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July 30, 2013

**CONTROLLER MCGUIRE**

**Subject: Final Audit Report ANR Kearney Research and Extension Center Review– No. P13A001**

Attached please find a copy of the final report for: Project No. P13A001: ANR Kearney Research and Extension Center Review. With the issuance of this final report, please destroy any previous draft versions. We very much appreciate the assistance provided to us by you and members of your staff during our review. If you should have any questions, please feel free to contact me at 510-987-9646 (e-mail: [Matthew.Hicks@ucop.edu](mailto:Matthew.Hicks@ucop.edu))

Handwritten signature of Matthew Hicks.

Matthew Hicks  
Audit Director

Attachment

cc: Senior Vice President Vacca  
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UNIVERSITY OF CALIFORNIA  
ETHICS, COMPLIANCE AND AUDIT SERVICES  
OFFICE OF THE PRESIDENT  
INTERNAL AUDIT SERVICES

ANR KEARNEY RESEARCH AND EXTENSION CENTER REVIEW  
Audit No. P13A001  
June 2013

Audit Conducted by:  
Maanie Hamzaee, Contractor  
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# Executive Summary

## Introduction

The Agriculture and Natural Resources (ANR) division of the University of California (UC) operates the state's largest research management system for agriculture and natural resources. ANR manages research projects and conducts programs focused on regional agricultural and environmental issues in both rural and urban areas. The system includes nine Research and Extension Centers (RECs) that support education and research in agriculture, natural resources, and human resources programs throughout the state of California.

The Kearney REC is UC's largest off-campus agricultural research operation, housing faculty from multiple UC campuses and generating over \$200,000 in revenue from research activities. It is located in the central San Joaquin Valley and consists of 330 acres of facilities. Research conducted at the Kearney REC facility has promoted understanding of production and environmental management related to fruits, vegetables, and field crops of the local agricultural community. Kearney's facilities include a state-of-the-art greenhouse, a postharvest laboratory, a mosquito control laboratory, and multiple insectaries in addition to academic and administrative offices.

All Kearney REC business activities are initiated at the center by two process owners, the Office Manager and Office Assistant, with oversight from the Kearney REC Director. Information processed at the Kearney REC is submitted to applicable UC Davis Departments for issuance and posting as appropriate. The Kearney REC follows protocols and policies developed by UC Davis. The Human Resource function for Kearney REC is solely handled through UC Davis.

## Objectives and Scope

As part of the fiscal year 2012 – 2013 annual audit plan, Internal Audit performed a review of the ANR Kearney Research and Extension Center. The audit objectives were to a) evaluate adherence of Kearney REC in-scope business processes to UC Davis policies and procedures and b) identify process improvement opportunities.

The audit scope included the following processes at the Kearney REC:

✓	Accounts Payable	✓	Financial Management
✓	Rate & Recharge	✓	Gift Acceptance
✓	Equipment	✓	Payroll and PPS
✓	Crop Income	✓	Purchasing

The review included activities performed in fiscal year 2012 – 2013 through 4/30/2013.

To accomplish the project objectives and scope as documented above, the following procedures were performed:

- Conducted meetings with key Agriculture and Natural Resource (ANR) and Kearney REC personnel to determine in-scope business processes.
- Performed a risk assessment of each in-scope process against several risk factors; including likelihood of error, history of ineffectiveness, and impact to ANR financials.
- Obtained policy and procedure documentation and manuals relevant to gain a better understanding of in-scope business processes.
- Based on the risk assessment results and documentation obtained, developed an audit program to evaluate high risk categories.
- Evaluated a sample of transactions processed at the Kearney REC for each in-scope business process to evaluate adherence to UC Davis policies and procedures and timeliness of business activities.

### **Conclusion**

Based on the audit steps performed, Kearney REC personnel, with over 25 years of experience at the center, have a detailed understanding of key business activities as well as UC Davis policies supporting the various business processes. Staff have an understanding of their responsibilities and roles within the REC are appropriately segregated.

In our review of business activities for 6 of the 8 in-scope business processes, Internal Audit noted REC activities were performed effectively in accordance with UC Davis policy. However, in the remaining two business processes, instances were noted where personnel either deviated from policy or reports used for processing activities were not accurate.

Actions developed by the Kearney REC will strengthen business processes and increase effectiveness of operations.

## **Opportunities for Improvement and Action Plans**

### **1. Non-adherence to UC Davis Gift Acceptance Policy**

We noted 2 of 2 gifts evaluated were accepted by unauthorized personnel per UC Davis Gift Acceptance Policy. As stated within the policy:

*“The authority to accept private support on behalf of the University is limited as described in the Delegation of Authority” and “No person shall accept any gift that they have solicited.”*

The gifts of \$3,500 and \$1,500 were accepted by the Center Director and processed in November 2012 and March 2013, but the Center Director is not authorized to accept gifts donated for his research per the UC Davis Gift Acceptance Policy. The unauthorized gift acceptance was due to a lack of familiarity with the UC Davis Gift Acceptance Policy by Kearney REC personnel. Although gifts were not appropriately accepted, validated gift funds were distributed to the correct expenditure account in accordance with the donor instructions. We noted that each gift was re-accepted by the Director of the ANR REC System on April 30, 2013 in accordance with policy.

#### ***Action Plan:***

*The Office Manager will review the UC Davis Gift Acceptance Policy and follow appropriate authorization matrix for gifts received at Kearney REC going forward. When a gift is processed by the Kearney REC that the Center Director does not have authorization to receive, evidence of appropriate gift acceptance by the Kearney REC Office Manager will be obtained and kept on file.*

***Target Date:*** Action completed prior to issuance of report.

### **2. Reports used for processing activities may not be complete or accurate**

On a monthly basis, hours incurred by Kearney REC employees for work on research projects are billed back to researchers. The Office Manager generates the monthly recharge billings based on the Research Charges Summary Combined Report from a database maintained at the Kearney REC to capture employee timesheet data related to research projects. Once employee timesheet hours have been entered into the Labor Tracking System by the Office Assistant, the data is exported into the database to generate the Research Charges Summary Combined Report.

We noted that there are no procedures in place to validate that the information contained within the Research Charges Summary Combined Report is complete and accurate. As a result, opportunities exist for billing of research charges to be inaccurate. We noted that 1 of 20 recharge bills tested did not agree to the Research Charges Summary Combined Report. Specifically, a recharge bill generated in September 2012 for 19.5 hours did not

agree to the hours (7.5 hours) charged to the project during the month on the September Research Charges Summary Combined Report and a difference of 12 hours was noted. Per inquiry with the Office Manager, the 12 hour discrepancy resulted in additional charges of \$162.72 in September to correct for a previous error on the July 2012 Research Charges Summary Combined Report.

***Action Plan:***

*The Kearney REC Office Manager and Office Assistant will perform a formal monthly reconciliation between multiple Microsoft Access reports that summarize employee timesheet data entered into the Labor Tracking System. The reconciliation cross-references two Microsoft Access queries from the same source data to identify whether any discrepancies exist which would indicate one of the reports is not complete or accurate. Any discrepancies identified during the reconciliation are researched and resolved by the Office Manager and Office Assistant prior to billing. The Office Manager and Office Assistant will sign off on the reconciliation on a monthly basis. They will retain all reconciliations performed, and if any discrepancies are found, evidence of the discrepancy and resolution will be maintained for audit trail purposes.*

*Furthermore, the process for tracking hours for rate and recharge billing will change following the implementation of a new time tracking system. When the upgrade is complete, the reconciliation of Access reports may not be necessary, as all system data and reports should be completely valid with no discrepancies present.*

***Target Date:*** *Action completed prior to issuance of report.*

## **Additional Recommendation**

Internal Audit recommends management consider the following additional improvement opportunity to better align with leading operational practices.

### **1. Lack of Documented Backup Procedures for REC Personnel**

There is heavy reliance upon the Office Manager at Kearney REC, with support from the Office Assistant, to perform many of the day to day business activities. Reliance on any single one individual without documented back up procedures could result in processing delays, bottlenecks, or activities not being performed in the event the Office Manager is unavailable or out of the office. It was noted that backup protocols and procedures have been developed and are in place, but they are not currently documented. Kearney REC should consider creating a backup procedures policy for when an employee is out of the office. In addition, these backup procedures should be rolled out to all REC centers.

The Director of Financial Services Agricultural and Natural Resources and the Business Officer of the Desert Research & Extension Center have agreed to create a policy documenting these backup protocols and procedures to ensure they are being followed in the event an employee is out of the office.