

UC RIVERSIDE: AUDIT & ADVISORY SERVICES

Date: October 28, 2014

To: Bobbi McCracken, Associate Vice Chancellor, Financial Services
Charles Greer, Associate Vice Chancellor, Research

Subject: Audit of Contracts & Grants – Post Award – (Lower Transaction Volume Organizations)

Ref: R2014-09

We have completed our audit of Contracts & Grants – Post Award (Lower Transaction Volume Organizations) in accordance with the UC Riverside Audit Plan. Our report is attached for your review.

We will perform audit follow-up procedures in the future to review the status of management action. This follow-up may take the form of a discussion or perhaps a limited review. Audit R2014-09 will remain open until we have evaluated the actions taken.

We appreciate the cooperation and assistance provided by you, as well as your and other departments' staff. Should you have any questions concerning the report, please do not hesitate to contact me.

Gregory Moore
Director

xc: Audit Committee Members
LaRae Lundgren, Associate Vice Chancellor, Student Affairs and Enrollment Services
Sarah Sharp-Aten, Assistant Dean, Administration
Kennett Lai, Assistant Dean
Pauline Librenjak, Assistant Controller
Cathy Eckman, Chief Financial & Administrative Officer
Cynthia Wells, Director
Caron Miller, Assistant Director

UNIVERSITY OF CALIFORNIA AT RIVERSIDE

AUDIT & ADVISORY SERVICES

MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS

INTERNAL AUDIT REPORT R2014-09

CONTRACTS & GRANTS
POST AWARD
(LOWER TRANSACTION VOLUME ORGANIZATIONS)

OCTOBER 2014

Approved by:

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I. MANAGEMENT SUMMARY

Based upon the results of work performed within the scope of the audit, it is our opinion that the system of internal controls over the Contracts and Grants (C&G) post award process for lower transaction volume organizations (i.e. Graduate Division (GD), Vice Chancellor of Student Affairs (VCSA), and University Extension (UNEX), etc.), with the exception of the issues noted in the Observations (Section III), is satisfactory and generally in compliance with sponsoring agency requirements and applicable University policies and procedures.

Applicable campus and unit management have taken a proactive approach and made progress in enhancing controls as evidenced by the following positive observations:

- 1) Extramural Funds Accounting (EMF) continues to support the campus by meeting with departments to disseminate C&G information regarding applicable laws, regulations, policies and procedures. EMF also continues to serve as a control point approving and denying paper cost transfer requests.
- 2) Campus management has provided and continues to provide enhancements on Full Accounting Unit combination edit checking and edits on expired funds transactions.
- 3) The Financial Analysis Reporting System (FARS) provides reports by department and/or unit of C&G deficits and trends, transactions past fund end date, and Federal Cost Transfers (FCT)/Non-Federal Cost Transfers (NCT) volume. Several units have integrated this tool into their C&G monitoring process. Other units are still in the process of evaluating how this tool can enhance monitoring.
- 4) EMF and Research and Economic Development's (RED) Sponsored Programs Administration (SPA) have resumed the quarterly C&G User's Group meetings starting May 2014.
- 5) SPA has created a new group referred to as Research Administrators INC (Informative Noontime Collaboration) to promote collaboration among research administrators, within the colleges/departments and SPA, to facilitate sharing of information in an informal, friendly setting. The group meets on a monthly basis.

However, for units examined (i.e. GD, VCSA, and UNEX), we observed some areas that need enhancement to strengthen internal controls and/or effect compliance with sponsoring agency requirements and University Policy.

- 1) Several individuals (GD and UNEX) with C&G administration/oversight responsibilities have not taken the C&G Overview or FCT/NCT training dating back to 2003 (Observation III.A).
- 2) We noted some areas (GD and VCSA) with high volume or high dollar federal cost transfers greater than 120 days from the original transaction date and greater than 90 days after fund expiration date. Symptoms included ongoing deficits and pre-award spending without proper authorization (Observation III.B).
- 3) A cost sharing report provided by VCSA to EMF was incorrect for two of five funds selected for testing (Observation III.C).
- 4) We were unable to determine how \$24,858 in expenditures (VCSA) benefited one contract (Observation III.D).
- 5) VCSA Sponsored Program Administration oversight needs to be enhanced (Observation III.E).

These items are discussed below. Minor items that were not of a magnitude to warrant inclusion in the report were discussed verbally with management.

II. INTRODUCTION

A. PURPOSE

UC Riverside Audit & Advisory Services (A&AS), as part of its Audit Plan, performed a limited review of selected C&G to evaluate compliance with the sponsoring agencies' requirements and certain University policies and procedures.

B. BACKGROUND

The amount of C&G expenditures at UCR was approximately \$92 million in Fiscal Year (FY) 2012-2013. Over the years, A&AS has conducted various C&G Post Award audits. However, the focus was usually on the large colleges, traditionally associated with large C&G funding (i.e. College of Natural and Agricultural Sciences; Bourns College of Engineering; College of Humanities, Arts, and Social Sciences, etc.). C&G expenditures excluding large colleges were approximately \$10,747,000 in FY 2012-2013 as follows:

Unit	FY 2012-2013 (in thousands)
Vice Chancellor Student Affairs (VCSA)	\$4,124
Graduate Division (GD)	3,601
University Extension (UNEX)	1,701
Other units*	1,321
Total C&G Expenditures	\$10,747

**Other units include UC Mexus, University Library, Research and Economic Development, Biomedical Sciences, Undergraduate Education, School of Business Administration, Cooperative Extension-College of Natural and Agricultural Sciences, and Chancellor/Executive Vice Chancellor.*

C. **SCOPE**

We reviewed records and supporting transactions for selected funds in: VCSA, GD, UNEX, RED, and Undergraduate Education that occurred between July 1, 2010 and June 30, 2013.

The review included evaluating whether procedures for the selected contracts comply with University policies and procedures, C&G terms and conditions, and good business practice in selected units. The review was principally limited to the following areas:

1. Preliminary Assessment – Our preliminary assessment included an overview of the following areas:
 - a) General Overview and Risk Assessment
 - b) General Control Environment
 - c) Business Processes
 - d) Information and Communication Systems
2. Internal Control Questionnaire (ICQ)
3. Analytic Review – Performed an analytic review of C&G expenditures by department, budget category, and fund type for three fiscal years ended FY 2012-2013 including:
 - a) Overdrafts
 - b) Transactions after award end date (focus on transactions greater than 90 days past end date)
 - c) Cost Transfers (focus on cost transfers greater than 120 days after original transaction date)
 - d) Transactions near end date
4. Timeliness of Financial and Cost Sharing Reports
5. Adequacy of training, documentation and other communication methods

6. Facilities & Administrative Cost Calculations (F&A).

D. INTERNAL CONTROLS AND COMPLIANCE

As part of the review, internal controls were examined within the scope of the audit.

Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

Substantive audit procedures were performed from October 2013 through April 2014. Accordingly, this evaluation of internal controls is based on our knowledge as of that time and should be read with that understanding.

III. OBSERVATIONS, COMMENTS, AND RECOMMENDATIONS**A. Staff C&G Training**

We noted that some individuals with C&G administration/oversight responsibilities have not taken the C&G Overview or FCT/NCT training dating back to 2003.

COMMENTS

Live C&G Overview and FCT/NCT training sessions were discontinued in 2009. Currently, EMF training offerings are via online classes. However, such training is not required for new or existing staff (refresher courses at specified intervals). We noted that the average attendance for the classes has dropped; in fact several individuals with significant C&G administration/oversight responsibilities in UNEX and GD have not taken classes either at all or in many years. Across the University, average annual attendance for these classes is as follows:

Class	Live (2003-2009)	Online (2010-2013)
C&G Overview Class	80	16
FCT/NCT Class	26	16

We note that mandated online staff training pertaining to the Payroll Certification System (PCS), a demonstration process overseen by the

Department of Health and Human Services to replace Effort Reporting, was well attended in our 9 and 18 month PCS audits.

We noted that only one of the three units reviewed have participated or were aware of Research Administrators INC (although it appears to be generally well attended across other departments/units).

The lack of training of C&G staff may have contributed to the exceptions noted in this report.

RECOMMENDATIONS – ACCOUNTING OFFICE AND RED

We recommend the following:

- a) Re-communicate available training offerings and other learning resources to units.
- b) Review the scope and depth of the present training to ensure adequate coverage of key areas.
- c) Consider separating new training from update courses.
- d) Require new and existing staff to complete training as deemed appropriate.
- e) Consider scheduling regular live training.

RECOMMENDATIONS – GD AND UNEX

Key C&G users and their supervisors should attend offered training as deemed appropriate, and participate in C&G user groups.

MANAGEMENT RESPONSE – ACCOUNTING OFFICE AND RED

The Accounting Office and RED concur. C&G related training offerings will be re-communicated via Scotmail and RSpace My Messages portals no later than November 30, 2014. With the forthcoming Uniform Guidance (UG) changes, the Accounting Office and RED have already discussed the opportunity to provide training as part of the dissemination of UG. RED and the Accounting Office have reinstated the C&G Users Group meetings. In-person regular live training will be considered, however, as part of a larger campus training effort, the campus is exploring the use of webinar type formats that can be recorded for viewing at a later date. RED is currently recruiting for a Principal C&G Training Officer with 50% time dedicated to providing C&G training to the campus.

MANAGEMENT RESPONSE – GD

Graduate Division concurs with these recommendations, but suggests that the Accounting Office and RED provide updated and specific training courses as required of each staff position. Due to the turnover and transfer

of staff on campus, an update on what a staff member has completed and needs to complete and/or reviewed for a position would be helpful.

MANAGEMENT RESPONSE – UNEX

University Extension recognizes that additional training and guidelines for updating of training is always valuable for our staff. Therefore we would like to participate in any training offerings and will follow any suggested training guidelines provided by the Accounting Office and RED. In the past we participated in the C&G User meeting and will return to sending a representative. The suggestion of updating training seems reasonable. University Extension will actively commit to identifying training and require personnel who deal with C&Gs to complete courses as appropriate.

B. Cost Transfers/Deficits

We noted some areas with high volume or high dollar FCTs greater than 120 days from the original transaction date and greater than 90 days after the fund expiration date. Symptoms included ongoing deficits. In one case, the transactions pertained to pre-award spending on another fund.

COMMENTS

We noted the following:

- i. **TRIO Funds** – Although not material (less than \$3,500 on three funds), the volume of FCTs greater than 120 days from the original transaction date appears to be high (count 74). A large number of these were also greater than 90 days past the fund expiration date to resolve ongoing (although not material) deficits.
- ii. **Graduate Division** – Student Information System interface transactions on one federal fund, totaling approximately \$750,000, continued for up to four months after the fund expiration date. These transactions put the fund in deficit for this amount over several months and were cost transferred to another increment six months after the fund expiration date.

Cost Transfers over 120 days past the original transaction date and/or over 90 days past the fund expiration date, and overdrafts (which represent unapproved deficit spending) place the University at risk for disallowed expenditures, fines, penalties, and other sanctions. This could raise a “red flag” to external auditors and sponsoring agencies regarding the University’s ability to properly administer awards. It also may adversely affect EMF’s ability to issue final or interim financial reports, delay final billing, and result in lost interest and uncollectible amounts, penalties and fines as well as future sanctions, and/or financial loss to the University.

RECOMMENDATIONS – VCSA STUDENT AFFAIRS AND ENROLLMENT SERVICES (SAES)

We recommend that management review and implement processes that:

- Reduce the number of cost transfers greater than 120 days from the original transaction and greater than 90 days after the fund expiration date.
- Identify and resolve fund deficits in a timely manner.

MANAGEMENT RESPONSE – VCSA SAES

VCSA SAES rectified and placed controls in place to minimize reoccurrence.

RECOMMENDATIONS – GD

We recommend that management review and implement processes that:

- Reduce the number of cost transfers greater than 90 days after fund expiration date.
- Identify and resolve fund deficits in a timely manner.
- Ensure Pre-award spending is authorized.

MANAGEMENT RESPONSE – GD

Graduate Division will reduce the number of cost transfers greater than 120 day and greater than 90 days after the fund expiration. The issue was identified early in the process and GD will continue to work with RED and EMF to resolve sooner. Please note, the outstanding issue occurred due to the expiration of a long-term NSF award that was renewed with a new fund number.

C. Cost Sharing

Cost sharing reports provided by VCSA SAES to EMF were incorrect for two of five funds selected for testing.

COMMENTS

The two funds noted with an incorrect cost sharing report were related to University Eastside Community Collaborative (UECC). While the total cost share reported amount was correct, the details were incorrect.

Cost sharing becomes a legal obligation that must be fulfilled when UCR submits a proposal that contains a cost sharing commitment and the sponsor makes an award in response to that proposal. Failure to fulfill the cost sharing commitment may result in the sponsor reducing available project funds.

University of California Office of the President C&G Manual, Chapter 5 – Cost Sharing, Section 5-500 COST SHARING RECORDS AND REPORTS states, “*General University requirements for preparing cost sharing records and reports are found in Accounting Manual Chapter A-000-7, “Official Documentation Required in Support of University Financial Transactions,” Section II. J., “Cost Participation on Sponsored Projects.” Chapter 5 of the C&G Manual requires that accounting officers retain for Federal audit or examination copies of the Cost Sharing Contribution Report prescribed by that Manual to substantiate University participation in the costs of Federally sponsored research projects having a cost sharing requirement on a project-by-project basis. The Manual also directs that Principal Investigators should be prepared to provide Federal auditors with such supplementary information and records as might be practicable to explain the costs certified as having been contributed.*”

RECOMMENDATIONS – VCSA SAES

We recommend that the cost sharing report be corrected and resubmitted to EMF for their review.

MANAGEMENT RESPONSE – VCSA SAES

VCSA SAES has corrected and resubmitted the cost sharing report. Additionally, controls have been put in place to prevent reoccurrence.

D. Questionable Expenditures

We were unable to determine how \$24,858 in expenditures benefited one contract.

COMMENTS

We reviewed expenditures for selected funds in the quarter before and after fund expiration. One fund pertaining to UECC had several items purchased in the last months of the contract (\$20,000 in software licenses pertaining to the next three years, two computers, and a printer) and we were unable to determine how the expenditures benefited the contract.

RECOMMENDATIONS – VCSA SAES

Since the department was unable to provide explanations indicating how the expenditures benefited the contract, we recommend that the expenditures be transferred to an unrestricted fund source.

MANAGEMENT RESPONSE – VCSA SAES

VCSA SAES is working with the agency to obtain approval of the expenditure; such approval should be secured by January 1, 2015.

E. VCSA Sponsored Program Administration Oversight

Although VCSA has significant extramural fund activity (over \$4 million in FY 2012-2013), it appears that the C&G infrastructure does not have sufficient unit oversight as evidenced by the current and past C&G audit report exceptions.

COMMENTS

As stated in this report, we noted instances where VCSA sponsored funds had:

- a) High volume FCTs both greater than 120 days from the original transaction date and greater than 90 days after fund expiration date
- b) Ongoing deficits
- c) Erroneous Cost Sharing reports
- d) Questionable expenditures

Moreover, the R2013-A GEAR UP audit report (covering a fund administered by VCSA SAES) dated March 21, 2014 highlighted a number of similar exceptions.

Also, the job description for the individual with primary C&G administration responsibilities for several large federal C&Gs in the unit has not been updated to reflect the current job responsibilities with respect to C&G administration.

RECOMMENDATIONS – VCSA

We recommend that VCSA management establish clear responsibilities for monitoring and oversight. Also, job responsibilities for individuals with C&G administration and oversight responsibilities should be updated as appropriate.

MANAGEMENT RESPONSE – VCSA

In October, 2013, VCSA established an Internal Operating Procedure specific to C&G Management which encompasses appropriate fund management structure and oversight, financial reporting requirements, and contract and reference information. Additionally, we have formally established quarterly reporting of all C&G as well as regular meetings between the central office's C&G Analyst and the department's C&G Analyst to review, plan, and trouble shoot any concerns.