



UCSB Audit and Advisory Services

Internal Audit Report

Bren School of Environmental Science and Management

May 29, 2014

Performed by:

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Approved by:

Robert Tarsia, Director

Report No. 08-13-0015

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AUDIT AND ADVISORY SERVICES
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May 29, 2014

To: Dean Steve Gaines
Satie Airame, Assistant Dean for Academic Programs
Bren School

Re: **Audit of Bren School of Environmental Science & Management
Audit Report No. 08-13-0015**

Enclosed is the audit report detailing the results of our audit of the Bren School of Environmental Science & Management. This audit was part of UCSB's 2012-13 annual audit services plan, but was completed during the current fiscal year.

The primary purpose of this audit was to assess whether the Bren School is operating consistently with certain University of California and UCSB policies and requirements applicable to its operations. The scope of the audit was an examination of overall policy compliance in the areas of sponsored projects, gifts, the school's Corporate Partners Program, and recharges.

The audit found no critical weaknesses in the areas included in the scope of our review. However, our work did identify modest opportunities for improvement in some areas, including the documentation of certain expenditures and documenting a basic charter for the Corporate Partners Program.

Detailed observations and management corrective actions are included in the following sections of the report. The management corrective actions provided indicate that each audit observation was given thoughtful consideration and that positive measures have been taken or planned to implement the management corrective actions. The cooperation and assistance provided during the review by Bren School personnel was greatly appreciated. If you have any questions, please feel free to contact me.

Respectfully submitted,

A handwritten signature in cursive script that reads "Robert Tarsia". The signature is written in black ink and is positioned above the printed name and title.

Robert Tarsia
Director
Audit and Advisory Services

Dean Steve Gaines
Satie Airame
May 29, 2014
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Enclosure

cc: Chancellor Henry Yang
Interim Executive Vice Chancellor Joel Michaelsen
Senior Associate Vice Chancellor Marc Fisher, Administrative Services
Kim Fugate, Business Officer, Bren School
UCSB Audit Committee
Senior Vice President and Chief Compliance and Audit Officer Sheryl Vacca

PURPOSE

The primary purpose of this audit was to determine whether the Bren School is operating consistently with certain University of California (UC) and University of California, Santa Barbara (UCSB) policies and requirements applicable to its operations. The specific objectives of the audit were determined through the preliminary survey phase of the audit. This audit was part of UCSB's 2012-13 annual audit plan, but was completed during the current fiscal year.

SCOPE, OBJECTIVES AND METHODOLOGY

The scope of the audit was an examination of overall policy compliance in the audit areas listed in Table 1. The transactions we selected for detailed review and testing were from the period from July 1, 2012, through June 30, 2013.

Table 1 details the audit objectives for each review area.

| Table 1 | Audit Objectives |
|----------------------------|---|
| Audit Area | Objectives |
| | To determine whether: |
| Sponsored Projects | <ul style="list-style-type: none"> • Direct costs for sponsored projects were allowable, allocable, reasonable, and adequately supported, and required approvals were obtained. • Transfers of expense were allowable for the target award, adequately justified and supported, and processed in a timely manner. |
| Gifts | <ul style="list-style-type: none"> • Gift processing procedures are in accordance with UCSB gift policies and procedures. • Gift funds were used for their intended purposes, and Bren's expenditure processes are in accordance with UC and campus policies and procedures. |
| Corporate Partners Program | <ul style="list-style-type: none"> • The Bren School's Corporate Partners expenses are in compliance with sponsor agreements and UCSB policies and procedures. |
| Recharges | <ul style="list-style-type: none"> • Recharge processes are in accordance with the campus <i>Income and Recharge Guidelines</i> and with UC policies. |

To accomplish our objectives, we:

- Gained an understanding of relevant UC and UCSB policies, procedures, and guidelines, including:
 - UC Business and Finance Bulletin A-47, University Direct Costing Procedures
 - Gift/Grant/Contract/Sponsorship Determinations (November 2012)
 - UCSB Research Circular A.1, Policy on Submittal of Proposals, Acceptance of Awards, and Administration of Contracts and Grants
 - Solicitation and Acceptance of Gifts (August 2007)
 - Gift Administrative Fee (July 2012)
 - Guidelines for Gift Funds (July 2006)
 - Departmental Costing Guidelines (May 2007)
 - Income and Recharge Guidelines (July 2013)
- Gained an understanding of campus processes through interviews with Bren School personnel.
- Performed substantive reviews and testing for selected areas, including collecting, testing, and analyzing relevant evidence and validating results with Bren School personnel. In order to determine that extramural funding practices of the Bren School were operating appropriately, we selected and reviewed in detail:
 - 20 expenditures from two sponsored projects
 - 10 transfers of expenses
 - 17 expenditures from four gifts
 - 20 Corporate Partners expenditures
 - One recharge

This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

BACKGROUND

In 1991, the Regents of the University of California gave their approval to establish the School of Environmental Science & Management at UCSB, now named the Bren School of Environmental Science & Management. Plans for a new building to house the school were begun a year later. The mission of the Bren School is to play a leading role in researching environmental issues, identifying and solving environmental problems, and training research scientists and environmental management professionals.

The Bren School's faculty members undertake research in fundamentally important areas of environmental science, social sciences, management, and policy, which is published in leading scholarly journals. In fiscal year 2011-12, there were approximately 175 master's students in the school, equally divided between first and second-year students, and 40 PhD students. The Bren School's operational expenses were about \$7.3 million.

During fiscal year 2012-13, the Bren School administered six extramural awards totaling approximately \$161,000. The majority of Bren's awards were administered by campus organized research units, Marine Science Institute (MSI), Earth Research Institute (ERI), and the Institute for Social, Behavioral, and Economic Research (ISBER). MSI received \$535,000 in allocations

for two awards, ERI received \$3.3 million for 22 awards, and ISBER received \$149,000 in allocations for one award.

The goals of the Bren School are outlined in Table 2.

| Table 2 | Bren School Goals |
|---------|--|
| Goal | Description |
| 1 | Broaden the scope of work in addressing local, regional, national, and global environmental issues. |
| 2 | Cultivate interdisciplinary research that will result in integrative solutions to complex environmental problems. |
| 3 | Develop innovative and distinctive educational and training programs to produce future environmental leaders in academia, business, government, and the community. |
| 4 | Attract, retain, and support world-class faculty. |
| 5 | Enhance resources available to support the mission and vision of the Bren School. |
| 6 | Increase awareness of the Bren School locally, nationally, and internationally. |

Source: Adapted from Bren Strategic Plan 2012- 2015

Corporate Partners Program

The Bren School Corporate & Foundation Partners Program is the means by which the school forms mutually beneficial alliances with local and national corporations and organizations that share Bren School’s commitment to sustainable enterprise, leading-edge research, and educational programs.¹ The Bren School uses the Corporate Partners structure to recognize four levels of recognition: Platinum, Gold, Silver, and Bronze.

SUMMARY OPINION

The work performed within the scope of the audit identified no critical weaknesses. However, our work did identify modest opportunities for improvement in some areas, including the documentation of certain expenditures and documenting a basic charter for the Corporate Partners Program. Audit observations and management corrective actions are detailed in the remainder of the audit report.

¹ Source: Bren School website. http://www.bren.ucsb.edu/supporting/corporate_giving.html

DETAILED OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS

A. Corporate Partners Program Charter

The audit noted that there is no formal charter for the Corporate Partners Program. A basic charter would clearly outline the roles, responsibilities, and expectations of both the Bren School and participating partners, and would therefore help protect the interests of all parties.

Management Corrective Actions

We concur and have developed:

- The Corporate & Foundation Partners Program Charter, which includes the program's mission statement and outlines the roles, responsibilities, and expectations for both the Bren School and the Corporate & Foundation Partners.
- A charter for the restructured Corporate & Foundation Partner Advisory Council, which includes the mission statement for this advisory group, outlines the group's organization and structure, establishes standards for regular meetings, and provides for a website that will include the Advisory Council mission statement and members' bios.

The Bren School will publish and communicate these charters in Corporate Partners literature and on the Bren School website by July 1, 2014.

Audit and Advisory Services will follow up on the status of this issue by August 31, 2014.

B. Expired Extramural Awards

Before an award can be closed on campus, a UCSB Close Memo must be prepared by the department administering the award. The close memo must be signed by the principal investigator and submitted to Extramural Funds (EMF) Accounting two weeks prior to the deadline required to submit the final financial report and/or final invoice. Failure by the administering department to timely submit a close memo to EMF Accounting results in the administering department becoming liable for any payments denied by the sponsoring agency due to late submission of required closing documents².

The audit found that four expired awards were closed without closing memos. We also noted that one award had an overdraft of \$41,327, while another award was underspent by \$50,933. The Bren Finance & Operations Manager indicated that the problem occurred when one of these awards was renewed and the money was assigned to another award in error. She also stated that Bren would transfer from the underspent award to the award in overdraft, and that the residual money would be refunded. This appears to be a logical measure to take in this exceptional circumstance; however, the 120-day transfer period has expired. Transfers made after the 120-day period may be considered non-compliant with University policy and therefore deemed unallowable by federal auditors. To comply with

² Business and Financial Services - Extramural Funds website.

University policies, the overdraft should be cleared through the *Late Cost Transfer Escalation Procedure for Contracts & Grants*.

The Bren School should timely submit closing memos for all extramural awards, and all overdrafts should be cleared during the closeout process. Also, the overdraft created in the account should be properly cleared in accordance with established policies for late cost transfers.

Management Corrective Actions

A Close Memo has since been processed for the two expired awards referenced. A data entry (numerical error) occurred during the transitional period of the two awards, with alternate staff assisting with processing of the financial documents. This occurred at the time when recruitment of the Financial Manager was taking place. (The Financial Manager position was vacant for several months during the recruitment phase.)

In September, 2013, an additional staff member was hired to assist the financial section, adding considerable support to an overburdened unit. This additional FTE was made possible through a staff restructure plan.

Going forward, contract and grant requests from Bren faculty members are to be deployed to official organized research units (ORUs) such as ERI, MRI, and ISBER, where they have affiliate appointments. These departments have full-time contract and grant employees, who can assist Bren faculty with administering their agreements. The Bren School will continue to vet all such requests that arise, and may choose to administer short term agreements such as summer internship awards.

Audit and Advisory Services will follow up on the status of this issue by September 30, 2014.

C. Improvements in Documentation of Expenditures

The audit found the following minor issues with transfers of expense and the expenditure transactions we tested for sponsored projects, gifts, and Corporate Partners sponsorships:

- Two transfers of expense (20% of the sample) were not recorded in the general ledger within 120 days of the original charge, as required by *Departmental Costing Guidelines*.
- Two approved transfers of expense (20% of the sample) did not have a record of who approved them. Bren School records lacked the complete approval document.
- Five expenditures of gift funds transactions (29% of the sample) were not formally approved, as required by UCSB *Departmental Costing Guidelines*. The transactions lacked supporting documentation, because four of them were recurring expenses and the remaining one was an internal campus charge.
- Two expenditures from sponsored project funds (20% of the sample) were not supported by documented explanations of the purpose of the expenditures prior to the audit. This documentation was obtained during the audit.

- All Corporate Partners expenditures we reviewed were aligned with the purposes of the sponsorship funds. However:
 - One transaction was not adequately documented prior to the audit. Supporting documentation was identified during the audit.
 - Two expenditures (10% of the sample) were not supported by documented explanations of the purpose of the expenditures. This documentation was generated during the audit.

| Table 3 | | |
|--|----------------------|---------------|
| Supporting Documentation for Travel | | |
| Type of Expenditure | Documentation | Number |
| Visitors | Invitation Letter | 3 |
| | Email | 2 |
| | Travel Voucher | 1 |
| | Attendee List | 2 |
| | Agenda | 2 |
| UCSB Travelers | Email | 8 |
| | Travel Voucher | 2 |
| | Attendees List | 2 |
| | Agenda | 2 |

Source: Auditor Analysis

D. Procedures and Guidelines for Expenditures

The audit also found that there are opportunities to standardize and improve documentation for certain travel expenses. We reviewed 24 travel expenditures, including 14 for UCSB travelers and 10 for visitors. We noted that five different types of documents were used to document the purpose of travel by UCSB personnel, and four different types of documents were used to document the purpose for the expenses of visitors. The supporting documentation for travel is outlined in Table 3. More consistency in the types of required types of documentation would make processing of travel expenditures simpler and more efficient, and would help ensure compliance with requirements.

Although the audit found that expenditure transactions were mostly processed and documented appropriately, additional improvements would help ensure compliance with policies and donor requirements. We recommend developing and communicating departmental procedures that:

- Reinforce UC and UCSB requirements regarding transfers of expenses, approvals, and documentation of the purpose of expenditures.

- Define the types of documents required to support the purpose of certain travel expenses, and include standardized templates for supporting fund expenditures, the purpose of travel expenditures, etc.

Management Corrective Actions

C. Improvements in Documentation of Expenditures

With the hiring of a new staff member in September, 2013, regular 30-day review of all funds has been done on a timely basis.

Two of the transfers of expense were electronically approved by the designated Bren School authority within the Transfer of Expense system; however, the staff member neglected to forward the document for signature once the electronic authorization was made. This occurred one year ago, and the process has since changed. The Business Officer manually signs all transfers of expense requests immediately following the electronic approval. This ensures all backup documentation is reviewed simultaneously with the electronic approval.

With the five expenditures of gift funds, four were for recurring cellular charges, for which a direct bill was later established to cover the cost of business-related cellular charges for the Corporate Liaison. With the intercampus media recharge, there was an e-mail approval, but this was not attached at the time of payment. Proper signatory information was obtained, but we did not have the original e-mail agreement attached to each the payments. All staff have been asked to ensure that e-mail communications with authorizations are attached at all times. The Business Officer reviews the payment requests for completeness, and will ensure that this practice is followed.

D. Procedures and Guidelines for Expenditures

We are currently updating the Financial Services and Administration section of the Bren website. Updates to the policies and procedures section within these pages will ensure that we are up-to-date and consistent with UC and UCSB travel requirements. There will continue to be regular communication to the Bren School community regarding policies and procedures.

We are using UCSB standardized templates for processing of the payments; however, multiple customized templates were used as worksheets by various Bren academic units. Use of standardized templates for all units will eliminate the additional step involved of transferring data over to the UCSB standardized templates when requests are processed by the Financial Unit.

We expect these updates to be complete no later than August 31, 2014.

Audit and Advisory Services will follow up on the status of these issues by September 30, 2014.