

October 10, 2013

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Director, Geosciences Research Division
0244

***Subject: Geosciences Research Division
Audit and Management Advisory Services Project #2013-07***

The final audit report for Geosciences Research Division, Audit Report 2013-07, is attached. We would like to thank all members of the Division for their cooperation and assistance during the audit.

Because we were able to reach agreement regarding corrective actions to be taken in response to the audit recommendations, a formal response to the report is not requested. The findings included in this report will be added to our follow-up system. While management corrective actions have been included in the audit report, we may determine that additional audit procedures to validate the actions agreed to or implemented are warranted. We will contact you to schedule a review of the corrective actions, and will advise you when the findings are closed.

UC wide policy requires that all draft audit reports, both printed (copied on tan paper for ease of identification) and electronic, be destroyed after the final report is issued. Because draft reports can contain sensitive information, please either return these documents to AMAS personnel, or destroy them, at the conclusion of the audit exit conference. AMAS also requests that draft reports not be photocopied or otherwise redistributed.

David Meier
Assistant Vice Chancellor
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Attachment

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AUDIT & MANAGEMENT ADVISORY SERVICES

Geosciences Research Division
October, 2013

Performed By:

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Project Number: 2013-07

*Geosciences Research Division
Audit & Management Advisory Services Project 2013-07*

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I. Background

Audit & Management Advisory Services (AMAS) has completed a review of the Geosciences Research Division (GRD) as part of the approved audit plan for Fiscal Year 2012-13. This report summarizes the results of our review.

GRD is part of the Earth Research Section of the Scripps Institution of Oceanography. The Division is home to a diverse set of academics and staff whose interests cover a wide variety of topics in the atmospheric, marine and solid earth sciences. In many cases, these topics are cross-disciplinary but they include essential components of the following core themes: the geochemistry of the solid, liquid and gaseous earth, cosmochemistry (meteorites, asteroids and other planetary bodies), paleoceanography and paleoclimate, stratigraphy and sedimentology, geobiology and paleoecology, global and regional tectonics, paleomagnetism and hydrogeology. Research activities encompass modeling studies, laboratory experiments, and field-based expeditions, including ship-time, with GRD members taking full advantage of the extensive research facilities offered within the division and at SIO.

GRD is home to 38 academics in various titles (Professor, Research Professor, Research Scientist, Project Scientist and Specialist), 10 Research Associates and Visiting Scholars, 10 Postdoctoral Scholars, 45 graduate students and 45 staff. The Division occupies over 65,000 square feet of space including research support space, research labs, geological collections space and administrative offices.

In Fiscal Year 2011-12, GRD incurred total expenditures of approximately \$10.3 million consisting of approximately \$6.8 million (66%) from federal funds, \$2.3 million (22%) from state funds, and \$1.2 million (12%) from other fund sources.

II. Audit Objective, Scope, and Procedures

The objective of our audit was to evaluate whether GRD internal control procedures were adequate to provide reasonable assurance that operations were effective, complied with University policies and procedures, and resulted in accurate financial reporting. The scope of the review was limited to activities and business practices for Fiscal Year 2012 and the first half of Fiscal Year 2013.

In order to fulfill our objective, we performed the following procedures:

- Reviewed department policies and procedures for key business processes such as:
 - Operating ledger review and financial reporting,
 - Contract and grant activity,
 - Timekeeping and labor clearing,
 - Non-payroll expenditure transactions,

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- Travel and entertainment expenses,
- Express Card purchases,
- Payment authorizations,
- Expense transfers,
- Recharge center activity, and
- Equipment transactions;
- Analyzed departmental organizational and financial information;
- Met with management to discuss potential areas of concern;
- Reviewed internal control questionnaires and separation of duties matrices with departmental management;
- Performed detailed testing of selected key business processes to verify that internal controls were adequate and functioning in compliance with university policy.

III. Conclusion

Based on the audit procedures performed, we concluded that GRD internal controls were generally adequate and functioning effectively to provide reasonable assurance that operations were effective and in compliance with University policies and procedures.

However, during our review we noted opportunities for improvements in the system of internal controls in the following areas:

- Routing of employee timesheets,
- Documenting approval of subrecipient invoices,
- Supervisory approval of timesheets,
- Review of the Director's Express Card purchases, and
- Policy language for direct charges.

IV. Observations and Recommendations

A. Routing of Employee Timesheets

GRD should strictly enforce University policy on the routing of employee timesheets after supervisory approval.

University of California Business and Finance Bulletin IA-101, Internal Control Standards: Departmental Payrolls, states that individual attendance and job time

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records shall not be returned to the employee after supervisory approval. The intent of this University policy is to eliminate the risk that an employee might alter a timesheet after it had been approved by the supervisor.

During our review, we were informed by Business Office Staff that some GRD supervisors return employee timesheets to the employee after the supervisor has reviewed and approved the timesheet. In addition, we noted that the GRD Fund Manager Desk Manual implies that it is acceptable for supervisors to return approved timesheets to the employees.

Management Corrective Action:

The GRD Fund Manager Desk Manual has been revised to indicate that supervisors should never return an employee's approved timesheet to the employee. The change in policy and practice will be formally communicated to all Supervisors.

B. Approvals of Sub-recipient Invoices

We noted one instance in which the Principal Investigator's approval of a subrecipient invoice was not documented.

GRD requires fund managers to obtain PI approval prior to paying invoices from subrecipients. During our review, AMAS requested to see the documentation of the PI's review of two subrecipient invoices, one from the University of Colorado and the other from the University of Wyoming. However, in one of these cases, the Fund Manager was unable to locate a copy of the email from the PI documenting the PI's approval of the invoice.

Management Corrective Action:

The GRD Fund Manager desk manual has been revised to remind fund managers to maintain documentation of PI approvals to pay subrecipient invoices. As revised, the desk manual now reminds fund managers that when processing sub-recipient invoices, original documents (including PI approval) are to be attached to the PO and retained in the GRD Business Office in the appropriate files. Regarding the specific subrecipient invoice mentioned above, the Business Office has obtained documentation of PI approval of this invoice.

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C. Supervisory Approval of Timesheets

During our review, we noted one instance where supervisory approval of an employee's timesheet was not documented.

University of California Business and Finance Bulletin IA-101, Internal Control Standards: Departmental Payrolls, states that and individual's time records shall be approved by the employee's supervisor. During our review, AMAS examined the GRD timesheets for one month from within the audit period. This process identified one employee in a management position within the Division whose timesheet did not contain a signature to document supervisory approval.

We understand that it is the intention of the business office that all GRD employees will eventually be integrated into the UCSD MyTime Entry system. This will help to ensure that supervisory approval of employee attendance records is consistently documented.

Management Corrective Action:

The Division is ensuring that supervisory approval is documented in accordance with University policy. The MSO's time is being approved electronically by the GRD Director.

D. Express Card Activity

Express Card purchases by the GRD Director were reviewed by someone reporting to the Director.

University of California Business and Finance Bulletin-BUS-43, Material Management, states that *"In order to ensure that the verification of expenditures is an entirely independent process, (the reviewer) should not be the subordinate of any procurement cardholder. In general, this means that department heads and Management Services Officers cannot be issued a procurement card."* BUS-43 also provides, however, that this requirement may be waived on a case-by-case basis.

During our review we noted that the GRD Director's Express Card purchases are being reviewed by the GRD Associate Director. Our testing of Express Card transactions did not identify any inappropriate or unjustified transactions.

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Management Corrective Action:

The Section Head now approves the Director's Express Card activity.

E. Policy Language for Direct Charges

The GRD written policy for direct charging lab and computer supplies in the Fund Manager Desk Manual was ambiguous and subject to misinterpretation.

GRD policy provides that items such as lab and computer supplies are treated as direct cost, wherever identifiable to a particular cost objective, in accordance with OMB Circular A-21. This language is consistent with A-21 and the campus Accounting Disclosure Statement.

The policy directs Fund Managers to verify all account codes for the purchase of supplies, which is appropriate. However, the policy also states that the code for office supplies (638070) should always be changed if the fund source is federal. Federal auditors may misinterpret this language. Changing the account code for actual purchase of office supplies, which may be appropriate under certain circumstances, is inappropriate.

During our review AMAS tested a sample of six purchases for computer-related supplies which were charged to Federal awards. We were satisfied that these sampled items were charged in accordance with OMB Circular A-21 and university policy.

Management Corrective Action:

GRD's policy for directly charging lab and computer supplies to Federal grants has been clarified in the Fund Manager Desk Manual.

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 Audit Results by Business Office Functional Process
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| Business Office Process | AMAS Audit Review Procedure | | | | Risk & Controls Balance Reasonable (Yes or No) | Audit Conclusion | Comments |
|---|-------------------------------------|---|--|--|--|-----------------------|---|
| | Analytical Review of Financial Data | Internal Control Questionnaire/ Separation of Duties Matrix | Process Walk-through (Lit Document Review) | Transaction Testing (Sample Basis) | | | |
| Payroll and Labor Clearing Activities | √ | √ | √ | Reviewed timesheet processing and labor clearing account financial activity and year-end balance for the Fiscal Year 2011/2012. | Yes | Improvement Suggested | Controls were generally adequate, but timesheet processes were not always in strict compliance with University policy. (See audit report findings A & C.) |
| Contract & Grant Activity (Post Award Admin.) | √ | √ | √ | Reviewed three awards totaling \$1.5 million; reviewed grant files for completeness, evaluated non-payroll and payroll expenses. | Yes | Improvement Suggested | Controls were generally adequate. However several opportunities for enhancing the draft fund manager desk manual related to documentation were noted. (See audit report findings B & E.) |
| Express Card | √ | √ | √ | Reviewed 20 judgmentally selected transactions; traced to supporting documents. | Yes | Improvement Suggested | In general, controls over Express card purchases were satisfactory. However, to be in strict compliance with University policy, the Director's purchases should be reviewed by someone who does not report to the Director. (See audit report finding D.) |
| Transaction Processing - Non-Payroll Expenditures | √ | √ | √ | Reviewed 10 judgmentally selected transactions; traced to supporting documents. | Yes | Satisfactory | Separation of duties appeared adequate. Non-payroll expenditures appeared reasonable and properly supported by documentation. |

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 Audit Results by Business Office Functional Process
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| Business Office Process | AMAS Audit Review Procedure | | | | Risk & Controls Balance Reasonable (Yes or No) | Audit Conclusion | Comments |
|---|-------------------------------------|---|--|---|--|------------------|--|
| | Analytical Review of Financial Data | Internal Control Questionnaire/ Separation of Duties Matrix | Process Walk-through (Ltd Document Review) | Transaction Testing (Sample Basis) | | | |
| Travel | √ | √ | √ | Reviewed 10 trips totaling \$20,981; traced to electronic vouchers & supporting documents. | Yes | Satisfactory | Travel activity was monitored for compliance with policies and procedures. No exceptions were noted. |
| Business Meeting and Entertainment Expenses | √ | √ | √ | Reviewed 5 business meeting events totaling \$14,332; verified compliance with BUS-79. | Yes | Satisfactory | Business meeting and entertainment activity was monitored for compliance with policies and procedures. No exceptions were noted. |
| Operating Ledger Review & Financial Reporting | | √ | √ | Examined documentation of DOPE reviews and SAS 112 key control procedures. Reviewed Transaction Sampling Management Report as of 12 31, 2012. | Yes | Satisfactory | Financial activity was routinely monitored for compliance with relevant requirements. No exceptions were noted. |
| Non-Payroll Expenditure Transfers | √ | √ | | Judgmentally selected six ENPET transactions and reviewed them for timeliness and to determine if they were adequately documented. | Yes | Satisfactory | Transfer were timely and explanations appeared reasonable. No exceptions were noted. |

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 Audit Results by Business Office Functional Process
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| Business Office Process | AMAS Audit Review Procedure | | | | Risk & Controls Balance Reasonable (Yes or No) | Audit Conclusion | Comments |
|--------------------------|-------------------------------------|---|--|---|--|------------------|--|
| | Analytical Review of Financial Data | Internal Control Questionnaire/ Separation of Duties Matrix | Process Walk-through (Lit Document Review) | Transaction Testing (Sample Basis) | | | |
| Equipment Management | √ | √ | √ | Judgmentally selected six equipment purchases, and reviewed them for appropriate approval and to ensure that the purchases were updated to CAMS on a timely basis. | Yes | Satisfactory | Equipment is being properly tracked. Periodic inventories are conducted in accordance with University policy. |
| Recharge Center Activity | √ | √ | √ | Reviewed recharge facility written procedures. Reviewed 6 judgmentally selected recharge sales transactions. Traced to supporting documents, noting proper approvals. | Yes | Satisfactory | Recharge center activity is being conducted in accordance with University policy. |
| Payment Authorizations | √ | √ | √ | Reviewed 10 judgmentally payment authorization transactions; traced to supporting documents. | Yes | Satisfactory | Separation of duties appeared adequate. Expenditures appeared reasonable, and supported by documentation and in compliance with University policies. |