



UCSB Audit and Advisory Services
Internal Audit Report

Marine Science Institute

September 29, 2017

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Report No. 08-18-0003

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AUDIT AND ADVISORY SERVICES
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September 29, 2017

To: Mark Brzezinski, Director
Tim Schmidt, Management Services Officer
Marine Science Institute

Re: **Marine Science Institute**
Audit Report No. 08-18-0003

As part of the 2017-18 annual audit services plan, Audit and Advisory Services conducted an audit of the Marine Science Institute (MSI) at University of California, Santa Barbara (UCSB). Enclosed is the audit report detailing the results of our review.

The primary purpose of the audit was to assess whether business processes and internal controls established by MSI are in compliance with University and sponsor regulations. The review also assessed operational efficiencies for key processes. The scope of the audit included sponsored projects transactions and administrative processes during fiscal year 2016-17.

Based on the results of the work performed within the scope of the audit, MSI has well-established and effective processes in place. Additionally, MSI has made substantial progress in resolving the account-funds overdraft issues identified in the 2012 audit report. However, MSI continues to have account-funds in overdraft as a result of past budget cuts and other factors. To ensure compliance with sound budgeting and accounting practices, MSI should document ownership of the deficits and establish a definitive timetable for bringing all remaining account-funds into balance.

Detailed observations and management corrective actions are included in the following sections of the report. The management corrective actions provided indicate that each audit observation was given thoughtful consideration, and positive measures have been taken or planned in order to implement the management corrective actions.

We greatly appreciated the assistance on this project provided by MSI personnel. If you have any questions, please contact me.

Respectfully submitted,

A handwritten signature in blue ink that reads "Jessie Masek".

Jessie Masek
Acting Director

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Audit and Advisory Services

Enclosure

cc: Chancellor Henry Yang
Interim Vice Chancellor for Administrative Services Joel Michaelson
Vice Chancellor for Research Joe Incandela
UCSB Audit Committee
Senior Vice President and Chief Compliance and Audit Officer Alexander Bustamante
Assistant Vice Chancellor for Research Karen Hanson, Office of Research
Luisa Velez, Budget Unit Manager, Marine Science Institute

PURPOSE

The primary purpose of the audit was to assess whether business processes and internal controls established by Marine Science Institute (MSI) at University of California, Santa Barbara (UCSB) are in compliance with University and sponsor regulations. The review also assessed operational efficiencies for key processes.

SCOPE, OBJECTIVES AND METHODOLOGY

The scope of the review was limited to sponsored projects transactions and administrative processes during fiscal year 2016-17. Audit objectives were developed for review of:

- Sponsored projects practices, including direct charging, cost transfers, subawards, and project closeout.
- Related department administrative processes, including procedures for reconciliation of the department's IT Works system with the campus general ledger, and overdrafts in administrative accounts.

To accomplish our objectives, we:

- Researched and reviewed relevant UCSB audits and reports related to sponsored projects administration. See Table 1 for more details.
- Researched and reviewed UC and UCSB policies, best practices, and other guidance relevant to the scope of the audit. See Table 2 for summary of policies. Key guidance includes:
 - 2 CFR 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).
 - UC Business and Finance Bulletin G-28, *Travel Regulations* (UC Policy G-28).
 - UC Business and Finance Bulletin BUS-43, *Material Management* (UC Policy BUS-43).
 - UC Business and Finance Bulletin A-47, *Direct Costing Procedures* (UC Policy A-47).
 - UC Contracts and Grants Manual.
- Conducted interviews with MSI management and staff to gain an understanding of MSI's processes, policies, and procedures for administering sponsored projects.
- Evaluated MSI's business practices to determine whether they incorporate adequate internal controls and reviewed for opportunities to enhance operational efficiency.
- Performed a risk analysis that considered sponsored projects post award monitoring procedures, conflict of interest compliance, and select department business processes such as financial processes, IT systems, payroll, and reconciliation with the campus general ledger.
- Reviewed administrative overdrafts in the department.
- Reviewed accuracy, timeliness, and completeness of the reconciliation process between the campus general ledger and the department sub-ledger system.

- Tested a sample of sponsored projects expenses to determine whether:
 - Internal controls are in place and operating as intended and comply with award terms, federal requirements, and University policies and procedures as appropriate.
 - Conflict of interest disclosure submissions for select awards comply with applicable federal, state, and policy requirements as appropriate.
 - Department project close out procedures ensured accounts were properly reconciled, reviewed, and approved.

This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

BACKGROUND¹

The Marine Science Institute is an Organized Research Unit (ORU) established in 1969 at UCSB, and is the focus for marine, coastal zone, and freshwater research; marine policy studies; and educational outreach in marine science. MSI administers and supports research projects involving faculty, professional researchers, technical staff, graduate students, and undergraduate students from 14 disciplines.

Table 1		Relevant Work by UC Audit and Advisory Services	
Report Name	Year	Campus	
Marine Science Institute	2012	UCSB	
National Center for Ecological Analysis and Synthesis	2017	UCSB	
OMB A-123 IT General Controls	2017	LBNL	
College of Biological Sciences Administrative Review	2016	UCD	
Office of Research	2015	UCD	
Contracts and Grants Accounting Effort Reporting/Cost Sharing	2016	UCD	
Sierra Nevada Research Institute Advisory Service	2017	UCM	
Effort Reporting	2016	UCSD	
Subrecipient Monitoring	2016	UCSD	
SIO Department Business Processes	2016	UCSD	
SIO Biology Section Financial Controls Review	2017	UCSD	
SIO Department Academic Personnel	2016	UCSD	
Children’s Hospital Oakland Research Institute Policies & Procedures – Gap Analysis	2017	UCSF	
Institute for Translational Neuroscience Consortium – Department of Defense Awards	2016	UCSF	

Source: Auditor analysis.

¹ Source: MSI’s website and department information.

UCSB Audit and Advisory Services
Marine Science Institute

Over the decades, the scope of marine science at UCSB has expanded and become highly interdisciplinary, with professionals from the departments of biology, geology, ecology, geography, chemistry, materials engineering, oceanography, environmental science and public policy engaged in teaching and research at MSI. This diversified and multidisciplinary approach has led to a more comprehensive understanding of the world's oceans and their connections to other earth systems, while fostering transfer of knowledge, research tools and techniques across disciplines.

MSI uses IT Works grant management software as its sub-ledger. IT Works is a comprehensive grant management program for both pre-award and post-award grant management; the software provides detailed project accounting and real-time data to principal investigators for their review and monitoring. Data between IT Works and the campus general ledger is reconciled monthly to ensure accuracy. MSI has developed department procedures covering most administrative and financial processes, including account reconciliation, payroll, travel, invoice processing, transfers of expense, effort reporting, and other areas.

MSI administered 249 awards totaling \$82.4 million in fiscal year 2016-17 according to data provided by MSI. Included in those awards, were 119 new awards totaling \$17.78 million in fiscal year 2016-17. The majority of the awards were National Science Foundation (NSF) grants. Although the total award amount increased between the fiscal years, MSI Administration staff was reduced due to budget issues. Department management indicated to us that the department streamlined processes and procedures in response to budget issues, but has maintained a high level of accountability and internal control.

Table 2		Relevant Policies
Policy	Summary	
2 CFR 200, <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards</i> (Uniform Guidance)	Federal Office of Management and Budget (OMB) issued guidance on administrative requirements, cost principles and audit requirements for federal awards (which includes research grant awards).	
UC Contracts and Grants Manual	Provides guidance on policies for the solicitation, acceptance or execution, and administration of contracts and awards from extramural sponsors.	
UC Business and Finance Bulletin G-28, <i>Travel Regulations</i> (UC Policy G-28)	Includes special policy and regulations to comply with IRS regulations regarding the provision and reimbursement of business-related travel.	
UC Business and Finance Bulletin BUS-43, <i>Materiel Management</i> (UC Policy BUS-43).	Governs University procurement procedures and establishes bid thresholds and selection criteria.	
UC Business and Finance Bulletin A-47, <i>Direct Costing Procedures</i> (UC Policy A-47).	Provides guidelines for direct costing to improve uniformity and consistency in the recording of direct costs throughout the University.	
Disclosure of Financial Interests and Management of Conflicts of Interest, National Science Foundation Awards	This Policy establishes a process for implementing the National Science Foundation's Investigator Financial Interest Policy. The process is intended to identify and manage potential conflicts to assure the objectivity with which projects are designed, conducted or reported.	

Source: Auditor analysis.

SUMMARY OPINION

Based on the results of the work performed within the scope of the audit, MSI has well-established and effective processes in place. Additionally, MSI has made substantial progress in resolving the account-funds overdraft issues identified in the 2012 audit report. However, MSI continues to have account-funds in overdraft as a result of past budget cuts and other factors. To ensure compliance with sound budgeting and accounting practices, MSI should document ownership of the deficits and establish a definitive timetable for bringing all remaining account-funds into balance.

Audit observations and management corrective actions are detailed in the remainder of the audit report.

DETAILED OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS

A. Account-Funds in Overdraft

As detailed in Table 3, MSI had 13 account-funds in overdraft at the time we completed our review, shortly after the end of fiscal year 2016-17. Management indicated there are plans to reduce and eliminate overdrafts, which were the result of past budget cuts, recharge activities, and other factors. In three cases, eliminating the overdrafts would require additional appropriations and assistance from the Office of Research.

Table 3		Marine Science Institute Overdrafts		
Account Fund	Fund Title	Comments	Ownership	Overdraft Amount¹
448753-07427	University Opportunity Fund	Marine Science Institute will meet with the Office of Research to formalize an agreement regarding ownership of these account funds.	Office of Research/ Marine Science Institute	\$575,640
448760-07427				\$187,400
448760-19900	General Funds (State)			\$134,128
448750-07427	University Opportunity Fund	Marine Science Institute plans to eliminate overdrafts by June 2018, upon receipt of appropriations.	Marine Science Institute	\$409,197
448750-05397	Educational Fund			\$32,853
448751-61801	MSI Wearables ²			\$1,667
624450-19900	General Funds (State)			\$872
448752-61802	MSI Analytical Lab	Marine Science Institute plans to eliminate overdraft by June 2018.		\$195,422
448750-67424	Marine Science Seasketch Program	Marine Science Institute plans to eliminate overdraft upon receipt of receivables.		\$457,597
448750-61806	Marine Science Income			\$114,235
448734-61804	MSI SIL Isotope Recharge Account			\$619
261806-61806	Marine Science Income ²	Marine Science Institute plans to adjust permanent budget to include this account.		\$10,359
597855-37658	Presidential Initiatives	Marine Science Institute plans to eliminate overdraft upon receipt of appropriations.		\$336

Source: Auditor analysis of general ledger data in UCSB Data Warehouse.

1: Amounts as of June 2017.

2: The department informed us that the deficit has been eliminated since completion of our fieldwork.

B. Sponsored Projects

We found that sponsored project costs were overall allowable, allocable, and reasonable for respective awards. We also determined conflict of interest disclosures were submitted in accordance with University, state, and federal policies and that closeout procedures were performed in accordance with campus policies and procedures, as appropriate.

C. Other Administrative Processes

We found that MSI has a process in place to reconcile general ledger accounts monthly. Our work determined the general ledger reconciliation between the campus general ledger and IT Works to be accurate, complete, and timely.

To ensure compliance with sound accounting practices, we recommend that MSI should:

- Proceed with planned actions to reduce identified overdrafts within the department.
- Continue to work with the Office of Research to establish a definitive timetable for bringing all remaining overdraft account-funds into balance.

Management Corrective Actions

Marine Science Institute will continue with planned actions to reduce identified overdrafts within the department, and work with the Office of Research to establish a definitive timetable for bringing all remaining overdraft account-funds into balance.

Audit and Advisory Services will follow up on the status of this management action plan by January 31, 2018.