

University of California  
San Francisco



**Audit Services**

June 28, 2012

**JOHN ELLIS**

Assistant Vice Chancellor and Controller  
Controller's Office

**SUBJECT: Contracts and Grants Management  
Audit Services Project #12-023**

As a part of the fiscal year 2011-2012 Audit Plan, Audit Services performed a review of contracts and grants management at the University of California, San Francisco (UCSF). UCSF was awarded \$762 million in federal awards for fiscal year 2010-2011.<sup>1</sup> The U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) is charged with examining the performance of HHS grantees in carrying out their responsibilities. The HHS OIG has a regular practice of examining University compliance to federal regulations (i.e. 2 CFR, Parts 215 and 220, more commonly referred to as Office of Management and Budget (OMB) Circulars A-110 and A-21 respectively).<sup>2</sup> Improper cost reporting and not meeting cost sharing commitments could have a negative financial impact on the University, compromise future research funding and damage the University's reputation.

In accepting the federal awards, UCSF is obligated to comply with the OMB Circulars A-21, Cost Principles for Educational Institutions and A-110, Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations. These Circulars establish the principles for determining costs applicable to grants, contracts and other agreements, and establish consistent, uniform standards in the administration of these agreements.

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<sup>1</sup> OSR Extramural Funding Statistics website  
(<http://or.ucsf.edu/osr/5346DSY/version/4/part/AttachmentData/data/UcsfAw.pdf>)

<sup>2</sup> OIG 2012 Work Plan included reviews of indirect costs claimed as direct costs at colleges and universities and cost sharing commitments

Principal Investigators (PIs) have primary responsibilities for complying with the terms, conditions and requirements of their federal awards, with support from their departments, Extramural Funds Department (EMF) of the Controller's Office and the Division of Contracts & Grants (C&G) within the Office of Sponsored Research.

The purpose of our review was to assess administrative salary and non-salary expenses directly charged and cost sharing committed to Federal awards for compliance with specific requirements of OMB Circulars A-21 and A-110 and University policies. The objectives of our review are listed below.

- 1) Assess internal controls implemented to ensure compliance with regulatory requirements and University policies;
- 2) Determine if administrative salary and non-salary expenses charged to federal awards are allocable, allowable, reasonable and consistent;
- 3) Determine if the University's committed cost sharing on federal awards is properly identified, tracked and fulfilled.

The scope of our review was federal awards active between April 2011 and March 2012. We aggregated administrative salary and non-salary expenses directly charged to federal awards by NCA codes and fund and identified direct charges of \$11.1 million in administrative salaries and \$6.5 million in administrative non-salary expenses posted to federal awards.<sup>3</sup> Based on a review performed by EMF, as of March 2012 there were 27 federal awards with cost sharing for a total commitment of \$3.6 million. Field work was conducted from April to June 2012.

To complete the review, the following procedures were performed:

- Reviewed applicable regulatory requirements, UCSF policies and procedures regarding the practices for cost sharing and charging federal awards;
- Interviewed EMF and C&G department staff to determine the extent of central monitoring and controls implemented for compliance with these policies;
- Sampled 15 administrative salary expenses and 36 administrative non-salary expenses from 10 federal awards where 4 awards were from School of Medicine and 2 each from School of Nursing, School of Dentistry and School of Pharmacy;
- Obtained justifications supporting direct charges of administrative salary and non-salary expenses to federal awards from department management and Principal Investigators, and evaluate these justifications for compliance with A-21 requirements.

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<sup>3</sup> Aggregation was based on specific title codes and Natural Classification Account (NCA) codes that are similar to those being reviewed by the OIG in their current review of UCSD.

- Interviewed EMF and C&G department staff to understand the processes to capture, track and monitor the University's committed cost sharing portion of federal awards

Based on the procedures performed, effective internal controls have been implemented to comply with regulations and University policy requirements. Additionally, administrative salaries and non-salary expenses reviewed were generally charged appropriately to federal awards; and cost sharing commitments sampled, in the absence of a cost sharing tracking system, were reasonably tracked and monitored for compliance with the requirements of A-21 and A-110 respectively.

In particular, improvements to increase communication of the cost sharing requirements and enhanced central monitoring of fulfillment of cost sharing by departments have been made based on the results of a previous internal audit in 2007. UCSF does not have a cost sharing system that automates the capturing and reporting of cost sharing commitments; knowing that the manual processes are fragmented and may not be comprehensive. This is evident as we observed during the audit that committed cost sharing efforts are not consistently reported on individual awards in the University's Effort Reporting System (ERS).

According to Chapter P-196-13, Section III of the UC Accounting Manual, "For University personnel who are paid on or have commitments to work on Federal contact and grant funds, a certification of effort must be completed by the employee or responsible official certifying the percentage of his or her total work effort applicable to sponsored research." There is an expectation that monitoring and reporting of cost sharing will improve once the new pre-award system and the new Chart of Accounts (COA) are implemented in the coming year.<sup>4</sup>

However, we did identify improvement opportunities involving central continuous monitoring for administrative expenses charged directly to federal awards and the reporting of committed cost sharing on Federal Financial Statements (FFRs) that will further enhance compliance with regulatory requirements and University policies.

#### **A. Administrative Salary and Non-Salary Expenses**

**Internal controls over administrative expenses directly charged against federal awards would be strengthened by implementing a central monitoring program.**

PIs, with support from their departments, are charged with the responsibility to incur expenditures in accordance with applicable guidelines.

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<sup>4</sup> The new pre-award system is expected to enhance the tracking of cost sharing information while one of the objectives of the COA project is to reduce the number of NCAs.

In a decentralized environment it is a challenge to assure compliance with these requirements. EMF has provided training and guidance to departments to ensure direct charging of federal awards is consistent across the Campus.

During the test work performed on administrative charges, departments were generally able to provide sufficient justification to support the allocation of the sampled expenses to the sponsored award. Nevertheless, we did identify some minor instances of administrative expenses that did not appear to be made on a reasonable basis.

Central continuous monitoring would ensure consistent application of rationale supporting directly charging of administrative expenses to federal awards.

### **Recommendation**

EMF will implement a continuous monitoring program by December 31, 2012, that will include specific provisions for administrative expenses charged directly to federal award for compliance with regulatory requirements and University policies.

## **B. Reporting of Committed Cost Sharing on FFRs**

**EMF needs to determine if voluntary committed cost sharing needs to be reported on FFRs.**

Federal regulations require institutions to submit FFRs periodically and after the end of the award agreement.<sup>5</sup> EMF currently does not report voluntary committed cost sharing as part of their close out process on FFRs. Based on our review, it appears that the cost sharing needs to be reported.

### **Recommendation**

EMF will survey the other major UC research campuses by September 30, 2012, to determine if they report voluntary committed cost sharing on FFRs. Based on the results of the survey, appropriate action will be taken on this matter.

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<sup>5</sup> Interim FFRs are required either quarterly, semi-annually or annually, based on direction from the Federal agency. Quarterly and semi-annual reports are due 30 days after the respective reporting period (3/31, 6/30, 9/30 or 12/31). Annual reports are due 90 days after the end of each reporting period. Final FFRs are required 90 days after the award period end date.

We thank the personnel in EMF and C&G for their assistance and cooperation shown to us during this review. Please do not hesitate to contact me if you have any questions or require further information.

Sincerely,



Rick Catalano  
Director

c: Associate Vice Chancellor Hildebrand-Zanki  
Director Radkowski  
Vice Chancellor Vermillion