



AUDIT AND ADVISORY SERVICES  
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April 22, 2019

To: Rod C. Alferness, Richard A. Auhl Professor and Dean  
Joni Glenn, Assistant Dean of Budget and Administration  
College of Engineering

Re: **College of Engineering**  
**Audit Report No. 08-19-0005**

As part of the 2018-19 annual audit services plan, Audit and Advisory Services has completed an audit of College of Engineering. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. Enclosed is the report detailing the results of our work.

We sincerely appreciate the cooperation and assistance provided by personnel in College of Engineering. If you have any questions, please contact me.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ashley Andersen".

Ashley Andersen  
Director  
Audit and Advisory Services

Enclosure

cc: Chancellor Henry Yang  
Executive Vice Chancellor David Marshall  
Assistant Chancellor for Finance and Resource Management Chuck Haines  
UCSB Audit Committee  
Senior Vice President and Chief Compliance and Audit Officer Alexander Bustamante

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## UCSB Audit and Advisory Services

### Internal Audit Report **College of Engineering**

April 22, 2019

**Performed by:**

Antonio Mañas-Melendez, Associate Director  
Irene Camargo, Senior Auditor

**Approved by:**

Ashley Andersen, Audit Director

Report No. 08-19-0005

## EXECUTIVE SUMMARY

### OBJECTIVE

The objectives of this review included determining whether:

- Sponsored project practices were appropriate, specifically:
  - Direct costs charged to sponsored projects were allowable, allocable, reasonable, and properly supported.
  - Effort reporting data was submitted in a timely manner and certified by the principal investigator.
- Recharge<sup>1</sup> proposals were prepared annually, business plans were developed to eliminate surplus or deficits, and usage costs incurred were correctly charged.
- Access to financial reports were available and used to facilitate financial oversight.

### CONCLUSION

Based on the results of the work performed within the scope of the audit, we found College of Engineering has established overall effective internal controls related to sponsored projects and operational business processes. However, we found one income recharge proposal was not submitted and there is a need for additional training related to coding transactions as recharge versus a transfer of expenses.

Finally, it could be beneficial for the College of Engineering to obtain additional financial reports to facilitate financial oversight from an overall budget and actual expenditure perspective.

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<sup>1</sup> Recharge: The assessment (charge) by one campus department for goods or services, based on an identifiable unit of measure, furnished to another campus department.

## **OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES**

### **1. SPONSORED PROJECTS**

#### **OBSERVATION**

We reviewed 16 expenses in eight sponsored project awards that were active between July 2017 and June 2018 and concluded direct costs were overall allowable, allocable, reasonable, and properly supported. However, we found travel transactions did not always follow University policy requirements. Specifically, we found:

- Five of eight travel reimbursements reviewed did not comply with the timely submittal of the travel expense claims to Business and Financial Services, within a reasonable amount of time not to exceed forty-five days after the return of the trip, as required by University of California Business and Finance Bulletin G-28, *Travel Regulations* (UC Policy G-18).
- One travel transaction for lodging costs was incurred one week before the pre-award begin date.

The four National Science Foundation (NSF) effort reports included in our review were certified and timely submitted by principal investigators on the amount of effort that they and their employees spent on sponsored projects.

#### **RECOMMENDATION**

We recommend that the College of Engineering communicate to the department Business Officers the need to:

- Submit travel reimbursements within a reasonable amount of time, not to exceed forty-five days after the return of the trip.
- Incur expenditures within the sponsored project award funding period.

In addition, we recommend the College of Engineering discuss with departments whether additional training or changes in current procedures could help to minimize these issues.

#### **MANAGEMENT RESPONSE**

The College of Engineering will communicate to the department Business Officers the need to:

- Submit travel reimbursements within a reasonable amount of time, not to exceed forty-five days after the return of the trip.
- Incur expenditures within the sponsored project award funding period.

In addition, College of Engineering will discuss with departments whether additional training or changes in current procedures could help to fully comply with travel requirements.

Expected completion date: July 31, 2019.

## 2. RECHARGE FACILITIES

### OBSERVATION

Our review of seventeen recharge facilities, providing goods and services within the College of Engineering, found that all rates were presented to the Income and Recharge Committee last year for approval, with the exception of one recharge facility. Additionally, we found that Chemical Engineering had incorrectly coded three account-funds as recharge instead of using the transfer of expenditures (TOE) process to allocate costs.

### RECOMMENDATION

We recommend that College of Engineering:

- Submit a current income and recharge proposal for Course Material Fees.
- Review Chemical Engineering's use of recharge coding and work with the Accounting Department to appropriately use the TOE process to transfer expenditures.

### MANAGEMENT RESPONSE

College of Engineering departments will:

- Submit a current income and recharge proposal for Course Material Fees.
- Review Chemical Engineering's use of recharge coding and work with the Accounting Department to appropriately use the TOE process to transfer expenditures.

Expected completion date: July 31, 2019.

## 3. FINANCIAL REPORTING

### OBSERVATION

We determined, through interviews and review of business and financial practices, that College of Engineering departments have effective controls to track allocation of funds and expenses. In addition, departments prepare and monitor individual sponsored project budgets. However, we identified that there is an opportunity to expand financial reporting capabilities to facilitate financial oversight.

We were informed that Office of Budget and Planning is working with College of Engineering to enhance departmental financial reporting, including consolidated financial reports of College of Engineering. Financial reports could provide valuable information to assist College of Engineering in making business decisions in allocation of resources in areas of operations, financial status, and surplus or deficit accounts.

**RECOMMENDATION**

We recommend that the College of Engineering continue working with the Office of Budget and Planning to identify valuable departmental financial reporting, as well as, consolidated financial reports and to determine if consolidated financial reports could provide value for financial oversight.

**MANAGEMENT RESPONSE**

The College of Engineering will continue working with the Office of Budget and Planning to identify valuable departmental financial reporting, as well as, consolidated financial reports.

Expected completion date: July 31, 2019.

## GENERAL INFORMATION

### BACKGROUND

#### *College of Engineering<sup>2</sup>*

College of Engineering offers undergraduate and graduate degree programs in five academic departments:

- Chemical Engineering is a branch of engineering that uses principles of chemistry, physics, mathematics, biology, and economics to produce, transform, and transport chemicals, materials, and energy.
- Computer Engineering integrates several fields of computer science and electronic engineering to develop computer hardware and software.
- Electrical Engineering focuses on the study and application of electricity, electronics, and electromagnetism.
- Materials Engineering studies structural materials in areas of power generation and propulsion, shape-morphing systems, advanced cooling concepts, force resistant structures, and multilayer protection concepts.
- Mechanical Engineering applies engineering, physics, engineering mathematics, and materials science principles to design, analyze, manufacture, and maintain mechanical systems.

#### *Research Centers and Lab Facilities<sup>3</sup>*

The numerous research centers within the College of Engineering provide research and outreach work. Research centers are often led by faculty in collaboration with departments throughout UCSB, and with institutions around the world. These facilities offer a variety of tools for research and house state-of-the-art instrumentation laboratories. The Materials Research Laboratory (MRL) is a National Science Foundation Material Research Science & Engineering Center.

Many shared instruments on the UCSB campus are available for use via recharge to campus and off-campus users. UCSB's labs and facilities are all independently managed, and each department has unique procedures for instrument access, training, scheduling, and billing. Access for external users are always at the discretion of the individual Principal Investigator, the faculty, or the department.

#### *Office of Budget and Planning<sup>4</sup>*

The Office of Budget & Planning consists of areas that work together to provide campus management with the necessary information and analysis to make decisions regarding the most effective allocation and use of campus resources.

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<sup>2</sup> College of Engineering website.

<sup>3</sup> College of Engineering Lab Facilities website.

<sup>4</sup> Office of Budget and Planning website.



In addition, the Office of Budget and Planning is the control point to oversee and assist with the operations of recharge facilities to review and endorse all new rates, rate revisions, and review and concur with any surplus/deficit reduction plan. The Income and Recharge Committee administers the UCSB Income and Recharge guidelines process to approve and establish all new recharge facilities, approve existing rate revisions, and review and makes recommendations to reduce surplus/deficits.

#### *Business and Financial Services<sup>5</sup>*

Business and Financial Services is responsible for a broad range of accounting and financial units at UCSB, including accounts payable and receivable, equipment management, payroll, procurement services, extramural funds, and general accounting.

The Extramural Funds Accounting unit oversees the financial management of all external funding received by UCSB, including federal, state, local and other government, private contracts and grants, endowments, and gifts. They advise on matters of financial compliance and proper cost accounting. The unit provides guidance on financial reporting, effort reporting, review of high-risk expense transfers for compliance, cost share monitoring, and support to departments in managing extramural funds.

The General Accounting unit provides accounting assistance to recharge facilities, including assignment of object codes, fund set up, accounting for inventory and depreciation, and reserves. Accounting also assigns a journal number to departments for recharge billing.

## **SCOPE**

The limited scope of our review was focused on administration of sponsored projects, recharge facilities, and financial reporting during fiscal year 2017-18. Our audit and evaluation included audit tests we developed from our risk assessment in determining whether departments are following policy and procedures for sponsored projects, income and recharge processes, and best practices for financial reporting.

Specifically, we:

- Researched and reviewed relevant UC and UCSB audits and reports related to sponsored projects administration.
- Researched and reviewed UC and UCSB policies, best practices, and other guidance relevant to the scope of the audit.
- Conducted interviews with College of Engineering management to gain an understanding of department's processes, policies, and procedures for administering sponsored projects.
- Performed a risk analysis that considered sponsored projects post award monitoring procedures, recharge facility processes and transactions, and financial reporting.

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<sup>5</sup> Business and Financial Services website.

- Tested a sample of sponsored project expenses to determine whether:
  - Internal controls are in place and operating as intended.
  - Transactions were allowable, allocable, reasonable, and properly supported.
  - Effort reporting for federal funds were approved by the Principal Investigator and certified in a timely manner.
- Tested a sample of recharge facilities to determine whether:
  - All income and recharge rates were presented to the Income and Recharge Committee annually for review.
  - Explanations of steps taken to eliminate a surplus or deficit were included in the income and recharge proposal.
  - Billing and recharge records substantiate recharge rates and usage transactions.
- Reviewed for annual submission of recharge proposals, surplus or deficit corrective actions, and recharge billing records substantiated by usage and rates.
- Evaluated College of Engineering's business and financial practices for opportunities to enhance financial reporting.

## CRITERIA

Our audit was based upon standards as set forth in University of California (UC) and UCSB policies, best practices, and other guidance relevant to the scope of the audit. This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

This review emphasized, but was not limited to, compliance with:

- 2 CFR 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).
- UC Business and Finance Bulletin G-28, *Travel Regulations*.
- UC Business and Finance Bulletin BUS-43, *Materiel Management*.
- UC Business and Finance Bulletin A-47, *Direct Costing Procedures*.
- UC Contracts and Grants Manual.
- UC Santa Barbara, Accountability and Internal Control, Policy 5101, April 2000.
- UCSB Income and Recharge Guidelines, July 2013.

## AUDIT TEAM

Ashley Andersen, Audit Director  
Antonio Mañas-Melendez, Associate Director  
Irene Camargo, Senior Auditor