



# AUDIT AND ADVISORY SERVICES

Contracts and Grants Accounting  
(formerly Extramural Funds  
Accounting)  
Audit

Project No. 13-598

October 10, 2013

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October 10, 2013

John Wilton  
Vice Chancellor for Administration and Finance

Vice Chancellor Wilton:

We have completed our audit of Contracts and Grants Accounting (formerly Extramural Funds Accounting) as per our annual audit plan in accordance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and the University of California Internal Audit Charter.

Our observations with management action plans are expounded upon in the accompanying report. Please destroy all copies of draft reports and related documents. Thank you to the staff of Contract and Grants Accounting for their cooperative efforts throughout the audit process. Please do not hesitate to call on Audit and Advisory Services if we can be of further assistance in this or other matters.

Respectfully reported,

Wanda Lynn Riley  
Chief Audit Executive

cc: Assistant Vice Chancellor and Controller Delphine Regalia  
Director Youssef Kubis  
Senior Vice President and Chief Compliance and Audit Officer Sheryl Vacca  
Associate Chancellor Linda Morris Williams

**University of California, Berkeley**  
**Audit and Advisory Services**  
**Extramural Funds Accounting**

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# OVERVIEW

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## Executive Summary

The Contracts and Grants Accounting (C&GA) department, formerly known as Extramural Funds Accounting (EFA) is responsible for fund set-up, invoicing, accounts receivable, financial reporting, and compliance support and monitoring activities associated with the campus' portfolio of approximately 4,000 active sponsored project awards. The department is currently comprised of 18 employees dedicated to routine post-award management activities, with additional staffing of six employees to support accounts receivable, compliance and systems, and unit-wide reporting and analysis activities. At the time of our audit, there were a number of initiatives underway on the campus with potential impact to C&GA processes, including the roll-out of Campus Shared Services for research administration activities and the implementation of new contracts and grants reporting and accounting systems.

The overall objective of our audit was to assess department controls designed to ensure compliance with certain post-award management requirements. Areas of audit focus included: (i) award set-up, (ii) billing, (iii) closeout, and (iv) internal and campus-wide compliance monitoring and support.

Audit procedures included: (i) process walkthroughs and interviews with department staff and (ii) the review of documented department policies, procedures, and tools to evaluate the design of procedures and controls, and (iii) the review of a sample of fund closeouts and exception reports to evaluate adherence to established procedures, as well as the prevalence of significant or unresolved issues.

Across the areas reviewed, we noted that procedures and controls are generally in place to help support staff in the discharge of activities, and to maintain visibility into potential operational and compliance issues. However, we noted that the design of a limited number of procedures and controls in the closeout process potentially creates exposure for the campus with regard to disallowed expenses because they do not uniformly require a strict adherence to stated federal timelines. In addition, we noted various instances where reliance is placed on the diligence of individual analysts, without second-level review to ensure completeness and accuracy. Finally, we acknowledge important progress made with regard to the compliance activities being performed by C&GA, and have noted certain areas for enhancement in the near-term as the program becomes fully staffed, including the clarification of program accountabilities and escalation protocols. Management has developed action plans to address our observations, including the revision of closeout process requirements and enhancements to reviews of award set-up, billing, and exception reporting activities. Management has also developed a plan and timeline to complete the implementation of the C&GA compliance program.

## **Source and Purpose of the Audit**

Audit and Advisory Services (A&AS) completed our audit of Contracts and Grants Accounting (C&GA), formerly known as Extramural Funds Accounting (EFA) as part of our annual audit plan for FY 2013. The overall objective of our audit was to assess department controls designed to mitigate key risks associated with post-award management. Areas of audit focus included: (i) award set-up (ii) billing, (iii) closeout, and (iv) internal and campus-wide compliance monitoring and support.

## **Scope of the Audit**

Our audit included procedures and controls in place at the time of the audit, which was conducted during the period March to June 2013. Specific transactions and reports reviewed were processed during calendar year 2012, except when historical exception reports could not be reproduced, in which case current reports were reviewed.

Audit procedures included: (i) process walkthroughs and interviews with department staff, (ii) the review of documented department policies, procedures, and tools to evaluate the design of procedures and controls, and (iii) the review of a sample of fund closeouts and exception reports to evaluate adherence to established procedures, as well as the prevalence of significant or unresolved issues.

## **Background Information**

### *Department Background*

The C&GA department is responsible for fund set-up, invoicing, accounts receivable, financial reporting, and compliance support and monitoring activities associated with the campus' portfolio of approximately 4,000 active sponsored project awards totaling over \$700 million in expenditures for fiscal year 2012. The department is comprised of (i) three teams composed of five analysts and one team supervisor each who are responsible for routine post-award management activities, (ii) one employee responsible for special reporting and analysis, (iii) a team consisting of one manager and three staff responsible for supporting external audit coordination and extramural fund compliance and system activities within C&GA and across the campus, and (iv) one employee responsible for managing accounts receivable. The department has experienced notable staffing turnover within the past year, and the director position was vacant from early 2012 until August 2013, with the unit being led on an interim basis by an external consultant.

A benchmarking survey published in 2010 by Huron Consulting Group, a well-regarded national firm specializing in higher education and research administration consulting and staffing, indicates that portfolio sizes for C&GA post-award staff are notably larger than in comparable public higher education settings, which we understand from discussions with management has had bearing on the organization and design of procedures and controls in the unit.

At the time of our audit, there were a number of initiatives underway on the campus with potential impact to C&GA processes, as well as immediate impact to staff assignments and workload, including the roll-out of Campus Shared Services for research administration activities and the implementation of new systems, including the PI Portfolio for principal investigators and the new contracts and grants module of PeopleSoft.

## *Relevant Policies*

Department activities are primarily guided by the Office of Management and Budget (OMB) Circular A-110, which establishes administrative requirements for recipients of federal contract and grant funding in the areas of financial and program management, property standards, reports and records, and after-the-award requirements. Compliance with many of the requirements set forth is necessarily shared across various departments. Requirements squarely within C&GA's purview include those related to payment (OMB A-110 Section C.22), financial reporting (Section C.52), and closeout procedures (Section D.71). In addition, C&GA supports the campus in ensuring compliance with OMB Circular A-21, which outlines principles for how federal funds may be spent, as well as additional sponsor specific terms and conditions. C&GA's authority and responsibilities related to post-award management activities are generally established by the University of California (UC) Contract and Grant (C&G) Manual; however, specific procedures and implementation standards are not specifically delineated therein.

C&GA has recently completed an effort to document internal procedures for all of its core processes. As of the writing of this report, procedures have been drafted for fund advances, award set-up and modification, interim reporting, cost sharing, program income, award closeout, and fund inactivation.

## **Summary Conclusion**

Across the areas reviewed, we noted that procedures and controls are generally in place to help support staff in the discharge of activities, and to maintain visibility into potential operational and compliance issues. We also acknowledge important progress made with regard to the compliance activities being performed by C&GA. However, we noted certain areas where we believe the design of procedures and controls does not currently appear to fully address related objectives and risks. Specifically:

- The campus routinely allows for the inclusion of expenses incurred during the period of the award, but not yet recorded in the general ledger as of the end of the sponsor allowed closeout period, in final sponsor billings and reports. This practice creates risk in that OMB Circular A-110 specifies that all obligations must be liquidated within this specified period. In addition, for cost reimbursable grants, amounts are expected to be billed on a cash versus an accrual basis. We also noted other opportunities to enhance close-out and post-award reviews to further minimize the risk that unallowable expenses will be charged to the sponsor.
- The billing process appears well-organized, but invoices and letter of credit drawdowns, including manual adjustments, are processed without a second-level of review, creating a risk that errors may not be detected and addressed on a timely basis, or that adjustments to amounts may not be appropriate. In addition, while not a pervasive concern, we also noted that credit balances on active funds may not be returned on a timely basis when identified because it is presumed that the credit balances are temporary and will be eliminated through the course of spending of award funds or through final close-out adjustments. We noted a limited number of instances in which credit balances appeared to persist beyond one billing period (e.g., weekly for drawdown, generally monthly or quarterly for non-drawdown sponsors). For cost reimbursable awards, it is reasonable to presume that that

the sponsor would have an expectation that amounts would be returned on a timely basis.

- We noted various operational tasks, in addition to billing as noted above, where reliance is placed on the diligence of the individual analyst, without systematic second-level review to ensure completeness and accuracy. Certain of these tasks, such as award set-up, have central bearing on the ongoing effectiveness of award administration and compliance. Management and staff articulated that the organization of activities, including decisions around review procedures reflect current workload and staffing constraints. However, we believe upfront reviews of information can help minimize compliance risks and inefficiencies associated with resolving errors on the back-end.
- Finally, we have noted areas for enhancement of the compliance program in the near-term, as it becomes fully staffed, including a clarification of specific unit accountabilities and escalation protocols.

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# SUMMARY OF OBSERVATIONS & MANAGEMENT RESPONSE AND ACTION PLAN

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## Closeout Timelines and Reviews

### Observation

We noted certain elements in the design of award closeout procedures that could give rise to potentially disallowed billings or undetected errors if departments do not adhere to stated closeout timelines and requirements. We note that C&GA proactively supports departments throughout the closeout process, but based on our review of a limited number of project closeouts, C&GA's closeout procedures are sometimes hindered by delays or omissions in departments communicating relevant information to C&GA. The movement to a shared service environment and changes in the drawdown process for certain major sponsors present opportunities to develop protocols for minimizing and addressing such delays, omissions, and errors stemming from the departments. Specific observations include:

- The campus allows for the inclusion of expenses incurred during the period of the award, but not yet recorded in the general ledger as of the end of the sponsor allowed closeout period, in final sponsor billings and reports. Federal sponsors typically allow for post-closeout adjustments; however, it is reasonable to assume that there is an expectation that this allowance is intended to cover exceptional versus routine circumstances. While not a campus policy per se, closeout procedures published on C&GA's website include a timeline section indicating that departments "will record all outstanding accrued expenses" 91-120 days from date of award expiration. There are two important potential risks associated with this practice:
  - i. Cost reimbursable grant amounts are expected to be billed on a cash rather than an accrual basis. Cash basis invoices and financial reports that include accruals without explicit explanation may be misleading and not compliant with the terms and conditions of the award.
  - ii. For letter of credit drawdown awards, related "accruals" may be drawn down after the specified sponsor closeout period (typically 90 days). OMB Circular A-110 states that: "Unless the Federal awarding agency authorizes an extension, a recipient shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award or in agency implementing instructions."
- The closeout review performed by C&GA is a key control designed to help ensure the final accuracy and allowability of costs charged to the award. We noted a limited number of potential errors in the closeout packages we reviewed that indicate an opportunity to provide additional tools (such as checklists) to staff and team leads to better ensure the consistency and adequacy of review procedures. In addition, there were inconsistencies in the closeout package documentation maintained, and therefore the nature of specific review procedures stated to have been performed could not be confirmed in all cases.



## **Management Response and Action Plan**

C&GA currently has process and procedures in place to notify department managers of upcoming awards termination 30 days prior to the actual termination date, and request that all award-related expenses be recorded in the general ledger timely. This process encourages cash-basis recording of expenditures, and reduces the need for recording accrued expenses. C&GA is currently in the process of updating the closeout procedures and revising the period of time that permits departments to record outstanding expenses after the award's expiration date. Departments will be required to record all outstanding expenses and include them in the final financial reports no later than 60 days after the award's expiration date. This will ensure recording of expenditures, drawdowns, and closeout of awards are performed in a timely manner, and in accordance with OMB Circular A-110 guidelines, sponsors' specific policies, and individual award terms. The revised closeout procedures will include proper controls to ensure completeness of closeout documentation, and consistent and adequate review by team leads.

Furthermore, the revised closeout procedures will include any new processes and related controls that may arise as a result of the implementation of the new contracts and grants (C&G) module. These procedures are expected to be completed on or before April 1, 2014 when the new C&G module goes live.

## **Billing Process**

### **Observation**

Billing processes appear generally well-managed, but we identified certain potential risks in the design of current procedures and controls:

- Billing activities, including manual invoicing and letter of credit drawdowns are not routinely reviewed by someone other than the preparer. For invoices and drawdowns that are directly created based on general ledger data in InvAR, this practice may appear reasonable because billed amounts can be tied directly to ledger activity. However, we understand from our walkthroughs and interviews that analysts may sometimes manually adjust system-proposed billed amounts to correct ledger errors, to allow for time to research potential billing issues, or for other reasons based on sponsor request. While analysts may make team leads aware of these manual adjustments, there is no specific requirement that team leads review and approve such adjustments to ensure their appropriateness and accurate processing.
- In addition, while not a pervasive concern, we also noted instances in which credit balances on active funds were not always returned on a timely basis when identified, and in some cases persisted beyond one additional billing period. For letter of credit drawdown, credits can sometimes be refunded through offsets to debit balance funds; however, in cases where this offset is not allowed by the sponsor, where insufficient debit balances for the offset exist, or in the case of larger credits that the billing analyst holds to research, refunds may be delayed. As noted above, such decisions are made without a second-level review and approval. For other invoicing arrangements, we understand that credits are held until closeout regardless of the length of time they persist. For cost reimbursable awards, it is reasonable to presume that credits persisting longer than one billing cycle

should be returned to the sponsor. Further, we understand that OMB A-110 requires the return of refunds before requesting additional cash payments. In addition to potential impact to sponsor relations, this practice may also give rise to additional costs to the campus through interest penalties.

- Certain awards are directly billed to the sponsor by the department, with limited or no review or control by C&GA. This arrangement is permitted by C&GA in circumstances when the supporting detail required would be difficult for C&GA to provide given the fact that C&GA analysts are not responsible for the day-to-day management of the fund and do not have access to or visibility into all relevant project information. However, there are currently no formal procedures or metrics to ensure that departments are appropriately managing these delegated responsibilities.

### **Management Response and Action Plan**

C&GA is currently in the process of updating the award setup and billing process and procedures to include adequate monitoring and review of award setup, modification, manual adjustments, and credit balances by team leads. C&GA is also in the process of assessing current and future staffing needs and working with the VCAF to obtain adequate funding to fill in the shortage in manpower so team leads can perform their duties. Furthermore, C&GA will redesign the business process of the billing delegated to departments directly, and implement adequate controls of monitoring and reviewing to ensure that departments are appropriately managing their delegated responsibilities.

The redesigned and updated procedures will include any new processes and related controls that may arise as a result of the implementation of the new C&G module. These procedures are expected to be completed on or before April 1, 2014 when the new C&G module goes live.

### **Supervisor Review Activities**

#### **Observation**

Analysts' work is directly supervised by team leads (now "team supervisors"). We understand that reliance has historically been placed on individual analysts to ensure the accuracy and completeness of much of their work, with team leads reviewing only journal entries, financial reports, and more recently closeouts. In addition, team leads have been responsible for managing their own award portfolios, and therefore were not able to be fully dedicated to supervisory activities.

Over the past two years, through the development of new exception reporting by the compliance manager and changes implemented by the interim director, team lead portfolio sizes have begun to be reduced and review activities have been strengthened. We understand that management would like to further expand review activities, but efforts have been constrained given ongoing resource challenges.

We did not perform our own assessment of staffing and workload levels, but management's assertion regarding staffing levels seems supported by the Huron study referred to above in the "Background" section of this report. The study found that the average number of awards handled by post-award staff in public universities is 124 versus an average of 219 awards for C&GA

analysts, per C&GA management calculations. A&AS independently calculated awards per analyst given active awards in BFS, and noted that calculated average portfolio sizes ranged from 162 if all C&GA positions were included to 259 if including only those staff responsible for routine award management activities, excluding team leads.

In addition to reviews of billing adjustments as identified above, review activities not currently being performed that we believe could help to further strengthen the effectiveness of operations and minimize the risk of errors include:

- **Fund set-ups and modifications:** There are many data elements that analysts must enter to BFS that have bearing of post-award management and compliance, and that may not be straightforward to identify in award documentation. In addition, the set-up process for overhead is complex, and there is a possibility of errors. Inaccuracies or omissions in fund set-up may give rise to undetected instances of post-award non-compliance, which can be difficult to resolve after the fact. Because of the volume of new award set-ups, it may not be feasible for team leads to review all set-up information. Key data elements that we believe are important to verify because of their impact to compliance include: budgeted amounts, flow-through code, and overhead rates. We noted one instance in which an analyst mistakenly posted a duplicate journal entry to increase an award budget by \$1 million. While this may be an isolated occurrence, the error had not been detected, and could have resulted in inappropriate charges and billings.
- **Exception reports:** We also noted opportunities to formalize expectations for team lead review and follow-up on issues identified in exception reports. We understand from our discussions with selected analysts and team leads that they strive to review the reports on a regular basis, but that their ability to follow-up on issues to ensure their timely and accurate resolution may be compromised given competing workload demands. We noted a limited number of instances through our review of a sample of exception report items in which issues were still pending resolution more than a month after initially reported.

Based on discussions with C&GA staff, it appears that expanding review activities within the unit given current staffing levels and work assignments may prove challenging. Staff interviewed uniformly state that current workloads and processing timelines do not readily allow for additional review points. With the implementation of the new contracts and grants module, there may be impact on process, workload, and risks in each of the areas above. As part of management actions to ensure an appropriate level of control given these process changes, we believe that an evaluation of staffing and opportunities to further enhance review procedures is warranted.

### **Management Response and Action Plan**

C&GA is in the process of redesigning all business processes in the areas of award setups and modifications, and exception reports to include adequate monitoring and review by team leads. C&GA is also in the process of assessing current and future staffing needs and working with the VCAF to obtain adequate funding to fill in the shortage in manpower so team leads can perform their duties.

The redesigned business process will include any new processes and related controls that may arise as a result of the implementation of the new C&G module. These processes are expected to be completed on or before April 1, 2014 when the new C&G module goes live.

## **Compliance Program**

### **Observation**

Over the past two years, C&GA has created a standalone compliance function to monitor internal performance metrics and department charges to funds, and its activities appear to have contributed to improvements in compliance awareness across the campus. The initial scope of compliance program activities was determined based on analysis of the OMB Circular A-133 compliance supplement, with the goal of implementing activities in order of perceived risk. The program is still in its earlier stages of implementation, with certain of the planned monitoring and reporting activities not yet rolled out. Contributing factors for the delayed maturation of the program appear to include program staff turnover and the fact that the compliance manager role is not solely dedicated to compliance program activities. In addition, follow-up and resolution accountabilities and escalation protocols are not fully developed, potentially impacting program effectiveness to ensure that compliance concerns are addressed on a timely basis. We also noted an opportunity for management to consider expanding or reprioritizing monitoring activities to include risk assessment of individual funds, and award specific analytics based on award terms, budgets, and spending patterns.

### **Management Response and Action Plan**

The C&GA Post Award Financial Administration Compliance Program was developed by reviewing the guidelines that have been issued on effective compliance programs (2007 Federal Sentencing Guidelines and HHS-OIG Compliance Program Guidelines) and examining the compliance programs at selected universities (University of Washington, University of Texas, and Massachusetts Institute of Technology). This examination resulted in the development of a post award financial administration compliance model.

The elements of an effective compliance program are listed across the top of the model and the post award financial administration compliance areas are listed down the side of the model. Essentially, the elements of an effective compliance program include clearly written policies and procedures that include assigning roles and responsibilities; training for employees with post award financial administration responsibilities; on-going monitoring of campus compliance areas and assessment of compliance risks; and following up on instances of non-compliance and ensuring that effective corrective actions are taken.

The compliance areas were identified with consideration to the OMB A-133 Compliance requirements, post award high risk areas noted by the OIG, observations contained in prior audit reports, and institutional knowledge of campus operations. The list is not intended to be all inclusive and the model was developed to allow additional areas to be included as warranted. The compliance program is being implemented using a phased approach. Each compliance area was ranked based on the perceived risk associated with that area and categorized into one of three phases. The areas of perceived higher risk were categorized in Phase 1 with the areas of perceived

medium to low risk categorized into Phase 2 and Phase 3.

Currently, we are at the end of Phase 1 and are working on developing compliance reporting metrics summarizing our compliance activities. Although an issue follow-up and resolution process exists, efforts will be made to formalize this process as the program evolves and staffing levels stay consistent. The impact of Campus Shared Services (CSS) on post award compliance activities will continually be assessed as it continues to develop and its process become more defined.

The compliance program is expected to be completed by July 1, 2014