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Sheryl Vacca
SENIOR VICE PRESIDENT
CHIEF COMPLIANCE AND AUDIT OFFICER

January 13, 2014

DIRECTOR TIMM

Subject: Final Audit Report ANR Hopland Research and Extension Center Review – No. P14A011

Attached please find a copy of the final report for Project No. P14A011 - ANR Hopland 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)

A handwritten signature in cursive script, appearing to read "Matthew Hicks".

Matthew Hicks
Audit Director

Attachment

cc: Senior Vice President Vacca
Controller McGuire
Director Chin
Manager Cataldo
Office Manager Lewman
Contractor Weiss
Contractor Schneider

UNIVERSITY OF CALIFORNIA
ETHICS, COMPLIANCE AND AUDIT SERVICES
OFFICE OF THE PRESIDENT
INTERNAL AUDIT SERVICES

ANR HOPLAND RESEARCH AND EXTENSION CENTER
Audit No. P14A011
November 2013

Audit Conducted by:
Laura Schneider, Contractor

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 ANR Hopland Research and Extension Center (HREC) is a field research facility in the North Coast region of California consisting of over 5,000 acres of rangelands. HREC has historically been focused on animal science, rangeland management, wildlife, plant science, entomology, and public health. The center maintains a flock of sheep for various animal science and veterinary research projects. The HREC complex includes laboratories, greenhouses, weather stations, livestock facilities, an event center, bunkhouses, and other permanent residences.

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

Objectives and Scope

As part of the fiscal year 2013 – 2014 annual audit plan, Internal Audit performed a review of the HREC. The audit objectives were to a) evaluate adherence of HREC 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 ANR Hopland Research and Extension Center:

| | | | |
|---|------------------|---|----------------------|
| ✓ | Accounts Payable | ✓ | Financial Management |
| ✓ | Rate & Recharge | ✓ | Gift Acceptance |
| ✓ | Purchasing | ✓ | Payroll |

The review included activities performed in fiscal years 2012 – 2013 and 2013 – 2014 through 9/30/2013.

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

- Conducted meetings with key ANR and HREC 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 relevant policy and procedure documentation to gain an 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 HREC for each in-scope business process to assess adherence to UC Davis policies and procedures and timeliness of business activities.

Conclusion

Based on the audit steps performed, ANR Hopland Research and Extension Center personnel 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 HREC are appropriately segregated. In our review of business activities for five of the six in-scope business processes, Internal Audit noted REC activities were performed effectively in accordance with UC Davis policy. We noted opportunities for improvement within the Accounts Payable process relating to invoice approval and processing

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

Opportunities for Improvement and Action Plans

1. Lack of Evidence of Invoice Approval

We noted 16 of 25 invoices selected for detailed testing were not signed to evidence approval for payment. Invoices or other source documentation should be signed by appropriate personnel to evidence authorization of payment in accordance with the ANR Hopland Research and Extension Center (HREC) Procedure Summary for Use of Purchasing Cards and Departmental Purchase Orders and prior to processing of the invoice in DaFIS.

In addition, invoices for activities not related to general office expenses (e.g. field supplies, equipment repairs) did not have formal evidence of approval by someone other than the Office Manager to evidence authorization to pay. Per discussion with the Office Manager, this approval is currently informal and not documented. There is a risk that invoices paid may not be appropriately authorized and/or goods or services may not have been received for payment to occur.

***Action Plan:** Going forward, approval to pay will be obtained and evidenced on the invoice or other source documentation by appropriate personnel prior to processing the invoice for payment. Approval is an acknowledgement that the goods or services have been received and the invoice is authorized for payment. For general office related expenses, approval of invoices for payment will be obtained by the ANR Hopland Research and Extension Center Director and evidenced on the invoice prior to processing by the Office Manager.*

***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. Inefficiencies in Departmental Purchase Orders (DPO) Processing

We noted inefficiencies in the use of departmental purchase orders (DPO) in the DaFIS system. For five of the 20 sample invoices reviewed, we noted multiple DPOs were created for blanket agreements when the instance a single DPO could be processed. ANR Hopland Research and Extension Center REC should consider evaluating opportunities to streamline the creation of DPOs for service agreements to reduce the processing and approval of DPOs where unnecessary. In addition, this practice should be rolled out to all REC centers.