

August 25, 2020

HARRY HELLING
Executive Director, Birch Aquarium
0207

**Subject: *Birch Aquarium
 Report 2020-07***

The final report for our department audit of the Birch Aquarium, Report 2020-07, is attached. We would like to thank all members of the department for their cooperation and assistance during the review.

Because we were able to reach agreement regarding management action plans in response to the audit recommendations, a formal response to the report is not requested. The findings included in this report will be added to our follow-up system. We will contact you at the appropriate time to evaluate the status of the management action plans.

UC wide policy requires that all draft reports be destroyed after the final report is issued. We also request that draft reports not be photocopied or otherwise redistributed.

Christa Perkins
Director
Audit & Management Advisory Services

Attachment

cc: Judy Bruner
 Alexander Bustamante
 Katherine Kiaunis
 Margaret Leinen
 Cheryl Ross
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UC San Diego

AUDIT & MANAGEMENT ADVISORY SERVICES

Birch Aquarium
Report No. 2020-07
August 2020

FINAL REPORT

Performed By:

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ATTACHMENT A – Audit Results by Business Office Functional Process

I. EXECUTIVE SUMMARY

Audit & Management Advisory Services (AMAS) has completed a review of the Birch Aquarium at Scripps (BAS) as part of the approved audit plan for Fiscal Year 2019-20. The objective of our review was to evaluate whether internal controls and business practices were adequate to provide reasonable assurance that operations were effective, in compliance with University policies, and resulted in accurate financial reporting. The scope of our review consisted of financial activities between July 1, 2018 and January 31, 2020. Cash handling operations were excluded from the scope of our review, as this area was recently evaluated as part of a separate audit (*Cashiering Compliance – Birch Aquarium, AMAS Project 2018-03*).

Based on our review, we concluded that BAS internal controls and business practices were generally adequate and provided reasonable assurance that operations were effective, performed in compliance with University policies and procedures, and resulted in accurate financial reporting. However, we did identify areas in which internal controls and business processes could be improved. To address our findings, BAS management has agreed to take the following actions:

A. Effort Reporting

All future effort reports will be certified by the PI or an employee with firsthand knowledge of the employee's activities.

B. Express Card Administration and Use

1. During the implementation to Concur, BAS will ensure that Financial Unit (FinUnit) Approvers are not assigned to review transactions incurred by Cardholders to which they directly or indirectly report. For this reason, BAS will ensure that the BAS Director is assigned as the reviewer for the PCard assigned to the Chief Operating Officer in the Concur system.
2. BAS will remind all cardholders, their supervisors, and transaction reviewers to adhere to PCard guidelines regarding restricted purchases.

C. CANRA Administration

1. BAS will re-evaluate which employees should be categorized as Mandated Reporters under CANRA.
2. BAS will develop a process to periodically review employee personnel files to ensure the existence of all required CANRA Mandated Reporter forms.
3. BAS will update job descriptions to accurately reflect when compliance with University's policy on CANRA is required.
4. BAS will ensure that all Mandated Reporters complete the CARNA training, as required in the BAS Employee Handbook.

D. Process Documentation

1. BAS will document and implement a process to review its operating ledger on a monthly basis (akin to the IFIS Transaction Sampling process that was previously required per Control Tracker).
2. BAS will document and implement a process to review its payroll/personnel records monthly (akin to IFIS DOPEs Review process that was previously required per Control Tracker).
3. BAS will document and implement a process to review the physical inventory as noted in the Campus Asset Management System.

Observations and related action plans are described in greater detail in section V. of this report.

II. BACKGROUND

Audit & Management Advisory Services (AMAS) has completed a review of the Birch Aquarium at Scripps as part of the approved audit plan for Fiscal Year 2019-20. This report summarizes the results of our review.

BAS opened in September 1992 with the mission of providing ocean science education, interpreting Scripps research, and promoting conservation. The facility is open throughout the year, with the exception of three holidays. Annually, it has welcomed more than 440,000 visitors including more than 40,000 school children.

BAS features more than 60 habitats of fishes and invertebrates from the cold waters of the Pacific Northwest to tropical habitats. On display are more than 3,000 animals representing 380 species in themed exhibits. Exhibits range from a two story 70,000-gallon Giant Kelp Tank, which immerses visitors in the local marine environment, to hands-on tide pools where visitors are encouraged to interact with sea life. A recent addition is the *Seadragons & Seahorses* exhibit which features a custom designed exhibit tank that is 18 feet wide and nine feet high.

As shown in the schedule below, BAS is a self-supporting enterprise with multiple revenue streams. The largest source of revenue is admission fees, though BAS does operate a gift shop and collect lease income from an on-site cafe. All income from the units is deposited into BAS accounts in the campus Integrated Financial Information System (IFIS), except for income from Memberships, which is deposited directly to UCSD Foundation accounts.

Statement of Revenues for Fiscal Year to date 12/31/2020

Business Operation	FY2018/19 Actual	FY2019/20 Budget	FY2019/20 to 1/31/2020	% Earned
Admissions	\$4,248,150	\$4,153,280	\$2,399,132	58%
Café	\$88,621	\$82,485	\$57,652	70%
Education Programs	\$962,466	\$1,309,442	\$453,612	35%
Education Gifts and Grants		\$109,000	\$76,449	70%
Facilities Subsidy	\$60,455	\$60,456	\$35,266	58%
Gift Shop	\$1,532,840	\$1,536,559	\$913,605	59%
Gifts and Grants	\$289,537	\$260,000	\$513,168	197%
Membership	\$999,145	\$949,500	\$596,443	63%
Special Events	\$856,424	\$818,310	\$456,118	56%
Other Funding	\$59,120	\$55,000	\$27,164	49%
Total Operating Revenues	\$9,096,758	\$9,334,032	\$5,528,608	59%

The BAS facility also hosts concerts and various special events throughout the year. In the summer, there are weeklong camps for school-aged children. During the week, there are entertainment programs with outside performers aimed at toddlers and parents. In addition to inviting the public to learn more about marine the ecosystem, the facility also serves to educate schoolteachers on how to integrate marine science into their programs.

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

The objective of our review was to evaluate whether internal controls and business practices were adequate to provide reasonable assurance that operations were effective, in compliance with University policies, and resulted in accurate financial reporting. The scope of our review consisted of financial activities between July 1, 2018 and January 31, 2020. Cash handling operations were excluded from the scope of our review, as this area was recently evaluated as part of a separate audit (*Cashiering Compliance – Birch Aquarium, AMAS Project 2018-03*).

In order to achieve our objective, we performed the following:

- Reviewed system-wide and local policies, including, but not limited to:
 - University of California (UC) Business and Finance Bulletin (BFB) G-28: Travel Regulation,
 - UC BFB BUS-29; Management and Control of University Equipment,
 - UC BFB BUS-43; Materiel Management,
 - UC Policy – CANRA: Reporting Child Abuse and Neglect,
 - UC Policy PPSM-21: Selection and Appointment,
 - UC Accounting Manual, P-415-10: Capitalization of Property, Plant, and Equipment,
 - Office of Management and Budget (OMB) Circular A-21, and
 - OMB’s Uniform Administrative Requirements (OMB 2 CFR);
- Interviewed the following:
 - The Department Management Services Officer (MSO),
 - The Finance / Human Resources Manager, and
 - The Fund / Equipment Manager;
- Performed transaction data analysis and a combination of random and risk-based testing in the following areas to verify the internal controls were adequate and functioning in compliance with University policy:
 - Compliance with University CANRA policy,
 - Entertainment transactions,
 - Express card purchases and authorizations,
 - Federal award expenditures,
 - Fixed asset expenditures and inclusion in Campus Asset Management System (CAMS),
 - Gift award expenditures, and
 - Travel expenditures and authorizations;
- Reviewed the following reports:
 - Departmental fiscal year to month end comparison to budget reports,
 - Departmental Overdraft Balances report,
 - Department’s status on effort reporting certifications, and
 - Job Descriptions (JOnline);

- Searched Integrated Financial Information System (IFIS) for the presence of separated and transferred employees,
- Regarding independent evaluations of BAS operations, reviewed the following:
 - Payment Card Industry (PCI) - Data Security Standard, Attestation of Compliance for Self-Assessment Questionnaire A, and
 - PCI Attestation of Compliance for Self-Assessment Questionnaire Point to Point Encryption (P2PE).

IV. CONCLUSION

Based on our review, we concluded that BAS internal controls and business practices were generally adequate and provided reasonable assurance that operations were effective, performed in compliance with University policies and procedures, and resulted in accurate financial reporting. However, we did identify areas in which internal controls and business processes could be improved, the details of which are provided in the remainder of this report. A number of these improvements were implemented during the course of our review.

V. OBSERVATIONS REQUIRING MANAGEMENT ACTION

A.	Effort Reporting
Effort reports in the Electronic Certification of Effort and Reporting Tool (ECERT) system were self-certified by BAS employees who worked on federal awards, rather than certified by the Principal Investigator (PI) or other employee with firsthand knowledge of the employee’s activities.	
Risk Statement/Effect	
ECERT reports that are self-certified by BAS employees, rather than certified by a supervisor with firsthand knowledge of the employee’s activities, are insufficient to support salaries charged to the award and could lead to questioned costs in the event of a federal audit.	
Management Action Plan	
A.1	All future effort reports will be certified by the PI or an employee with firsthand knowledge of the employee’s activities.

A. Effort Reporting – Detailed Discussion

Federal awards require that the salaries and wages charged to the award are based on records that accurately reflect the work performed. At UCSD this is accomplished via the ECERT system. ECERT generates reports for each employee which lists all the employee’s federal research funding. Once the effort reporting period is closed, Principle Investigators (PIs) or other persons with first-hand knowledge about employee’s work may then make adjustments based on the work completed and then certify the effort report.

During our review, we observed that all effort reports were self-certified by the employees working on federal awards. We also noted one effort report where an employee who worked on two federal awards, with separate PIs, marked the check the box stating multiple certifications were required. In this instance, the employee certified his own effort report, precluding both PIs from reviewing his effort before the salary was charged to their respective awards.

By making all employees who work on sponsored awards the certifiers of their own effort reports, PIs or others with firsthand knowledge of the employees’ activities are excluded from the oversight process. ECERT reports that are self-certified by BAS employees are insufficient to support salaries charged to the award and could lead to questioned costs in the event of a federal audit.

B. Express Card Administration and Use	
Express Card usage and administration was not conducted in strict compliance with policy and program guidelines.	
Risk Statement/Effect	
Weaknesses in Express Card administration can increase the risk of restricted purchases, misuse of University funds, and non-compliance with policy.	
Management Action Plan	
B.1	During the implementation to Concur, BAS will ensure that Financial Unit (FinUnit) Approvers are not assigned to review transactions incurred by Cardholders to which they directly or indirectly report. For this reason, BAS will ensure that the BAS Director is assigned as the reviewer for the PCard assigned to the Chief Operating Officer in the Concur system.
B.2	BAS will remind all cardholders, their supervisors, and transaction reviewers to adhere to PCard guidelines regarding restricted purchases.

B. Express Card Administration and Use – Detailed Discussion

University policy (BFB-BUS 43) Material Management, Procurement Card Program) outlines University requirements on use of procurement cards. UCSD’s Express Card is a procurement option in the form of a Visa credit card for faculty and staff who have buying responsibilities, which simplifies buying routine, low-cost goods and services. Express Cardholders are responsible for abiding by Express Card usage guidelines. Designated Express Card Department Administrators (ECDAs), or designated Express Card Reviewers, are responsible for reviewing expenditures to make sure they are compliant with the University policy and program guidelines. Policy requires that ECDAs and Express Card Reviewers assigned to review Express Card transactions not be subordinate to the cardholder. For this reason, department heads and Management Services Officers are not normally issued an Express Card.

During our review we noted that the BAS Chief Operating Officer (COO) was issued an Express Card, and that the Reviewer assigned to review the transactions was a subordinate employee. We also noted one additional Express Card in which the cardholder was also assigned as the Reviewer over their own Express Card. These situations violate University policy and prevent the verification of expenditures from being an entirely independent process.

We judgmentally selected a sample of 24 Express Card transactions for further review to evaluate compliance with policy and guidelines. Our testing identified one transaction not in compliance with Express Card guidelines.

A cardholder completed a transaction for the installation of new flooring within the aquarium facility. Express Card guidelines prohibit use of an Express Card for building maintenance, alternations or repairs, and instead require that such requests be submitted through Facilities Management.

Beginning July 1, 2020, UCSD will begin transitioning to a new travel and expense system called Concur. This change will alter the process for submitting and reviewing procurement card documentation, and will involve rebranding the Express Card to the Procurement Card (PCard). With the implementation of Concur, Cardholders will be required to submit Expense Reports through the Concur system and certify their PCard transactions. Certified Expense Reports will be routed to a Financial Unit (FinUnit) Approver for review and approval (the Transaction Reviewer role will be retired). FinUnit Approvers are defined as designated Department Heads responsible for approving PCard requests and expense reports that are submitted by the Cardholder. The restrictions on the items that can be purchased using a PCard remained unchanged.

C.	CANRA Administration
<p>BAS did not always ensure that employees who are considered Mandated Reporters under the University’s California Child Abuse and Neglect Reporting Act (CANRA) policy signed the requisite forms acknowledging their role under CANRA, and job descriptions for Mandated Reporters were not always updated to reflect the employee’s obligation to comply with CANRA. We also noted that not all employees completed the CANRA Mandated Reporter eCourse training, as required by the BAS Employee Handbook and onboarding checklist.</p>	
Risk Statement/Effect	
<p>BAS is not in strict compliance with the UC CANRA policy.</p>	
Management Action Plan	
C.1	BAS will re-evaluate which employees should be categorized as Mandated Reporters under CANRA.
C.2	BAS will develop a process to periodically review employee personnel files to ensure the existence of all required CANRA Mandated Reporter forms.
C.3	BAS will update job descriptions to accurately reflect when compliance with University’s policy on CANRA is required.

C.4	BAS will ensure that all Mandated Reporters complete the CARNA training, as required in the BAS Employee Handbook.
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C. CANRA Administration – Detailed Discussion

Compliance with the California Child Abuse and Neglect Reporting Act (“CANRA”) is outlined in the UC Policy – CANRA. The policy calls for employees to sign a form entitled *STATEMENT ACKNOWLEDGING REQUIREMENT TO REPORT CHILD ABUSE*, which is retained in the employee’s personnel file. Further, University employees who have direct responsibility for the care, safety and security of people, including children and minors, are considered to fill “Critical Positions” and would therefore be subject to background checks pursuant to the system wide Guidelines on Designating Critical Positions (Personnel Policy for Staff Members (PPSM)-21).

In regards to training for Mandated Reporters, the UC policy on CANRA states that “(e)ach campus unit shall determine what, if any, training (in addition to that provided through the acknowledgment form process itself) is necessary and appropriate to advise Mandated Reporters on the subject of child abuse and neglect identification and reporting and of their obligations under the Act.” While not required under CANRA or system-wide policy, BAS local guidelines contained in the BAS Employee Handbook require that BAS employees complete the CARNA Mandated Reported eCourse training, available online via UC Learning Center, to further their understandings of the CANRA requirements.

A review of employee records observed that four recently hired employees did not have the signed form acknowledging their responsibility to report child abuse (*STATEMENT ACKNOWLEDGING REQUIREMENT TO REPORT CHILD ABUSE*) in their personnel files. Furthermore, one of them did not complete the CANRA Mandated Reporter training as required under BAS local guidelines.

D. Process Documentation

During our review we noted that some key internal controls for monthly transaction review, monthly payroll expense verification, and process for performing biennial physical inventories were not documented.

Risk Statement/Effect

Lack of documented review of financial and payroll data provides does not evidence management completion of these key controls. Without documented processes, internal controls are not effective as there are no opportunities for process improvement, cross training and evidence of what procedures were performed.

Management Action Plan

D.1	BAS will document and implement a process to review its operating ledger on a monthly basis (akin to the IFIS Transaction Sampling process that was previously required per Control Tracker).
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D.2	BAS will document and implement a process to review its payroll/personnel records monthly (akin to IFIS DOPEs Review process that was previously required per Control Tracker).
D.3	BAS will document and implement a process to review the physical inventory as noted in the Campus Asset Management System.

D. Process Documentation – Detailed Discussion

Statement of Audit Standards (SAS) 115 states that key internal control activities are to be documented in order to demonstrate that internal controls have been implemented. Documentation formalizes procedures so that they may be consistently carried out over time, are available for cross-training and staffing transitions, and can be improved upon.

A reviewed of BAS’s operations observed that some key business processes were not documented, as follows:

- Transaction Review – BAS does not complete a 100% monthly review of the operating ledgers, nor does it participate in the transaction sampling program run by the University Controller. Instead, BAS departmental managers are responsible for reviewing a monthly budget to actual comparison report. This process is undocumented and there is no evidence that the reviews are consistently completed.
- Monthly Payroll Review – UC Policy IA-101 requires that, as a normal administrative control procedure, departments review the validity of payroll payments charged or credited to their accounts. Normally, departments perform a monthly reconciliation of total salaries paid, as shown on the Distribution of Payroll Expense Reports, to total salaries approved pursuant to departmental payroll/personnel records. At BAS the monthly payroll review happens at the lower unit level where managers review the monthly expenditure on a budget to actual comparison report. The process was not documented and there was no evidence that the reviews are completed. There was no documentation that demonstrated that payroll totals were compared to prior month’s totals by employee classification, or how any differences were reconciled.
- Biennial Inventory – Biennial inventories are completed in the sense that the Campus Asset Management System records are reviewed. However, there were no written procedures on how a physical inventory verification is completed or how the results are reported to campus equipment management and department administration in compliance with UC Policy *BFB BUS-29: Management and Control of University Equipment*.

Undocumented processes increase the risk that controls will not be completed consistently, and there is no basis for process improvement.

Birch Aquarium
Audit Results by Business Office Functional Process
Audit & Management Advisory Services Project #2020-07

Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion ¹	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)			
Effort Reporting (ECERT)	√	√	√	Reviewed all certified effort reports and noted the associated federal awards. Reviewed ECERT access from point of Primary Investigator (PI).	No	Improvement Needed	BAS employees who worked on federal awards self-certified their effort reports in the Electronic Certification of Effort and Reporting Tool (ECERT) system. <i>Audit Report Observation A.</i>
Transaction Processing - Non-Payroll Expenditures	√	√	√	Reviewed 24 Express Card transactions totaling \$58,304, consisting of 10 random and 14 high risk transactions.	No	Improvement Needed	Express Card usage and administration was not conducted in strict compliance with policy and program guidelines. <i>Audit Report Observation B.</i>
Compliance with the California Child Abuse and Neglect Reporting Act (CANRA).	N/A	√	√	Selected a sample of 10 BAS Mandated Reporters and reviewed job descriptions for evidence of their obligations for CANRA compliance, that CANRA required forms were signed and that training was completed.	No	Improvement Needed	Job descriptions for mandated reporters were not always updated to reflect compliance with CANRA. BAS did not ensure that Mandated Reporters signed the requisite forms acknowledging their role under CANRA, and that they completed Mandated Reporter training, as required by the BAS Employee Handbook and onboarding checklist. <i>Audit Report Observation C</i>

¹ Scale: Satisfactory - Improvement Suggested - Improvement Needed - Unsatisfactory

Birch Aquarium
Audit Results by Business Office Functional Process
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Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion ¹	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)			
Operating Ledger Review & Financial Reporting	√	√	√	Reviewed internally prepared Budget to Actual (Fiscal Year to Current Month) reports and review related e-mails from administrator.	No	Improvement Suggested	BAS departmental managers are responsible for reviewing a monthly budget to actual comparison report. This process is undocumented and there is no evidence that the reviews are consistently completed. Audit Report Observation D
Payroll Expenditure		√	√	Verified adjusted payroll charges per operating ledgers & distribution of payroll expense reports (DOPE's).	No	Improvement Suggested	Payroll expenditure review is part of the monthly budget to actual comparison report review. The process was not documented and there was no evidence that the reviews are completed. Audit Report Observation D
Equipment Physical Inventory / Management	√	√	√	Reviewed seven randomly selected fixed asset purchases from the Purchase Order (PO) to the invoice(s) and Campus Asset Management System (CAMS).	No	Improvement Suggested	There were no written procedures on how the BAS physical inventory verification is completed or how the results are reported to campus equipment management or department administration in accordance with policy. Audit Report Observation D

Birch Aquarium
Audit Results by Business Office Functional Process
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Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion ¹	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)			
Timekeeping & Payroll	√	√	√	Reviewed timesheets, absence slips, Timekeeper Audit Report, payroll check distribution log.	Yes	Satisfactory	Controls over timekeeping appear adequate.
Travel	√	√	√	Reviewed ten randomly selected trips, and two additional trips based on the traveler, totaling approximately \$9,582, for compliance with policy.	Yes	Satisfactory	Controls over travel reimbursements appear adequate.
Gift Funds	√	√		Reviewed 15 transactions of which ten were randomly selected, and five additional items targets based on risk, totaling approximately \$74,634.	Yes	Satisfactory	There is some overlap in the purposes of the gift funds which provides BAS flexibility. Controls over the use of gift funds appear adequate.

Birch Aquarium
Audit Results by Business Office Functional Process
Audit & Management Advisory Services Project #2020-07

Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion ¹	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)			
Contract & Grant Activity (Post Award Admin.)	√	√	√	Reviewed 15 transactions on federal awards totaling \$12,320 for compliance with policy, award terms, and Uniform Guidance. Ten transactions were selected randomly, and five were selected based on risk.	Yes	Satisfactory	Controls over federal contract and grant activity appear adequate. BAS has low volume of federal award activity.
Non-Payroll Expenditure Transfers	√	√	√	Reviewed five transfers for a totaling \$12,603 for reasonableness.	Yes	Satisfactory	Controls over cost transfers appeared adequate.
Entertainment	√	√		Reviewed 10 random and two risk-based transactions, totaling approximately \$ 53,138.	Yes	Satisfactory	Controls over meals and entertainment transactions appeared adequate.