

The logo for UCIrvine, featuring the letters 'UCI' in a large, bold, serif font, followed by 'RVINE' in a smaller, all-caps serif font. A vertical line separates the 'UCI' and 'RVINE' parts of the logo.

UCIRVINE

The text 'INTERNAL AUDIT SERVICES' in a serif font, positioned to the right of the UCIrvine logo.

INTERNAL  
AUDIT SERVICES

## Sales and Services Agreements

*Internal Audit Report No. I2019-207*

October 1, 2019

***Prepared By***

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INTERNAL AUDIT SERVICES  
IRVINE, CALIFORNIA 92697-3625

October 1, 2019

**RONALD S. CORTEZ, J.D., M.A.**  
**CHIEF FINANCIAL OFFICER AND VICE CHANCELLOR**  
**DIVISION OF FINANCE AND ADMINISTRATION**

**Re: Sales and Service Agreements Audit**  
**Audit No. I2019-207**

Internal Audit Services has completed an internal audit of Sales and Services Agreements and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.

*Mike Bathke*

Mike Bathke  
Director  
UC Irvine Internal Audit Services

Attachment

C: Audit Committee  
Snehal Bhatt, Chief Procurement Officer, Procurement Services  
Richard L Coulon, Associate Vice Chancellor, DFA  
Katherine L Gallardo, Director of Strategic Planning, Budget Office  
Alex Tiquia, Interim Director, Office of Contracts

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## I. MANAGEMENT SUMMARY

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In accordance with the fiscal year (FY) 2018-19 audit plan, Internal Audit Services (IAS) reviewed UC Irvine (UCI) sales and services agreement processes. Many processes appear to be functioning satisfactorily. Opportunities for improvement exist in the formation of sales and services agreements by units, oversight of departmental sales and services activities, and system reporting and tracking of sales and services agreements. In addition, certain roles and responsibilities could be further defined and documented, and certain sales and services practices aligned with policy. The following opportunities were noted.

**Formation of Sales and Services Agreements** – Units have the responsibility for establishing binding written agreements for their sales and services activities, with assistance from Procurement/Contract Services. However, some units provide goods or services to outside entities without a binding contract in place. This observation is discussed at V.1.

**Oversight of Departmental Sales and Services Activities** – Departments providing goods or services to non-University users have primary responsibility for depositing and recording sales and services revenue. However, central department oversight of departments' sales and services revenue is limited. This observation is discussed at V.2.

**System Reporting and Tracking of Sales and Services Agreements** – Contract Services utilizes an internal share drive system to retain electronic copies of sales and services agreements and other documentation. The share drive is not automated, and is unable to summarize information and provide key statistics for sales and services activities/agreements. This observation is discussed at V.3.

**Roles and Responsibilities for Sales and Services Activities** – Opportunities exist to further document process descriptions, internal policies and procedures, key internal controls and/or roles and responsibilities for sales and services activities/agreements. This observation is discussed at V.4.

**Sales and Service Policy and Current Practice** - Processes by which department requests for sales and services activities/accounts are approved and sales and services agreements are established appears to vary from UCI policy for sales and services income. This observation is discussed at V.5.

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## II. BACKGROUND

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Sales and services activities involve units that render standardized goods or services to a non-University user for which revenue is collected. The Budget Office is the office of record for matters concerning fees levied against non-University users. The charges established for the sale of goods and services provided by departments to non-University entities need to recover full University costs, both direct and indirect. The Budget Office reviews and has final approval for all requests to establish a sales and services activity. It is the University's policy not to sell goods or services to outside consumers where such sales would be in competition with commercial sources.

The Activity Information Sheet (Sales and Services Activity Sheet) is a key document for the Budget Office. The form provides a summary description of the sales and services activity to be provided by the unit, and documents the account to be used in posting related financial transactions. In addition, the form provides the overhead rates necessary to recover direct and indirect costs. The form is also used to document the approval signatures of the Budget Office and the unit's Dean/Director.

A sales and services agreement is used to document a contractual agreement between a sales and services unit and a specific non-University user. The sales and services agreement is a legally binding agreement with specified beginning and ending dates that outlines the terms and conditions between the University and an external customer for a specific sales and services activity. A sales and services agreement is initiated when a unit incurs expense to make available a product or service which is sold to the non-University user for an established price, or at a price based on an established standard pricing method.

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## III. PURPOSE, SCOPE AND OBJECTIVES

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The purpose of the audit is to review internal controls for requesting, reviewing, and approving sales and services agreements for compliance with University policies and procedures.

The following audit objectives were included in the review.

1. Roles and responsibilities in sales and services activities.
2. Systems in place for management of sales and services agreements.
3. Verification of sales and services agreements

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#### IV. CONCLUSION

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Many processes involving sales and services activities and agreements appear to be functioning satisfactorily. However, opportunities for improvement exist in the formation of sales and services agreements by units, oversight of department sales and services activities, and system tracking and reporting for sales and services agreements. In addition, process descriptions, internal policies and procedures, key internal controls, and roles and responsibilities for sales and services activities could be further documented, and certain sales and services practices could be further aligned with policy.

Additionally, current UCI policy does not require that sales and services accounts be closed when related sales and services activities have concluded. Departments can post revenue for sales and services/other activities to these accounts, instead of establishing new sales and services accounts through the Budget Office. As a result, it is difficult for the Budget Office to determine how sales and services accounts are being utilized by units.

Observation details were discussed with management, who formulated action plans to address the issues. These details are presented below.

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#### V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

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##### 1. Formation of Sales and Services Agreements

###### **Background**

Procurement/Contract Services provides UCI departments with a contract template that includes UCOP standard terms and conditions and also assists departments in developing customized sales and services agreements.

Contract Services assists in ensuring that sales and services contracts are fully executed. In addition, the Chief Procurement Officer has authority to form binding contracts on behalf of the UC Regents.

### Observation

UCI departments have the primary responsibility for establishing agreements for their sales and services activities, with assistance from Contract Services. However, some departments have provided goods or services to non-University users without a written contract in place. Results from the current review and a prior reviewed disclosed the following issues.

1. A review of July-December FY 2019 campus on-line billing system (CBSO) payment postings to University Laboratory Animal Resources (ULAR) sales and services accounts disclosed income received from an outside pharmaceutical company and from two non-UC faculty through their private Universities. Discussions with the ULAR Operations Manager disclosed that ULAR or the Transgenic Mouse Facility (TMF) are providing services to the company and the two non-UC faculty. Services provided to the pharmaceutical company and one of the professors required contracts. However, contracts were not in place.
2. A sample review of sales and services accounts for the UCI School of Medicine indicated that the Physiology and Biophysics High-end Proteomics Core Facility (HPCF) received sales and services revenue from a private university in November 2018. However, a sales and services agreement was not in place. In addition, the HPCF utilized recharge rates that did not include amounts for indirect costs.
3. A FY 2017 review of the School of Physical Sciences (SPS) disclosed that a business unit within SPS was providing services to several non-University entities without sales and services agreements in place.

University policy states that a sales and services agreement should be initiated when a unit wishes to render a service or provide goods to a non-University user for which revenue is collected. Additional outreach and training provided to departments involved in sales and services activities may assist in ensuring that binding sales and services agreements are formed when necessary.

### **Management Action Plan**

The Budget Office will collaborate with Procurement/Contract Services to deliver training for business officers on the process for establishing income activities and the expectations that a fully executed sales and service agreement must be obtained for all sales/services to external entities. Training will begin by winter (Jan-Mar) 2020 to include the MAABOs (Managers of Academic and Administrative Business Offices), OSAM (ORU/Special Research Program Administrative Managers) group, and sessions targeted to department managers and financial personnel that handle recharge/sales and service activities that will be made available at least once a year.

## **2. Oversight of Departmental Sales and Services Activities**

### **Observation**

Units providing goods or services to non-University users have primary responsibility for depositing and recording sales and services revenue. However, central department oversight of departments' sales and service revenue has been limited. UCI does not currently have dedicated resources to provide oversight of department sales and services revenue. Once sales and services activities have been approved by the Budget Office and sales and services agreements have been established through Contract Services, the units are solely responsible for managing their sales and services accounts, agreements and revenue.

Ongoing oversight of departmental sales and services activities and revenue by the Budget Office and/or other central departments would provide a means to detect departments that are providing goods or services to non-University users without an agreement, or with non-binding and/or expired agreements. Continuing oversight may also disclose departments that are incorrectly accounting for sales and services revenue and/or are non-compliant with sales and services policy.

### **Management Action Plan**

Over the past two years, the Budget Office has conducted a review process of sales and service income on a unit-by-unit basis, asking units to identify income deposited to sales and service funds, comparing the purpose with

approved activities on file, and identifying activities needing an approved activity form. All units except for the School of Medicine are now complete. The review process for the School of Medicine is likely to take a couple of years to fully complete, but these efforts will continue.

Going forward, the Budget Office will continue these efforts as a standard annual review process. The Budget Office will review income deposited to “sales and service-educational activities” funds to evaluate whether object codes are consistent with sales and service income. A further review will involve a sampling of approximately 1/5th of the funds with activity to confirm that an Income Activity Sheet is on file (and to collect a current version from the unit if one is not); to evaluate whether the activity is being appropriately assessed to recover indirect costs, consistent with policy and documented waivers. The set of funds, involving 1/5th of those with activity, will be clearly defined each year, and will not repeat for five years. The sampling process within the 1/5 set of funds will focus on higher dollar and volume activities that could involve greater risk, as well as a more random selection of a small number of funds to provide a reasonable level of internal control over the types of activities taking place. A copy of the income review and findings will be shared with Procurement each year with the goal of aligning with sales and service agreement tracking efforts.

### **3. System Reporting and Tracking of Sales and Services Agreements**

#### **Observation**

Contract Services utilizes an internal share drive system to retain electronic copies of sales and services agreements and related documentation. However, the share drive is not automated; the agreements are stored as PDF or Word documents. There is not any mechanism in place to track the agreements. Contract Services has also implemented an electronic signature application for sales and services agreements.

Currently, the share drive system is unable to summarize information and provide data and key statistics for sales and services activities and agreements, and does not provide an easy method to monitor agreement expiration dates. In addition, the system impedes Contract Services’ ability to know how many sales and services agreements are in place, and to maintain a current inventory list of agreements.



Opportunities exist to further develop the system so that it can assist Contract Services in tracking sales and services agreements and gathering key information about sales and services activities. An automated system that can provide key information and reporting could assist Contract Services and other users in completing timely reviews of sales and services activities, and ensuring the timely renewal of sales and services agreements.

### **Management Action Plan**

Procurement Services has implemented a system to number Sales and Services agreements and track high level agreement information (Client name, Agreement number, dollar amount, start date and end date) utilizing Google Sheets. Procurement Services has also added language to Sales and Services agreement templates stating that all payments must reference the Sales and Services agreement number.

Kuali Research has also been identified as a possible technology resource to provide a formal system for submission, tracking and workflow for Sales and Services agreements. Although an initial overview of Kuali Research was promising, due to current project demands at the Office of Research/Sponsored Projects, the Budget Office and Procurement Services will provide an update to Internal Audit regarding the viability of Kuali Research by rowinter (Jan-Mar) 2020.

## **4. Roles and Responsibilities for Sales and Services Activities/Agreements**

### **Observation**

Opportunities exist to further document process descriptions, internal policies and procedures, key internal controls and roles and responsibilities for sales and services activities/agreements. Some of the topics may include the following.

1. Division of responsibilities among the contracting units, which includes Contract Services and Health Services (Medical Center) Contracting, and may also include the Division of Continuing Education and the Office of Global Engagement.

2. Processes and workflow involved at various stages of a sales and services activity/agreement, from the time a sale and services activity is commenced and an agreement is executed to the time the contract expires, and/or the sales and services activity is completed.
3. Processes for providing training, communication and outreach to departments with sales and services activities/agreements.
4. Processes, roles, and responsibilities for centralized oversight of departmental sales and services revenue.
5. Other processes and workflows, as needed.

Documenting process descriptions, internal policies and procedures, key internal controls and roles and responsibilities can assist in identifying and clarifying tasks in sales and services activities.

### **Management Action Plan**

A draft revision to UCI policy 703-14 has been prepared and is undergoing review by UCI's manager of administrative policies and procedures. As soon as the review/consultation/feedback is completed, the revised policy will be implemented, and many of the updates already in place address observations identified in this audit. The revised UCI policy 703-14 is anticipated to be ready in December 2019.

Regarding training, with release of the revised 703-14 procedure, which consolidates the steps to establish new recharges as well as sales and service activities into a single process, the Budget Office, in partnership with Procurement/Contract Services, will launch a training program to better familiarize the sales and services units with appropriate management of income activities. Training will be made available at least once a year as well. These steps are consistent with the Management Action Plan (MAP) for Observation 1.

Regarding workflow and roles and responsibilities, the existing 703-14 procedure outlines the process for establishing new income activities, but is unclear about ongoing activities. The draft 703-14 procedure that is under review is also lacking some of the information. Therefore, the document will

be further revised to clearly indicate that for income activities that have been approved, all ongoing activities that take place should have an active and fully executed sales and services agreement from every client that applies to the service being provided; that Procurement/Contract Services is the responsible office with which to coordinate for review and execution of such agreements; and that Procurement/Contract Services will coordinate with the Budget Office if there is any question whether an activity is new.

Regarding oversight, see the MPA for Observation 2.

Regarding the division of responsibilities involving other contracting units, additional information is needed to understand the nature of contracts being approved by Health Sciences, Division of Continuing Education, and Office of Global Engagement (the latter related to International MOUs). In coordination with the UCI Policies and Procedures Office and the current revisions underway, 703-14 will be updated to clearly indicate that 703-14 does not cover these specific types of contracts, indicate the unit responsible (consistent with approved delegations), and appropriate links will be added to the procedures for those contracts.

## **5. Sales and Services Policy and Current Practice**

### **Observation**

UCI policy for sales and services income (Sec. 703-14: Sales and Services Income Guidelines) was last updated in 2011. In addition, the policy does not describe processes that occur after the sales and services activity is approved and the agreement is executed. Also, certain parts of the policy appear to vary with current practice, as follows.

UCI policy indicates that the Budget Office makes final approval of the sales and services activity and notifies the department when the activity and agreement is approved. This is true when a new activity is initiated and includes the first sales and service agreement. However, when conducting business with subsequent clients, departments request assistance from Contract Services in executing an agreement. As a result, the Budget Office does not receive feedback from Contract Services with regard to completed sales and service agreements, and is unaware as to the number of outstanding sales and service agreements.

The existing procedure 703-14 gives the impression that the Budget Office is the sole responsible office. However, practices beyond the activity approval sheet and the first sales and service agreement are not consistent with full oversight by the Budget Office. A best practice would either involve Budget in an oversight role over all aspects of income activities, or would involve updating procedures to include a clear process for subsequent agreements, identify responsibilities for executing, maintaining, and tracking ongoing business activities; and outline the process for providing oversight of units to ensure that income activities are supported by proper documentation.

### **Management Action Plan**

As noted in the MAP for Observation 4, revisions to 703-14 are being implemented (December 2019 estimate), which will address the lack of clarity about the process for ongoing activities, and the need for signed agreements for all activities. The draft procedure document will be further revised to clearly indicate that for income activities that have been approved, all ongoing activities that take place should have an active and fully executed sales and service agreement from every client that applies to every service being provided; that Procurement /Contract Services is the responsible office with which to coordinate for review and execution of such agreements; and that Procurement/Contract Services will coordinate with Budget if there is any question whether an activity is new.

Please see the MAP for Observation 2 for steps already in place and being implemented pertaining to central oversight of activities.