

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

AMERICAN RECOVERY AND REINVESTMENT ACT
REPORTING AND COMPLIANCE
Report No. 2011-106


May 12, 2011

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May 12, 2011

**BRUCE MORGAN
ASSISTANT VICE CHANCELLOR FOR RESEARCH
OFFICE OF RESEARCH ADMINISTRATION**

**RE: American Recovery and Reinvestment Act
Reporting and Compliance
Report No. 2011-106**

Internal Audit Services has completed the review of the American Recovery and Reinvestment Act Reporting and Compliance and the final report is attached.

Please let us know if we can provide additional support or assistance.



Bent Nielsen
Director
UC Irvine Internal Audit Services

Attachment

C: Richard Andrews, University Controller, Assistant Vice Chancellor
John Hemminger, Vice Chancellor for Research
Nancy Lewis, Director, Sponsored Projects Administration
Audit Committee

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I. BACKGROUND

In accordance with the fiscal year 2010-2011 audit plan, Internal Audit Services (IAS) reviewed University of California, Irvine's reporting processes for federal contracts and grants funded by the American Recovery and Reinvestment Act of 2009 (ARRA).

The United States Congress enacted ARRA in February 2009 to provide funding for U.S. job creation and preservation. Overall, ARRA authorized \$787 billion in government spending, of which \$275 billion was made available for federal contracts, grants and loans. As of December 31, 2010, UC Irvine has received approximately 140 ARRA awards and sub-awards totaling approximately \$83.2 million.

The Jobs Accountability Act, (ARRA section 1512) specifies reporting requirements for recovery fund recipients. In general, recipients are required to report for each contract and grant, on a quarterly basis, detailed information about the project, the total award amount received and expended, an estimate of the number of jobs created/retained, and detailed information on sub-recipients and vendors receiving at least \$25,000 in ARRA funding.

Certain reporting requirements have been established for recipient reporting of ARRA funds. In general, the open window for UC Irvine quarterly ARRA reporting begins twenty days prior to the end of each quarter, and ends ten days after the end of each quarter. A public access website has also been established to which recipients are required to upload their report information.

UC Irvine has adapted a hybrid staffing model for preparing and submitting quarterly ARRA reports, which integrates a distributed approach for job creation/retention statistics with a centralized approach for other award statistics. The UC Irvine Office of Research Administration (ORA) – Sponsored Project Administration (SPA) is responsible for uploading ARRA reports into the federally sponsored reporting website.

II. SCOPE AND OBJECTIVES

The scope of the audit included a review of ORA-SPA processes involving the identification, monitoring and reporting of ARRA grants and contracts awarded to UC Irvine. Processes pertaining to the calculation of job creation/retention through ARRA funding and methodologies by which direct costs are charged to ARRA contracts were reviewed. In addition, inquiries were also made to principal investigators and other key employees as to their ability to spend the ARRA funds by the federally-mandated award completion date.

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The primary objectives of our review were as follows:

1. Verify that internal controls are sufficient to provide reasonable assurance that compliance with ARRA reporting requirements are met, and that ARRA awards are identified, monitored and reported;
2. Verify that department administrators are reporting the proper number of jobs created or retained in compliance with Office of Management and Budget (OMB) Memorandum M-10-08, issued December 18, 2009;
3. Determine whether departmental control measures are in place to ensure that direct costs charged to ARRA awards conform with OMB Circular A-21 requirements;
4. Determine whether funds from ARRA awards can be utilized by principal investigators and other recipients by the award end-date.

III. CONCLUSION

Based on the results of the audit procedures performed, internal controls appear to be sufficient to provide reasonable assurance that compliance with federal ARRA reporting requirements are met. However, improvement is needed in the processes by which department administrators calculate jobs created/retained from the expenditure of ARRA funds.

In general, UC Irvine business units receiving ARRA funds appear to have processes in place to ensure that costs charged to ARRA awards are in accordance with OMB Circular A-21 requirements; however, discussions with several principal investigators and other awardees revealed a common concern with regard to the awardees' ability to fully utilize ARRA funds by the award end-date.

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

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IV. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. ARRA Reporting Process

Observation

Processes utilized by department administrators to calculate jobs created/retained from ARRA funds need improvement. ARRA award program awardees are required to calculate and report, on a quarterly basis, the number of jobs that have been created or retained through the disbursement of ARRA funds by federal government established methods.

Audit procedures included a recalculation of jobs created/retained for the fourth quarter of calendar year 2010 for six sampled ARRA awards. The analysis was performed to verify that the number of jobs created or retained was accurately and properly reported by department administrators. The test work disclosed the following:

1. One department administrator staggered the payroll data used to calculate jobs created or retained. Payroll data from the months of September, October and November were used to report jobs created or retained for the fourth quarter of calendar year 2010;
2. Three department administrators made calculation errors in time reporting for employees working on an ARRA award. Some employees' time was understated while other employees' time was overstated;
3. Two department administrators failed to include the time of all employees working on an ARRA award in their calculations;
4. One principal investigator was unable to provide supporting documentation for the jobs reported as created or retained on his ARRA award.

OMB M-10-08 defines jobs created or retained as those, "funded in the quarter by the Recovery Act." In addition, OMB M-10-08 states that, "recipient[s] will now report job estimate totals by dividing the hours worked in the reporting quarter (i.e., the most recent quarter) by the hours in a full-time schedule in that quarter."

ORA-SPA has advised department administrators to use actual payroll data in their job creation/retention calculations from the months of October, November, and December for the fourth quarter of calendar year 2010. ORA-SPA recognizes that payroll data for the final month of each quarter may need to be estimated due to a tight ARRA reporting timeline.

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In addition, an IAS reconciliation of the ORA-SPA Web Reporting Application (WRA) to the federal sponsored websites identified an error in an award amount incorrectly reported to FederalReporting.Gov website. ORA-SPA corrected the error in the WRA.

Management Action Plan

ORA-SPA worked with the department administrators to correct the errors identified in the review. In addition, ORA-SPA will hold informational sessions for departmental administrators that administer ARRA awards to review the procedures for calculating jobs created/retained. ORA-SPA will emphasize the importance of maintaining records that support the jobs data reported in the quarterly ARRA reports. Those sessions will be held prior to the October 2011 ARRA reporting deadline.

2. Utilization of ARRA Funds

Audit procedures included a review of 11 ARRA awards that, as of the audit date, were over \$800,000 in amount, issued over one year ago, and/or had expended less than 25 percent of the award. UC Irvine principal investigators and project managers responsible for the awards were contacted and asked to describe their current plans to spend all of their ARRA funds by the award end-date and/or other deadlines stipulated by the sponsor. Discussions with the principal investigators and project managers disclosed that nine of the 11 ARRA awards sampled will require no-cost extensions to enable all funds to be utilized. Failure to spend the ARRA award funds by the project end date may result in a loss of the award funds.

IAS discussions with ORA-SPA personnel disclosed that, for each award, UC Irvine is not authorized to incur project related costs after the end-date of the award. However, it is possible to seek and receive a no-cost extension, which postpones the award end-date to a point in time in the future. In general, under federal grants, ORA-SPA is authorized to approve a one-time no-cost extension of up to 12 months. Extensions in excess of 12 months or subsequent extension requests beyond the request originally approved by UC Irvine must be approved in advance by the sponsor. In addition, each award is subject to a series of terms, conditions, policies, regulations and laws that follow a particular order of precedence that varies from award to award and sponsor to sponsor.

Management Action Plan

As part of our normal procedure, ORA-SPA will work with principal investigators to facilitate no cost extension approvals/requests as required. Information

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sessions will be held with departmental administrators to emphasize the importance of fully utilizing ARRA award funds.