS also noted that two reimbursements to individuals were for purchases of supplies and equipment. In purchasing supplies or equipment, the PALCard is the appropriate method of purchase. Proper authorization, review, approval, documentation, and timely submission of reimbursements reduce the risk of improper costs or unauthorized use of University funds.

**Management Action Plan**

OR has a hard copy version and a website version of OR Policies and Procedures which shows the workflow for review and obtaining approvals that has been shared with each research unit reporting to the OR coordinating point. These two manuals are currently being updated for any new changes and will again be shared and distributed to the OR coordinating point including SCRC.

Training of the SCRC administrative core staff once fully staffed will occur by OR and internal controls put in place to maintain separation of duties, timely processing of reimbursements, appropriate supporting documentation for reimbursements and routing of documents for review and approval through the proper channels. OR plans to accomplish this by early 2013 and maintain good internal controls and procedures thereafter.

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**2. PALCard Transactions**

**Background**

The UCI purchasing card (PALCard) is used by staff with purchasing responsibilities to buy equipment, supplies, and services. UC purchasing policies require purchases to be pre-authorized either formally, through an internal requisition, or informally, such as with an email. In addition, UCI PALCard policies require an administrative reviewer to review PALCard supporting documentation and account/fund for appropriateness for each transaction in a timely manner.

**Observation**

IAS selected a sample of 24 PALCard transactions from July 1, 2011 through June 30, 2012 for further review, and noted the following.

- For all transactions reviewed, the requisition was not properly approved or documented. For example, the requestor approved the purchase, an internal requisition was not completed and filed, or the authorization was not dated. If the approver did not note the date of authorization, it could not be determined if prior approval was obtained as required per policy.
- For 35 percent of the transactions reviewed, a packing slip was not maintained on file for review as appropriate supporting documentation.
- For 30 percent of the transactions reviewed, the taxable amount of the purchase was not properly posted.
- For nearly 37 percent of the transactions, an administrative review of the purchase was not performed in a timely manner. It should also be noted that the administrative reviewer approved some transactions although the required supporting documentation was not completed and/or filed for their review as required by policy, or billing discrepancies were noted.
- For 17 percent of the transactions reviewed, an invoice was not maintained on file for review as appropriate supporting documentation.

IAS also noted a lack in separation of duties for several purchases made by a financial analyst. The financial analyst made vendor payments on her PALCard or purchased items at the UCI Bookstore when she was the point of contact for the recharged items and it was her responsibility to later reconcile the expenses to the general ledger. Furthermore, the financial analyst was one of the three

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wireless subscribers for which she made the monthly vendor payments on her PALCard and the internal requisitions were either not completed and/or filed for the above mentioned transactions.

In addition, IAS noted the OR policy disallowed cellular phone and home internet connection expenses effective June 24, 2009. However, the monthly wireless expenses for the SCRC Director and two staff members were paid with University funds.

Implementation of internal controls, such as obtaining authorized requisitions prior to purchase, separation of duties, maintaining proper documentation, and timely administrative review, minimizes the risks of error, inappropriate, and unauthorized use of University funds.

**Management Action Plan**

Once the SCRC is fully staffed in the administrative core area, the necessary training for acquiring information and verifying account/funds on internal formal requisitions, acquiring pre-approvals and documenting receipt and reconciliation of all PALCard transactions will take place. In addition, training will be provided on how to maintain records per UC policy and OR coordinating point policy and standards. OR plans to accomplish this by early 2013 or as SCRC administrative core staff is hired.

**3. Recharge Processing**

**Background**

A recharge is the assessment and collection of a charge by one University department/unit/activity/project for goods or services, furnished to another University department/unit/activity/project. A recharge transaction is appropriate when the furnishing department has incurred expenses to make available a product or service which is sold to customer departments for an established price, or at a price based on an established standard pricing method.

UCI Administrative Policy Section 703-13 establishes a mechanism for requesting, reviewing, and approving new recharge accounts, and for annual review of rates to be charged by the recharge departments of the campus.

Under the policy, the recharging department should observe certain guidelines once a recharge account has been established and approved to ensure that the recharge to users are applied uniformly based upon a previously authorized, established price or standard pricing method, and all recharges should fully recover the associated expenses of rendering a service, such as annual service fee

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costs. The SCRC should follow UC policies in managing the resources available to it, maintain records according to UC policies, and perform periodic reconciliations of revenues and expenses.

**Observation**

IAS reviewed recharges dated from December 2010 to December 2011 for the usage of cell sorting equipment (Aria and LSRII) and noted that the SCRC did not comply with University policy. The review disclosed the following issues.

- Recharges were not processed/posted in a timely manner. A review of the supporting documentation disclosed that 29 of the 77 recharge activities were posted to the general ledger in subsequent fiscal periods. For example, two recharges were posted 14 months after the equipment usage date and both recharges involved federal funds, one of which was a total for nine months of recharges, \$7,736.
- IAS also noted 14 recharges, totaling \$6,292, that were not posted to the general ledger. Furthermore, an additional review of all recharges dated January through May 2012 disclosed a total of 62 recharges, but only eight recharges were posted to the general ledger. Therefore, \$19,203 in recharges was not posted for 2012 and a total of \$25,495 was not posted from December 2010 through May 2012.
- IAS also verified whether 16 randomly selected recharges posted to the general ledger were accurate by reviewing the source documents and noted discrepancies (not charged in accordance to the approved recharge rates) in six recharge amounts.
- In addition, the SCRC did not maintain adequate supporting records for the recharged amounts, post recharges in a consistent and timely manner, or perform periodic reconciliation of revenues.

Establishing proper internal controls in the recharge process will ensure consistent and timely recharge postings and also make funds readily available to offset any incurred expenses such as annual maintenance fees. But more importantly, the risks of exposure to possible administrative actions and/or financial penalties are minimized when principal investigators with federal awards who utilize the equipment are notified timely of the recharge amount in order to accurately and timely report expenditures in accordance with federal regulations.

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**Management Action Plan**

Once the SCRC is fully staffed in the administrative core area, the necessary training will be provided on how to maintain, process, track/monitor, and timely and accurately post recharges. OR plans to accomplish this by early 2013 or as SCRC administrative core staff is hired.

**4. Ledger Review/Reconciliation**

**Background**

UCI policy states that each manager, who is directly responsible for the financial affairs of that activity, should maintain procedures that monitor and verify transactions to the general ledger on a monthly basis. Departments have a responsibility to ensure the appropriateness and accuracy of all financial transactions applied to their ledger. In addition, each department has the obligation of maintaining signed and dated documentation of this review to ensure that they adhere to internal control procedures.

**Observation**

A review of the ledgers and supporting documents disclosed that not all expenditures were reviewed and reconciled in a timely manner. In addition, IAS noted that the required documentation such as initials and dates to substantiate that reconciliations were performed in a timely manner were not documented on the ledgers.

IAS also noted a lack of separation of duties in the manner in which the ledger reconciliation was performed. A financial analyst, who had purchasing responsibilities as a PALCard holder and reviewer, also reconciled the ledgers. Lastly, management or supervisory review of the ledger reconciliation was not performed and documented as required.

Reconciliations are integral to ensure that financial information is complete, accurate, and valid. Failure to perform timely reconciliations may result in undetected errors and/or misappropriations of University assets.

**Management Action Plan**

The SCRC is currently in the process of recruiting a financial analyst and a chief administrative officer. Temporary help in the form of an administrator is working a small percentage of time to assist with maintaining some level of continuity for business operations and review of necessary financial transactions. The OR coordinating point is assisting with review, approval and processing of some

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documents to support separation of duties. Once individuals are hired the coordinating point will make sure that there continues to be a separation of duties and that ledgers are reconciled, initials and date for the review are documented, and reconciliation of all ledgers is performed on a monthly basis. Retroactive action will be taken back to the current fiscal year FY 2012-13 as of July 1, 2012 to document reconciliation with initials and date.

**5. Overtime**

**Background**

Personnel policy on overtime for staff members requires the department head to approve overtime for non-exempt employees to meet essential operating needs. The department is also responsible for ensuring an employee requested advance approval for overtime work and properly reported the overtime worked in a timely manner prior to compensation.

**Observation**

IAS reviewed the overtime approval process during fiscal years ending 2011 and 2012 for staff. During the two fiscal years, IAS identified two staff members who were compensated for almost all of the reported overtime pay. A finance analyst and an administrative specialist received more than \$10,000 and \$5,500 respectively in overtime pay.

IAS further reviewed the finance analyst's time sheets and noted a discrepancy between the overtime reported on one of six time sheets and the overtime hours entered in the payroll system. The review also disclosed that the SCRC did not comply with policy or best business practices by verifying that overtime reported by staff was valid and accurate prior to compensation. In addition, there were no records substantiating that prior approvals were requested and obtained by staff members as required by policy.

Lack of documentation to support the process of pre-approving and justifying overtime weakens the control structure and reduces the ability to prevent errors and/or fraudulent activity. Proper review of documentation supporting overtime helps ensure payments are accurate.

**Management Action Plan**

SCRC management will immediately comply with the pre-approval process for any overtime in the form of either compensatory time earned or paid overtime. A pre-approval form will be completed/signed prior to working overtime. If needed, the overtime will be reported after the fact to assure all appropriate documentation

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is on file to support the submission of the overtime pay. In addition, leave policies and procedures, including timely submission and proper approvals, as well as recording of time will be communicated to all supervisors to ensure compliance.

**6. Human Resources**

**Background**

UCI departments are responsible for ensuring compliance with personnel records management requirements. The requirements include that all required personnel documents are complete and placed into the four separate and distinct files: general employee, payroll, medical, and confidential.

UCI Administrative Policy Section 300-10 states that background checks be completed on critical positions. However, all staff members are required to complete a background check per OR administrative policy.

UCI policy on performance appraisal states that the performance of each employee shall be appraised at least once during probation and thereafter annually in writing by the employee's immediate supervisor.

**Observation**

**Background Checks**

For four of the five personnel records selected for review, a copy of the background check clearance email was not on file and maintained as required by policy. The email confirmation should be filed in the personnel confidential file to acknowledge background check clearance. Human Resources reviewed their records and confirmed that a background check was not performed for three of the four staff members. However, during the audit, OR confirmed that all three employees completed and cleared the background check.

**Performance Evaluations**

The five personnel records reviewed did not include current performance evaluations as required by policy. Failure to conduct performance evaluations may result in unimproved productivity and performance.

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**Management Action Plan**

Background Checks

The OR coordinating point recognizes the requirement to comply with UCI policies for background checks and will assure that appropriate background checks are completed immediately for those identified as missing from the employee personnel file. The three current employees identified have recently cleared the background check and a copy of the results will be placed in the employee personnel file. In addition, the OR Personnel Manager will conduct an audit to make sure that all units that are responsible as the office of record for personnel files maintain these records according to UC requirements in four distinct files: general employee, payroll, medical, and confidential.

Performance Evaluations

The OR recognizes the requirement to comply with UC established guidelines for personnel records and will comply with all applicable standards.

The OR Personnel Manager makes annual requests to obtain performance evaluations from all units by an established deadline. Although the performance ranking has been received in all cases as it is required to be entered into the PPS system, follow up for the written performance evaluations has not always occurred. The OR Personnel Manager will now track missing evaluations and conduct a follow-up to ensure completion on missing evaluations and at a minimum for the current fiscal year evaluations FY 2011-12.

**7. Equipment Management**

**Background**

For inventorial equipment purposes, UCI equipment is defined as any equipment with an acquisition cost of \$5,000 or more and a useful life of one year or more. University policy requires an acceptable property control system which includes affixing property tags to items as soon as possible after receipt and serial numbers are recorded.

**Observation**

IAS selected 15 items of inventorial equipment for review to determine if each item was properly identified with the UCI property tag, currently stored in the reported location, and accurately reported to the Equipment Management Office.

The following is a summary of the observations:

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- Six of the 15 (40 percent) items were not identified with the UCI property tag; and
- Certain equipment inventory data fields, such as the serial number, were either not complete or inaccurate.

Failure to maintain an accurate equipment inventory weakens the control structure and reduces the ability to detect inaccuracies and theft.

**Management Action Plan**

The SCRC's Building Manager made corrections in August 2012 but will again verify all equipment, affix property tags to those identified as missing and correct any errors on the report. In addition, to comply with UCI policy, a better property control system will be established to include affixing property tags to items as soon as possible after receipt, recording items on an internal electronic report, and also reporting updates into EQS in a timely manner.