

**UNIVERSITY OF CALIFORNIA, SAN FRANCISCO
AUDIT & ADVISORY SERVICES**

**School of Medicine
Departmental Financial & Administrative Review
Project #22-021**

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University of California
San Francisco

Audit & Advisory Services

UCSF Box 0818
1855 Folsom Street
San Francisco, CA 94143

tel: 415.476.3851
fax: 415.476.3326
www.ucsf.edu

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Mia Morgan

Director of Administration
Department of Cellular and Molecular Pharmacology

Chris Laubenthal

Chief Administrative Officer
Department of Radiology and Biomedical Imaging

Greta Boesel

Chief Administrative Officer
Institute for Neurodegenerative Diseases

Deborah Grantz

Division Manager
Division of Hematology-Oncology

SUBJECT: School of Medicine – Departmental Financial & Administrative Review

Audit & Advisory Services (“A&AS”) conducted a review to assess administrative practices and procedures in selected departments within UCSF’s School of Medicine to determine if internal controls are adequate and compliant with University policies and regulatory requirements.

Our services were performed in accordance with the applicable International Standards for the Professional Practice of Internal Auditing as prescribed by the Institute of Internal Auditors (the “IIA Standards”).

Our review was completed and the draft report was provided to department management in May 2022. Management provided their final comments and responses to our observations in June 2022. The observations and corrective actions have been discussed and agreed upon with department management and it is management’s responsibility to implement the actions stated in the report. A&AS will periodically follow up to confirm that the agreed upon management corrective actions are completed within the dates specified in the final report.

This report is intended solely for the information and internal use of UCSF management and the Ethics, Compliance and Audit Committee, and is not intended to be and should not be used by any other person or entity.

Sincerely,

Irene McGlynn
Chief Audit Officer
UCSF Audit and Advisory Services



EXECUTIVE SUMMARY

I. BACKGROUND

As a planned audit for Fiscal Year 2022, Audit & Advisory Services conducted a review to assess administrative practices and procedures in selected departments within UCSF's School of Medicine (SOM) to determine if internal controls are adequate and compliant with University policies and regulatory requirements.

SOM departments are responsible for the oversight of financial, scientific and compliance aspects of their clinical, research and educational activities. These departments report into the SOM Dean's Office. The departments' oversight includes ensuring expenditures incurred are within the authorized budget and recorded within the appropriate period; maintaining sufficient records to support transactions and demonstrate compliance with contract terms, university policies and regulatory requirements; reviewing management reports to monitor payroll and non-payroll expenditures; verifying general ledgers and reconciling expenditures to ensure that they are allowable and reported accurately and timely; and ensuring appropriate equipment management controls.

As part of this review, we selected four departments within SOM for detailed review:

- Department of Cellular Molecular Pharmacology (CMP)
- Department of Medicine – Hematology Division (Hematology)
- Institute for Neurodegenerative Disease (IND)
- Department of Radiology (Radiology)

These departments were selected based on analysis of data from the Financial Management Dashboard (FMD)¹. Data from the FMD was reviewed to identify departments that appear the most across the dashboard's 17 metrics.

The three-year high-level financials for the four selected departments are outlined below²:

CMP	FY 2018-19	FY 2019-20	FY 2020-21
Total Revenue	36,541,781	29,842,397	18,582,709
Total Expense	21,702,145	31,707,642	24,523,176
Net Income	14,839,636	(1,865,245)	(5,940,467)

Hematology	FY 2018-19	FY 2019-20	FY 2020-21
Total Revenue	76,590,967	106,306,814	92,067,025
Total Expense	81,980,859	98,100,452	95,580,420
Net Income	(5,389,892)	8,206,363	(3,513,395)

IND	FY 2018-19	FY 2019-20	FY 2020-21
Total Revenue	41,549,444	37,822,055	48,645,822

¹ The Financial Management Dashboard is a web-based tool for highlighting financial risk and compliance metrics that may merit additional management review.

² Per MyReports Organization Reports

IND	FY 2018-19	FY 2019-20	FY 2020-21
Total Expense	45,798,749	43,389,260	40,586,485
Net Income	(4,249,304)	(5,567,206)	8,059,337

Radiology	FY 2018-19	FY 2019-20	FY 2020-21
Total Revenue	137,614,207	146,447,090	151,615,327
Total Expense	125,689,955	135,019,760	126,609,218
Net Income	11,924,252	11,427,330	25,006,109

Non-compliance with relevant policies and regulatory requirements may subject UCSF to repaying expenses that are later determined to be unallowable. This may impair UCSF's reputation and, in turn adversely affect the campus' ability to compete for future research funding.

II. AUDIT PURPOSE AND SCOPE

The purpose of this review was to assess administrative practices and procedures implemented within the selected SOM departments to determine if internal controls are adequate and compliant with University policies and regulatory requirements. The scope of the review was limited to the following areas:

- Payroll and non-payroll cost transfers,
- Sponsored award expenses (including allocation of costs across awards, participant support costs, and publication costs),
- Departmental gift administration, and
- Remote work internal controls.

The scope of the review covered transactions and activities for July 2020 to November 2021. Procedures performed as part of the review included: review of department responses to an Internal Control Questionnaire, discussions with key department personnel to gain an understanding of processes under review, and review of a sample of transactions and gift balances. For more detailed steps, please refer to Appendix A.

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 of compliance beyond those areas specifically reviewed. Fieldwork was completed in April 2022.

III. SUMMARY

Based on work performed, department financial and administrative procedures and practices appear to operate effectively and provide appropriate internal controls in the areas of expenses charged to sponsored awards, cost transfers, participant support costs, administrative salaries charged to federal awards, gift administration and remote work controls.

Opportunities for improvement exist for allocating costs among federal awards and monitoring unallowable costs.

The specific observations from this review are listed below and in Section IV. Observations and Corrective Management Actions.

1. Journal entries and attached supporting documentation did not always demonstrate that publication costs were allocated based on the relative benefits the awards received.
2. Costs were not always correctly charged to federal sponsored award.

Additionally, a process improvement opportunity was identified for departments to utilize the FMD to effectively monitor federal awards for potentially unallowable costs and for other expense monitoring as well. Further detail can be found in Section IV of the report.

IV. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS (MCAs)

No.	Observation	Risk/Effect	Recommendation	MCA
1	<p><i>Journal entries and attached supporting documentation did not always demonstrate that publication costs were allocated based on the relative benefits the awards received.</i></p> <p>Reviewing seven printing charges to National Institutes of Health (NIH) awards for the four selected departments identified six expenses (in three departments) that were charged to one project even though multiple awards (also sponsored by the NIH) were referenced in the grant support section of the publication.</p> <ul style="list-style-type: none"> • Cellular and Molecular Pharmacology (2 awards) • Department of Medicine – Division of Hematology (1 award) • Radiology & Biomedical Imaging (3 awards) <p>The portion of publication cost charged to a project should reflect the relative benefits the project received. Additionally, the allocation method should be identified when the cost is charged.</p> <p>Department management provided their rational for allocating publication costs for the identified awards when asked. While the explanations provided by management appear to be appropriate, documentation of the allocation rational should be included with the journal entries recording the transaction.</p> <p>Per the NIH Grants Policy Statement: "...In general, a cost that benefits two or more projects or activities in proportions that can be determined without undue effort or cost should be allocated to the projects on the basis of the proportional</p>	<p>Non-compliance with cost allocation can increase the risk of penalties or fines by federal sponsors to UCSF.</p>	<p>Management should update its processes:</p> <ul style="list-style-type: none"> - Requiring Principal Investigators or other designated staff to both document and justify the allocation methodologies used when charging expenses to sponsored projects. - Implementing a standard documentation and retention process to support the allocation applied to costs which benefit multiple awards. - Providing training on how to assess and document the methodology used to allocate publication costs across each sponsored award acknowledged in the publication. 	<p>Actions</p> <p>CMP</p> <p>(a) CMP will provide training and information to administrative staff supporting CMP faculty as well as to faculty directly at regularly scheduled monthly meetings.</p> <p>(b) CMP will also require Principal Investigators or other designated staff to provide justification of the allocation methodology of publication costs at the point of procurement. Allocation methodology will be documented in the comment section of Bearbuy, if being charged to sponsored research funds. Research Services Analysts (RSAs) will review Bearbuy requisitions and ensure appropriate documentation has been included prior to approving.</p>

No.	Observation	Risk/Effect	Recommendation	MCA
	<p>benefit. A cost that benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved may be allocated or transferred to the benefiting projects on any reasonable basis as long as the costs charged are allowable, allocable, and reasonable under the applicable cost principles ...”³</p>			<p>Responsible Party: Director of Administration, Morgan</p> <p>Target Completion Date: June 30, 2022</p> <p>Radiology (a) The department will establish a standard process for documentation of the allocation methodology that will be stored in department p-card files or attached to the Bearbuy requisition or MyExpense report in case of audit.</p> <p>(b) The department will reach out to CGA and obtain guidance on allocation methodology, and request training material which will be used to provide training to purchasers and purchase approvers about the need to document an allocation methodology prior to the purchase.</p>

³ National Institutes of Health Grants Policy Statement, 7.6 Allocation of Costs and Closely Related Work

No.	Observation	Risk/Effect	Recommendation	MCA
				<p>Responsible Party: Chief Administrative Officer, Laubenthal</p> <p>Target Completion Date: October 30, 2022</p> <p>Division of Hematology We will ensure that finance staff are trained to include a complete justification of the allocation methodology used to charge publication costs, and this justification will be attached to other documentation that is submitted with journals, payment requests, etc.</p> <p>Responsible Party: Division Manager, Grantz</p> <p>Target Completion Date: July 1, 2022</p>
2.	<p>Costs were not always correctly charged to federal sponsored award.</p> <p>Review of ten transactions across four departments identified a potentially unallowable federal award expense and another expense that was allowable but miscoded to an unallowable expense line.</p> <ul style="list-style-type: none"> Cellular and Molecular Pharmacology One unallowable expense in Account 55150: Security, Fire, Police, Alarm with a Transaction Amount of \$124.00 	Unallowable expenses charged to federal awards or allowable expenses posted to unallowable accounts violate	Management should consider regular review of unallowable expenses that appear on the FMD, and determine if the expenses are unallowable or not.	<p>Actions</p> <p>CMP The unallowable cost has been transferred off to a discretionary account.</p> <p>CMP will continue regular review of expenses at bi-monthly general ledger review during preparation</p>

No.	Observation	Risk/Effect	Recommendation	MCA
	<ul style="list-style-type: none"> - Department management stated that this is an unallowable expense. It has been transferred off to a discretionary account. • Institute for Neurodegenerative Diseases One miscoded expense in Account: 57250: Social Activity, Entertainment, Alcohol with a Transaction Amount of \$229.52 - Department management stated that there appears to be a miscode on the voucher. The item was reclassified to the appropriate expense line (Account: 52201, Lab Supplies – Chemicals). 	<p>agency requirements. As a result, this may impair the university’s funding from federal agencies in the future.</p>		<p>of BSR packages for faculty. CMP will also continue with monthly reviews of the FMD and the GLV to aid in identifying unallowable expenses.</p> <p>Action Complete</p> <p>IND The charge was reclassified to the appropriate expense line (Account: 52201, Lab Supplies – Chemicals).</p> <p>Regular reviews of unallowable expenses are already conducted and will continue to be conducted.</p> <p>Action Complete</p>

V. OPPORTUNITIES FOR IMPROVEMENTS

No.	Observation	Risk/Effect	Recommendation
1	<p><i>Departments could utilize the Financial Management Dashboard (FMD) in addition to other monitoring tools, such the General Ledger Verification tool, to enhance monitoring of costs charged to sponsored awards.</i></p> <p>The Financial Management Dashboard (FMD) was launched in August 2018 and provides department managers and others with indicators to help monitor potential financial risks. Drawing from financial, personnel, and other relevant data, it highlights transactions that may warrant additional management review.</p>	<p>Unallowable expenses or those that cannot be allocated that are charged to federal awards violate agency</p>	<p>Departments have implemented processes to review expenses charged to federal awards, such as: general ledger verification and post award analysis. However, these processes could be improved with a</p>

<u>No.</u>	<u>Observation</u>	<u>Risk/Effect</u>	<u>Recommendation</u>
	<p>Key metrics presented on the FMD include:</p> <ul style="list-style-type: none"> • Accelerated spending near the end of federal awards • Administrative salaries charged to federal awards • Unallowable expenses charged to federal awards • Sponsored awards budget deficit monitoring • Late cost transfers • Recharge operations surpluses and deficits • Recharge project unallowable expenses • Spend-down of endowment income and gifts 	<p>requirements. As a result, this may impair the university's funding from federal agencies in the future.</p>	<p>regular review of transactions highlighted on the FMD.</p>

APPENDIX A

To conduct our review the following procedures were performed for the areas in scope:

- Reviewed regulations, university and campus policies relevant to the financial and administrative areas under review
- Provided department management with an Internal Control Questionnaire, reviewed their responses and interviewed key department personnel to gauge the department's internal control environment.
- Reviewed a sample of payroll and non-payroll cost transfers posted by the departments or division for the scope period.
- Reviewed transactions for potential unallowable expenses charged to federal awards (specifically, participant support payments, account 57824).
- Reviewed transactions for potential inappropriately allocated expenses to federal awards (specifically publication costs, accounts 57302 & 57303, and significant purchases, e.g., equipment, computers in the final months of an award).
- Reviewed gift balances to ensure compliance with university policy
- Discussed with department or division management processes and related internal controls that have changed since the move to remote work.
- Determined if the department or division has recorded equipment on loan to remote workers.