

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

**Uniform Guidance Review
Project #18-032**

May 2018

University of California
San Francisco



Audit and Advisory Services

May 31, 2018

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SUBJECT: Uniform Guidance Review, Project 18-032

As a planned internal audit for Fiscal Year 2018, Audit and Advisory Services (“A&AS”) conducted a review of the application of the Uniform Guidance. 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 in April 2018 and the preliminary draft report was provided to department management in May 2018. Management provided us with their final comments and responses to our observations in May 2018. The observations and corrective actions have been discussed and agreed upon with department management and it is management’s responsibility to implement the corrective actions stated in the report. In accordance with the University of California audit policy, 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 Board, and is not intended to be and should not be used by any other person or entity.

Sincerely,

A handwritten signature in black ink, appearing to read 'Irene McGlynn', is positioned above the typed name.

Irene McGlynn
Director
UCSF Audit and Advisory Service

EXECUTIVE SUMMARY

I. BACKGROUND

As a planned audit for Fiscal Year 2018, Audit and Advisory Services (A&AS) conducted a review to assess and validate the application of the revisions to allowable direct cost charging to federal awards under the Uniform Guidance.

The Office of Management and Budget (OMB) issued a comprehensive overhaul of the federal grant administrative, accounting, and audit policies (Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, "Uniform Guidance") on December 26, 2013. The Uniform Guidance combined eight federal circulars into a single guidance that can be used by all agencies. The Uniform Guidance is intended to streamline the management of federal assistance grants and reduce fraud, waste and abuse. These changes have resulted in greater administrative flexibility for the grantee and also greater responsibility in maintaining internal controls. The Uniform Guidance applies to all new awards and additional funding after December 26, 2014.

Changes to allowable direct costs, include: the allowance of certain computing devices and of administrative and clerical costs when specific conditions are met, an explicit statement that voluntary committed cost sharing is not expected and cannot be used in merit review, and the ability to charge publication costs incurred after period of performance. Not complying with the Uniform Guidance and internal policies implementing the Guidance, may call into question the allowability, allocability and reasonableness of expenses charged to federal awards.

II. AUDIT PURPOSE AND SCOPE

The purpose of this review was to assess UCSF's implementation of processes, procedures and training to address changes to federal award administration that were initiated under the Uniform Guidance.

The scope of the review covered processes, procedures and training related to allowable direct costs charged to federal awards, as affected by the adoption of the Uniform Guidance, specifically: Administrative and Clerical Salaries, Computing Devices and Participant Support Costs. Transactions selected for review were from the fiscal year 2016-17 (7/1/2016 – 6/30/2017).

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

- Interviewed key personnel within relevant departments to understand the processes, procedures and training implemented as a result of the Uniform Guidance's changes to allowable direct costs;
- Analyzed Administrative and Clerical (A&C) salaries direct charged to federal awards;
- Selected and tested a sample of A&C Salaries, Computing Devices and Participant Support Costs direct charged to federal awards;
- Reviewed relevant documentation to determine if these expenses met relevant criteria.

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 2018.

III. SUMMARY

Based on work performed, UCSF has implemented procedures to help departments appropriately apply the revisions to the cost principals resulting from the Uniform Guidance. Additionally, the selected computer expenses and participant support costs charged to federal awards examined in this review appear to be reasonable and allowable.

Opportunities for improvement exist for the development of internal procedures for departments to bring forward cases where A&C salary expenses may be allowable under the Uniform Guidance, but do not conform to internal UCSF guidelines. Additionally, a monitoring process should be established to help ensure that A&C expenditures adhere to internal UCSF guidelines.

We noted that certain A&C salary expenses do not conform to internal UCSF guidelines (i.e. individual annual effort must not be less the 10% per year and budgets must be evaluated for appropriateness in instances where an individual is on three (3) or more federal awards). The noted personnel costs were documented in the award proposal and appear to be otherwise applicable to performance of the awards.

Details of the specific observation and management's corrective actions are presented in the following observation table.

IV. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS (MCA)

No.	Observation	Risk/Effect	Recommendation	MCA
1.	<p><i>Certain Administrative and Clerical salary expense charged to federal awards do not conform to internal UCSF guidelines.</i></p> <p>In our testing of federal awards, we noted 4 out of 31 Administrative & Clerical employees (13%) charged less than 10% effort on some of their individual federal awards. Additionally, these employees charged effort on more than three federal awards.</p> <p>The internal process established to review the allowability of Administrative and Clerical salaries for employees that charge less than 10% of their effort or charge to more than 3 federal awards have not been fully implemented.</p> <p>Administrative and clerical salaries can be charged directly to a federal sponsor when the effort is “<i>integral</i>” to the project.</p> <p>According to UCSF’s guidelines on “Uniform Guidance Key Concepts” integral has been determined to mean:</p> <ul style="list-style-type: none"> • Personnel costs must be essential, vital, or fundamental to the performance of the award or activity as documented in the award proposal. • Generally administrative and clerical support as individual annual effort must not be less 	<p>Routinely allowing Administrative and Clerical salary expense to be charged to federal awards that do not meet the federal or internal guideline of personnel effort “integral” to the project may call into question the allowability of these expenses on these awards.</p>	<p>UCSF policies and procedures should be consistently adopted and departments should bring forward cases where Admin & Clerical employees have less than 10% effort per award or charge effort to more than 3 awards and have the rational reviewed to determine if they are integral to the project.</p> <p>The internal UCSF criteria or guidelines should be reiterated to the campus community. In the event that current practice is no longer in alignment with documented guidelines/ procedures, updates should be made accordingly.</p>	<p>a) The Costing Policy Group will develop procedures for reviewing the allowability of Administrative and Clerical salaries for employees that charge less than 10% of their effort or charge to more than 3 federal awards for exceptions.</p> <p>Responsible Party: Costing Policy Director</p> <p>Target Date: 12/1/2018</p> <p>b) The newly developed procedures for review of exceptions to the guidelines will be communicated and implemented.</p> <p>Responsible Party: Costing Policy Director</p> <p>Target Date: 3/31/2019</p> <p>c) The internal UCSF criteria or guidelines</p>

No.	Observation	Risk/Effect	Recommendation	MCA
	<p>than 10% per year as documented in their effort report.</p> <ul style="list-style-type: none"> In instances where an individual is on 3 or more awards and has substantial cumulative annual effort charged to federal sources, budgets must be evaluated for appropriateness with university and federal guidelines. 			<p>defining “integral” to the project will be reiterated to the campus research community to reinforce compliance.</p> <p>Responsible Party: Costing Policy Director</p> <p>Target Date: 12/1/2018</p>
2.	<p><i>There is no centralized monitoring process in place to detect if A&C salary expenditures adhere to internal UCSF guidelines.</i></p> <p>Currently, there is no monitoring of effort for ensuring the appropriateness of clerical employees charging less than 10% effort per award or effort charged to more than 3 awards. As noted in observation #1, we identified that certain A&C salary expense did not conform to UCSF guidelines.</p>	<p>Without a process to monitor A&C Salary expenses for accordance with internal UCSF guidelines, unallowable expenses may be charged to federal awards and not promptly removed.</p>	<p>Management should consider establishing a monitoring process to help ensure that A&C expenditures adhere to internal UCSF guidelines.</p>	<p>A monitoring process to help ensure that A&C expenditures adhere to internal UCSF guidelines will be developed and implemented</p> <p>Responsible Party: Assistant Controller CG&A</p> <p>Target Date: 3/31/2019</p>