BYRON WASHOM
Director, Strategic Energy Initiatives
0057

Subject: The Strategic Energy Initiatives Program
Audit & Management Advisory Services Project 2011-51

The final audit report for The Strategic Energy Initiatives Program, Audit Report no. 2011-51 is attached. We would like to thank all members of the Program for their assistance and cooperation throughout the audit.

We were able to reach consensus regarding management corrective actions to be taken in response to issues observed during our review, and these actions are included in the report. Consequently, we do not require a written response to the audit report. The management corrective actions will be entered into our follow-up system, and we will contact you at the appropriate time to conduct follow-up procedures.

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 mail code 0919, or destroy them at this time.

Please call me if you have any questions regarding this audit report.

Stephanie Burke
Assistant Vice Chancellor
Audit & Management Advisory Services

Attachment

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The Strategic Energy Initiatives Program
June 2011

**Performed By:**
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Project Number: 2011-51
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Attachment A – Audit Results by Business Office Functional Process
I. Background

Audit & Management Advisory Services (AMAS) has completed a fiscal review of the UCSD Strategic Energy Initiatives Program as a supplementary audit to the approved audit plan for Fiscal Year 2010-11. This report summarizes the results of our review.

The Strategic Energy Initiatives Program (The Program) is charged with establishing and achieving the campus goals for advancements in clean energy generation, electricity storage, and energy efficiency. The Program is a small operating unit within the Vice Chancellor for Resources, Management & Planning; and Program personnel consist of the Program Director and one Fund Manager.

The Program Director is active in applying for government assistance related to clean energy and, as of the beginning of this audit, had successfully competed for two awards as follows:

<table>
<thead>
<tr>
<th>Sponsor</th>
<th>Agency</th>
<th>Type</th>
<th>Amount</th>
<th>Cost Sharing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal</td>
<td>U.S. Department of Energy</td>
<td>Grant – Year One (ARRA¹)</td>
<td>$500,000</td>
<td>$301,116</td>
</tr>
<tr>
<td>State</td>
<td>California Energy Commission</td>
<td>Grant</td>
<td>$999,949</td>
<td>$1,058,444</td>
</tr>
</tbody>
</table>

At the time of the start of this review, the following awards were pending:

<table>
<thead>
<tr>
<th>Sponsor</th>
<th>Agency</th>
<th>Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal</td>
<td>U.S. Department of Energy</td>
<td>Grant – Years Two and Three</td>
<td>$1,432,450</td>
</tr>
<tr>
<td>State</td>
<td>UC California Institute for Energy Efficiency (CIEE)</td>
<td>Sub-award Contract</td>
<td>$67,080</td>
</tr>
<tr>
<td>State</td>
<td>Center for Sustainable Energy California</td>
<td>Sub-award Contract</td>
<td>$77,103</td>
</tr>
</tbody>
</table>

In order to achieve adequate separation of duties for key fiscal activities, a number of fiscal support actions are completed by personnel in other units. For example, the Special Assistant to the VC-RM&P performs timekeeping responsibilities, and approves travel documents. Further, the Auxiliary & Plant Services - Director of Budget and Finance approves budgetary and financial journal vouchers.

II. Audit Objective, Scope, and Procedures

The objective of our review was to evaluate internal controls for fiscal activities and determine if they were adequate to provide reasonable assurance that activities were effective, were conducted in compliance with relevant policies and procedures, and resulted in accurate financial reporting. The primary focus of our review was post-award contract and grant activities.

In order to achieve our objectives we completed the following:

- Reviewed departmental organizational and financial procedures;
- Met with the Program Director and Fund Manager to discuss any potential areas of concern, and gain an understanding of business practices;
- Confirmed the fiscal roles performed by personnel outside of the Program;
- Reviewed department procedures for key business processes such as:
  - Payroll,
  - Non-payroll transactions,
  - Expense transfers,
  - Travel,
  - Express Card, and
  - Sponsored research activities (e.g., effort reporting, cost sharing).
- Evaluated electronic financial approval hierarchies within the Integrated Financial Information System (IFIS); and
- Performed detailed testing on selected key business processes to verify that internal controls were adequate and functioning in compliance with University policy.

III. Conclusion

Based on our review procedures, we concluded that internal controls over the Strategic Energy Initiatives Program needed improvement to provide reasonable assurance that activities were effective, were conducted in compliance with relevant policies and procedures, and resulted in accurate financial reporting.

Specifically, we noted the need for improvement in key contract and grant post award fiscal activities, cost sharing and effort reporting. We also noted opportunities for improvement in the following other fiscal areas: Express Card activity, review of Distribution of Payroll (DOPE) Reports, and transaction sampling.

These issues are summarized in the balance of this report.
IV. Observations and Management Corrective Actions

A. Cost Sharing

The Program had not entered cost sharing budgets into the campus Cost Sharing Subsystem and, consequently, cost sharing expenses were not being reported as required.

The Program received a state grant from the California Energy Commission. Our review indicated that the $999,949 award included a cost matching requirement of $1,058,444. The grant award terms and conditions required the recipient to maintain detailed accounting records supporting the required matching, and to report the matching expenditures on the Recipient’s quarterly requests for payment. The Office of Post Award Financial Services (OPAFS) prepared the requests for payment on behalf of the Program but did not include cost sharing as required.

The Program also received a federal grant from U.S. Department of Energy. Our review indicated that the $500,000 award included a cost matching requirement of $301,116. The grant award terms and conditions required the recipient to maintain detailed accounting records supporting the required matching, and to report the matching expenditures on the quarterly electronic Federal Financial Report (FFR)\(^2\). The Fund Manager prepared the quarterly progress report and spending plan, as required. OPAFS prepared the quarterly FFR on behalf of the Program, however, but did not include cost sharing as required.

The campus Cost Sharing System (CSS) requires that cost sharing (matching) budgets be entered into the CSS by the Fund Manager in order for Cost Sharing Financial Reports to be generated. We noted that cost sharing budgets had not been entered into the CSS for either of the awards. As a result, the Program could be at risk for potential disallowances in the event of a state and/or federal audit.

**Management Corrective Actions:**

The Program will enter cost sharing budgets in the CSS for both awards, and coordinate with OPAFS in ensuring that cost sharing expenditures are properly reported as required by the award terms and conditions for all existing and future awards. The program will also determine if prior requests for payment and/or FFR’s should be restated to include cost sharing, and be submitted to the state and federal agencies, respectively.

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\(^2\) The grant award terms and conditions also note that if the Recipient is unable to provide cost sharing, they should immediately provide written notification to the DOE Award Administrator.
B. Effort Reporting

The Program did not fulfill their effort reporting responsibilities in a complete and timely manner.

The Electronic Certification of Effort and Reporting Tool (ECERT) is a system that utilizes roles for administering the certification effort for a research project. Within a department, the Departmental Security Administrators (DSA) is responsible for assigning the roles to individuals for central administrative information systems including ECERT. The three ECERT roles to be assigned are the Preparer, the Primary Preparer, and the Certifier.

The Preparer role is designed for the person who will review the certifications, perform needed payroll adjustments and monitor the status of the certifications. Often, this is a Department Fund Manager. The Primary Preparer role is intended for personnel who will monitor department certifications via progress reports. The Primary Preparer is often the Department Management Services Officer (MSO) or the Department Business Officer (DBO). Guidelines published by the Office of Post Award Financial Services (OPAFS) indicate that the intended Certifier is the Principal Investigator (PI) who will certify effort for all members paid on their awards (IFIS indexes). However, the home department may also certify effort for their employees. In either case, the certifier needs to have first-hand knowledge of the activity, and whether the effort distribution is a reasonable estimate of the effort expended during the period covered by the report.

When access is granted for the Preparer, there is a flag that can be set to turn on automatic electronic notifications which provide effort reporting compliance reports for each department. In cases where the PI's and employees paid on their awards are in two different departments, roles need to be established by the two DSA's to fully enable compliance reporting for all employees involved.

During our review, we noted that the roles configuration for the Program was not updated when personnel changes occurred (the previous Fund Manager separated from UCSD). As a result, system generated compliance notifications were not automatically sent to the current Fund Manager who was not regularly monitoring completion of effort certifications.

Effort reporting activity for multiple individuals was not performed for the period of July through December 2010. As a result, the lack of adherence to University policies and effort reporting requirements could put the Program at risk for potential disallowances in the event of a federal audit.
**Management Corrective Actions:**

The Program Fund Manager will coordinate with OPAFS as needed to update the ECERT roles, complete and certify delinquent effort reports, and ensure that all required future quarterly effort reports are certified in a timely manner.

C. **Express Card Activity**

Express Card roles were not properly defined, and transaction reviews were not documented.

Express Card Roles – Express Card roles as summarized in the table below were not properly assigned.

<table>
<thead>
<tr>
<th>Express Cardholder</th>
<th>Express Card Department Administrator</th>
<th>Express Card Transaction Reviewer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program Director (pending)</td>
<td>Fund Manager</td>
<td>None designated</td>
</tr>
<tr>
<td>Fund Manager (current)</td>
<td>Fund Manager</td>
<td>Special Assistant to the VC-RM&amp;P</td>
</tr>
</tbody>
</table>

For the pending Express Card, a subordinate (the Fund Manager) was designated as the Department Administrator, and the Express Card Transaction Reviewer had not been designated. UC policy Business and Finance Bulletin BUS-43 defines a Reviewer as: “An individual(s) who is responsible for reviewing purchases made by the cardholder. Reviewers may not be in a subordinate relationship to the cardholder.” Subordinates acting in a reviewer capacity may not perceive they have the requisite authority to question transactions, if the need arises.

For the current Express Card, the designation of the Fund Manager as both the Cardholder and the Department Administrator is also not ideal. The designation of the Special Assistant to the VC-RM&P as the Reviewer provides some assurance of an independent review of transactions, by a person that is not subordinate to the Cardholder. However, designation of the Program Director as the Express Card Department Administrator would be preferable because the Program Director would be more likely to have firsthand knowledge of the business need for any expense, and the benefit to the funding source.
Express Card Transaction Review - The internal review of transactions was not being documented in strict accordance with University policy. The Special Assistant to the VC-RM&P reviewed receipts, but did not document the review.

Business and Finance Bulletin BUS-43 (section V.A.3.e) states that the administrative review of Express Card documents must be signed and dated, electronically or on paper, by a reviewer to indicate that an administrative review was performed.

**Recommendations:**

The Program will do the following:

- Cancel the pending Express Card;
- Designate the Program Director as the Express Card Administrator for the current Express Card; and
- Coordinate with the Special Assistant to the VC-RM&P in implementing an internal procedure to document the review of Express Card transactions according to UC policy. Specifically, Express Card receipts will be signed and dated.

D. Distribution of Payroll Expense (DOPE) Review

The Program’s process for monthly review of DOPE’s was not completed in strict compliance with policy.

The Program had a procedure for reviewing DOPE’s and the validity of payroll charges charged to departmental accounts on a monthly basis. However, the DOPE's were not signed, initialed, or dated to provide a documented basis for concluding that the review was performed.

University internal control standards for payroll expenditures require that a staff member be assigned the task of reconciling payroll expenditures and must document that a monthly review has been performed by signing and dating the Distribution of Payroll Expense Report or a reconciliation log (or similar record) maintained for this purpose (University Business and Finance Bulletin IA-101). Corresponding UCSD policies and procedures state that to ensure payroll charges are reviewed, departments are expected to establish necessary internal procedures. One of several possible methods of ensuring such reviews are documented is to require the staff member assigned the review function to sign the Distribution of Payroll Expense (DOPE) report and indicate the date of review (PPM 395-6).
The Program will document the monthly DOPE review process in accordance with University policy.

E. Transaction Sampling

Transactions selected by the campus Transaction Sampling system were not reviewed and reconciled by Program personnel on a timely basis.

The campus Transaction Sampling process in Financial Link randomly selects a sample of department financial transactions to be evaluated during the monthly operating ledger reconciliation and account validation process. During the review process, transaction processing errors are identified by error type, and corrected. To qualify for participation in this process, Department Fund Managers are required to complete training and the Department Fiscal Officer is required to periodically monitor and review the department’s transaction queue.

Our review of the Unit’s Transaction Management Reports for the period March 1, 2011 through April 30, 2011 indicated that 7 of the 12 (58%) computer generated samples for operating ledger reconciliation were not reviewed or reconciled.

The campus Transaction Sampling process provides reasonable assurance that transaction errors are timely identified and corrected. Because only a percentage of total transactions are selected for focused review, department resources are used more effectively. If selected transactions are not timely reviewed, there could be increased risk of non-compliance with federal cost accounting regulations.

Management Corrective Action:

The Program will review all sampled transactions in a timely manner, and document the results of the review.
<table>
<thead>
<tr>
<th>Business Office Process</th>
<th>AMAS Audit Review Procedure</th>
<th>Risk &amp; Controls Balance Reasonable (Yes or No)</th>
<th>Audit Conclusion</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract &amp; Grant Activity (Post Award Admin.)</td>
<td>Reviewed two awards totaling $1.5 million; evaluated journal vouchers, non-payroll and payroll expenses, effort reports, and cost sharing.</td>
<td>No</td>
<td>Needs Improvement</td>
<td>Cost sharing budgets were not entered into the Cost Sharing Subsystem (See Report Section A).</td>
</tr>
<tr>
<td>Effort Reporting (PAR's)</td>
<td>Reviewed E-CERT Reports and data.</td>
<td>No</td>
<td>Needs Improvement</td>
<td>Effort reporting activity for multiple individuals was not performed for the period of July through December 2010 (See Report Section B).</td>
</tr>
<tr>
<td>Express Card</td>
<td>Examined five Express Card transactions; reviewed Express Card roles</td>
<td>No</td>
<td>Needs Improvement</td>
<td>Selected expenditures appear reasonable for University purposes. Express Cards roles in the Program were not ideal. The internal review of transactions was not being performed as required (See Report Section C).</td>
</tr>
</tbody>
</table>

1 Scale: Satisfactory - Improvement Suggested - Improvement Needed - Unsatisfactory
<table>
<thead>
<tr>
<th>Business Office Process</th>
<th>AMAS Audit Review Procedure</th>
<th>Risk &amp; Controls Balance Reasonable (Yes or No)</th>
<th>Audit Conclusion¹</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distribution of Payroll Expense (DOPES)</td>
<td>Analytical Review of Financial Data</td>
<td>Yes</td>
<td>Improvement Suggested</td>
<td>DOPE's were not signed, initialed, or dated to provide a documented basis for concluding that the review was performed regularly (See Report Section D).</td>
</tr>
<tr>
<td>Operating Ledger Review &amp; Financial Reporting</td>
<td>Internal Control Questionnaire/ Separation of Duties Matrix</td>
<td>Process Walk-through (L td Document Review)</td>
<td>Yes</td>
<td>Improvement Suggested</td>
</tr>
<tr>
<td>Transaction Processing - Non-Payroll Expenditures</td>
<td>Transaction Testing (Sample Basis)</td>
<td>Yes</td>
<td>Satisfactory</td>
<td>Separation of duties appeared adequate. Non-payroll expenditures appeared reasonable, and supported by documentation.</td>
</tr>
</tbody>
</table>

¹Audit Conclusion refers to the overall adequacy of the internal controls within the process.
### AMAS Audit Review Procedure

<table>
<thead>
<tr>
<th>Business Office Process</th>
<th>AMAS Audit Review Procedure</th>
<th>Risk &amp; Controls Balance Reasonable (Yes or No)</th>
<th>Audit Conclusion</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Travel</strong></td>
<td>Analytical Review of Financial Data</td>
<td>✔</td>
<td>Yes Satisfactory</td>
<td>All charges selected were appropriately charged. It appears that internal controls over travel expenses were adequate.</td>
</tr>
<tr>
<td></td>
<td>Internal Control Questionnaire/ Separation of Duties Matrix</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Process Walk-through (Ltd Document Review)</td>
<td>Reviewed seven trips totaling $11,092.89; traced to vouchers (TEV's) &amp; supporting documents.</td>
<td>Yes Satisfactory</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Transaction Testing (Sample Basis)</td>
<td>Yes Satisfactory</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-Payroll Expenditure Transfers</strong></td>
<td>Analytical Review of Financial Data</td>
<td>✔</td>
<td>Yes Satisfactory</td>
<td>Transfer explanations appear reasonable. No exceptions were noted.</td>
</tr>
<tr>
<td></td>
<td>Internal Control Questionnaire/ Separation of Duties Matrix</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Process Walk-through (Ltd Document Review)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Transaction Testing (Sample Basis)</td>
<td>Yes Satisfactory</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Transaction Approval Hierarchies</strong></td>
<td>Analytical Review of Financial Data</td>
<td>✔</td>
<td>Yes Satisfactory</td>
<td>Hierarchies appeared to be appropriate.</td>
</tr>
<tr>
<td></td>
<td>Internal Control Questionnaire/ Separation of Duties Matrix</td>
<td></td>
<td></td>
<td></td>
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<td>Transaction Testing (Sample Basis)</td>
<td>Yes Satisfactory</td>
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