THE REGENTS OF THE UNIVERSITY OF CALIFORNIA
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Alexander Bustamante
SENIOR VICE PRESIDENT
CHIEF COMPLIANCE AND AUDIT OFFICER

July 14, 2021

DIRECTOR RITCHIE

RE: Final Report Project No. P20A014: Agriculture and Natural Resources Nutrition Policy Institute Grant Review

Attached is a copy of the final report for: Audit Services Project No. P20A014 Agriculture and Natural Resources Nutrition Policy Institute Grant 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 (email: matthew.hicks@ucop.edu).

Matt Hicks
Systemwide Deputy Audit Officer

Attachment

cc: Senior Vice President Bustamante
        Vice President Humiston
        Associate Vice President Powers
        Controller McGuire
        Chief Business Officer Bose
        Director Rippee
        Director Yu
        Systemwide Associate Audit Director Bishin
        Senior Contracts & Grants Officer Rose
        Contractor Zahid

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

Agriculture and Natural Resources Nutrition Policy Institute Grant Review
Internal Audit No. P20A014
April 2021

Internal Audit Conducted by:
Miriam Choi, Contractor
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Executive Summary

Introduction and Background

As part of the University of California Office of the President (UCOP) 2019 – 2020 fiscal year internal audit plan, Internal Audit performed an audit of internal controls at the University of California's Agriculture and Natural Resources (ANR) Nutrition Policy Institute (NPI) to ensure compliance with University policies and procedures and federal guidance.

The Nutrition Policy Institute within ANR is one of many programs aimed at promoting healthy people and communities through research and education. NPI partners with and receives funding from a number of organizations, including local, state, and federal agencies, health advocates and policymakers, and nonprofit organizations and foundations. The resulting partnerships and research allow NPI to make recommendations about the effects of nutrition and physical activity on public health in an effort to transform environments for healthy children, families, and communities. NPI also acts as a resource for both the California Legislature and other governmental bodies by providing policy-related input and assessments of effectiveness of policy implementation.

For fiscal years 2018-19 through 2019-20, there were eighty-one active grants under NPI with recorded transactions totaling over $17 million. Of these eighty-one grants, roughly half were funded by private organizations, and the remaining half were funded by governmental bodies. Due to the volume and complexity of grants awarded to NPI, it is imperative that NPI be cognizant of and follow governmental regulations and requirements as well as University and non-governmental sponsor requirements. These compliance efforts are led by the Business Operations Center (BOC), which manages and approves business operations, as well as:

- the Office of Contracts and Grants (OCG), which manages communications with the sponsor,
- Contracts of Grants and Accounting (CGA), and
- Principal Investigators (PIs) leading the projects.

Objectives and Scope

The objective of this review was to evaluate the design, implementation, and operating effectiveness of internal controls at NPI supporting compliance with University policies and procedures and federal research compliance requirements. The scope period for this internal audit was fiscal years 2018-19 and 2019-20 (July 2018 – June 2020), and primarily focused on controls in place to support compliance with the published applicable guidance over the recording, processing, administration, and reporting of funds associated with nutrition policy research activities, including:

- Reviewing University policies, procedures, and guidelines, and assessing availability and completeness of documents, as well as alignment with leading practices and federal requirements.
- Interviewing key personnel to develop an understanding of the design of ongoing control activities, including roles and responsibilities, management oversight, and segregation of duty controls.
- Performing data analytics over the population of expenditures incurred during the internal audit period to identify higher risk grants and expenditures and judgmentally selecting samples based on higher risk factors.
- Performing sample-based testing to assess operating effectiveness of controls over budget allocation, allowability and reasonability of expenses and cost transfers, transaction approvals and reviews, and adherence to grant reporting requirements.
- Identifying opportunities for improvement within the grant administration processes to strengthen internal controls and further mitigate risk.

Work performed was limited to the specific activities and procedures described above. As such, this report is not intended to, nor can it be relied upon to provide an assessment beyond those areas specifically reviewed.

Conclusion

Based on the internal audit procedures performed, Internal Audit concluded that the department has generally established processes and controls to support the various grant administration activities. We noted improvement opportunities in the following areas:

- Transactions' adherence to grant restrictions per the award agreement and award budget
- Non-salaried payroll review prior to being posted to grant awards
- User administration procedures for users that transfer roles
- Timeliness and documentation retention of cost transfers
- Adherence to grant reporting requirements
- Timeliness of budget reviews

Further details of the observations listed above are provided within the **Opportunities for Improvement and Actions Plans** section of this report.

Opportunities for Improvement and Action Plans

1. *Unallowable Expenditures Charged to Federal Awards*

    Out of 30 grant-funded transactions reviewed, three transactions did not meet grant restrictions per the award agreement and award budget:

    - ANR NPI received federal monies from the National Institute of Food and Agriculture through the Smith-Lever Act Capacity Grant. During the review of the expenses of this grant, it was noted that two expenses for gift cards totaling $1,109, including $809.00 from National Gift Card Corp. and $300 from Amazon, were inappropriately charged to the federal (Smith-Lever) award for participants. These gift card purchases were for "thank you" purposes or participant rewards and were unallowable per the grant. Further, not all individuals were aware that these costs were unallowable until they received confirmation from the funder during the course of this audit.

    - An expense for an Amazon purchase for "employee non-cash awards" gift cards in the amount of $400 charged to a grant award could not be substantiated as the supporting paper documentation was not accessible due to ongoing COVID-19 working restrictions. Additionally, the purchase was not within an allowable expense category[1] and although it was noted that an amendment had been filed to allow this expense, documentation of the amendment could also not be provided as the documents were unable to review. As such, Internal Audit was unable to substantiate the allowability of the expense.

    It is leading practice that management and the Principal Investigator (PI) review budget reporting detail, including unallowable expenses, for all applicable grants through a formal review and reconciliation process to ensure transactions are allowable and within budget. Unallowable charges to federal awards noted in the findings above have been removed during the course of the internal audit and posted to an unrestricted account.

    Action Plan:

    a. NPI management will obtain the documentation and substantiation for the $400 Amazon purchase and check for allowability. If the purchase was found to be unallowable management will follow the cost transfer process to move these purchases to an unrestricted account.

    Target Date: Completed during review

    b. Regarding a go-forward plan, management has requested the allowable cost matrix from the UCOP Financial Services and has understood that gift card purchases for the Smith-Lever funds are unallowable per the federal award guidelines.

    Target Date: October 31, 2021

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[1] Per the allowability standards set forth by the funder in the original grant agreement.

c. Management will obtain, review, and disseminate allowability guidance prior to posting to a grant account or spending against a grant award, and will continue to review transactions and receive approval from the PI prior to posting to awards to ensure that all transactions are allowable per grant guidelines.

   Target Date: August 31, 2021

2. ***Non-Salaried Payroll Review Prior to Being Posted to Grant Awards***

   There are currently no formal controls for the review and approval of non-salaried payroll allocations prior to payroll being posted to grant awards. We noted that the non-salaried payroll is allocated based on projected hours worked rather than actual hours worked and is adjusted after allocation if the PI has reviewed and noted an error. Further, we noted that this detective review is an informal control and there is no formal documentation supporting the PI's approval of all wages posted to their award.

   A formal review and monitoring control should be implemented to reduce the risk of incorrect allocation of time to grant awards. Further, a reconciliation of applicable time and expense certifications should be completed and documented to gain reasonable assurance that certifications matched payroll actuals as required.

   Further, per inquiry with the Chief Business Officer and NPI Director, payroll reports were not provided following transition to the UCPath HR and payroll system for the period of September 2019 – January 2020. This affected the performance of related reconciliations and resulted in inaccurate posting of payroll expenses as payroll was not being appropriately updated. This observation was self-identified and reported by management to Internal Audit. Leading practice would suggest that business units affected by the system implementation be involved in the implementation testing and approvals. The affected business units should identify relevant key reports in the legacy system and perform validation testing in the new system to confirm that report functionality exists and is generating information which is accurate and complete, and provide approval of the change once testing is complete.

   Action Plan:

   a. NPI management currently shares salary information with PIs before it is entered for review and feedback. After payroll is entered, the PI will review the monthly ledger reports and raise any questions or concerns to the Chief Business Officer to make appropriate changes as needed. Management will continue sharing the salary information with the PIs and will ask for confirmation as to whether the payroll is correct or requires modification. The confirmations or request for changes will be retained by NPI management in a centralized location.

   Target Date: September 30, 2021

   b. Management identified the error with the UCPath system in January 2020. UC Davis CGA was notified of the issue and is currently working with the Chief Business

Officer to comply with the federal deadlines to correct payroll which was previously recorded incorrectly. Further, management will perform testing of the completeness and accuracy of relevant system reports in tandem with system implementation activities affecting business operations on a go-forward basis.

Target Date: Completed during review

3. ***User Administration Procedures for Employees that Transfer Roles***

NPI does not have a documented user access administration process to remove or update user access from the Kuali Financial System (KFS) when required. We also noted that there is not a periodic review of users with access to determine appropriateness. During our review, we identified one user with access to post NPI expenses within KFS that was not appropriate. This presents the risk that the inappropriate user access could be used to post inappropriate transactions to grant or ledger accounts, potentially resulting in unauthorized transactions being charged to grants.

The existing control relies on terminated employees' access being automatically removed from KFS when the associated network account is removed during the termination process. The control did not operate effectively as the user identified had previous job responsibilities which included posting of finances, but the change in job responsibility was due to the user transferring to UC Davis from NPI, requiring ongoing network access. As such, the network account was not disabled as it would have in the event of termination, and thus access to KFS was retained. Management should implement an updated termination process for KFS, since the current removal process relies on Active Directory removal and does not address gaps in the event of transfers. Leading practice would further recommend that management implement a formal, periodic user access review to revalidate whether access to approve and post transactions in KFS is appropriate.

Action Plan

a. Once identified during the assessment, the identified user's access to KFS was removed on 5/27/20. In addition, management performed a review of the user's activity and determined that no transactions were posted by the user during the period of exposure.

Target Date: Completed during review

b. NPI management will update offboarding procedures for both terminations and transfers. In addition to the existing documented process for removing users in the event of termination, removal in the event of transfers will be added to the offboarding checklist to provide a reminder to review and remove all system access in the event of transfer. Further, management will be obtaining an HR notification in the event of employee transfer to review against access and obtain reasonable assurance that access is appropriate.

Target Date: June 30, 2021

c. NPR management will work with HR to obtain data to perform a periodic user access review, (at least annually), to determine ongoing appropriateness of access.

Target Date: June 30, 2021

4. *Timeliness and Documentation Retention of Cost Transfers*

During our review, we noted that five out of fifteen cost transfers selected for testing occurred beyond 120 days from the date of purchase. Cost transfers were made at 174 days, 191 days, 223 days, 237 days and 246 days respectively. Further, one of the cost transfers did not have the associated supporting evidence retained, and accordingly, it was not possible to determine that the appropriateness of the cost transfer or if the cost transfer was approved by appropriate management.

UCOP policy[2] for cost transfers and interfund transfers requires that the transfer be completed within 120 days of purchase. Costs should be reviewed by management monthly and costs transfers should be initiated immediately after a cost is noted to be incorrectly allocated. Furthermore, documentation and substantiation should be retained and contain the approval of NPI management and the associated controller. Late cost transfers should include formally documented substantiation and approval from the controller.

NPI management currently has a ledger review of all accounts to determine whether there are any issues with the funds, including a review of individual transaction line items. Any issues will be raised with the PIs, who will then determine the proper resolution. In the instance of cost transfers, the reason for transfers and approvals will be documented.

Action Plan

NPI will expand upon the existing cost transfer control to include tracking of higher risk transactions, including cost transfers, and to follow up on any findings identified through to resolution. Evidence of follow up resolution will be retained in a centralized location to track that proper disposition has occurred.

Target Date: December 31, 2021

5. *Adherence to Grant Reporting Requirements*

We noted that the timeliness of reporting for one of the three grants selected for testing did not adhere to grant reporting requirements as the report was delivered four days after the deadline defined within the grant agreement.

Not meeting grant reporting requirements may result in risk of loss of funder relationship, a funder seeking the return of award monies, or the inability to receive award monies from the funder for future projects. We recommend that management implement a

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[2] UCOP policy BFB A-47: Direct Costing Procedures states "if the expense is being transferred to a federal or federal flow-through account, it must be recorded in the general ledger within 120 days from the close of the month in which the original charge posts to the ledger" (Source: https://policy.ucop.edu/doc/3420326/BFB-A-47)

technology solution or creating a formal tracking mechanism whereby both management and grant staff are notified about upcoming deliverable requirements.

Management currently provides a summary of milestone dates during the pre-award process, as well as on a monthly basis to all PIs. The CGA system will also send reminders at 30, 45, 60, and 90 days prior to the project end.

Action Plan

Going forward, CGA will email the department administrators (via carbon copy) on reminders to the PIs to increase visibility and accountability of timeliness. While the system does not have functionality to be able to send out automated reminders when reporting dates are coming due, CGA management will update initiation procedures to set up calendar reminders of key due dates for PIs and admins. The NPI Chief Business Officer will additionally obtain screenshot confirmations from the PIs of report submissions as required.

Target Date: December 31, 2021

6. Timeliness of Budget Reviews

Two out of five analytical ledger reviews, and four of five management ledger reviews that were selected for review were not completed timely (within 30 days of month close[3]). Specifically, three of the management reviews were completed over four months late. The reviews that were not performed timely occurred during a transition period as the Director was conducting all reviews on an interim basis while the new Chief Business Officer (who was to perform the review going forward) was being onboarded. During this same period, priority was being placed on correcting identified errors in the UCPath system. It was noted that the grants with associated late management reviews were not invoiced or closed out during this period (as additional approvals are required prior to invoicing and close-out), however, the reviews were eventually conducted appropriately.

By not performing these reviews timely, internal projections may be incorrect, internal financial tracking may include unallowable expenses, errors may remain unidentified, and unallowable or unapproved costs may be attributed to a grant and charged to a funder.

Our assessment of the completed reviews noted instances that required corrections; however, these corrections were not centrally tracked. Accordingly, we were unable to determine whether the corrections were completed timely, an account was overdrawn, or charges were posted to an account that was currently overdrawn. The lack of a central tracking mechanism increases the risk that corrections may not be made accurately, completely or timely.

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[3] Established guidance outlines that reviews shall be completed by the end of the following month (Source: https://ucanr.edu/sites/anrstaff/Administration/Business_Operations/Business_Operations_Center_-_Kearney/UCCE_Procedures_Guide/Ledger_Review/)

Action Plan

a. Management did retroactively review the reports and did not identify any issues which required correction. Going forward, reviews should be performed in a within 30 days of month close.

   Target Date: Completed during review

b. The management ledger review process will be expanded to include a monitoring factor which includes NPI management evidencing the follow-ups identified as part of the review. This will include documented tracking and resolution of issues and risks to gain reasonable assurance that the risks associated with budget overdraws, high risk transactions, and expense allowability are being appropriately addressed.

   Target Date: December 31, 2021