

UCSB AUDIT AND ADVISORY SERVICES

May 18, 2011

To: Acting Director Ann Bermingham
Interdisciplinary Humanities Center

Re: **Interdisciplinary Humanities Center**
Audit Report No. 08-11-00010

As part of the 2010-11 annual audit plan, Audit and Advisory Services performed an audit of the Interdisciplinary Humanities Center (IHC). Enclosed is the audit report detailing the results of our review.

The primary purpose of this audit was to review business practices and internal controls implemented by the IHC over sponsored projects to ensure compliance with University and sponsor regulations. The review included discussions with Interdisciplinary Humanities Center staff and limited testing of key areas. The scope of the audit included:

- Internal Policies and Procedures
- Accounting and Budgetary Control
- Sponsored Projects Costing
- Effort Reporting and Timekeeping
- Research Involving Human Subjects
- Information Security & Business Continuity

Based on the results of the work performed within the scope of the audit, the IHC has generally established effective controls over the management of sponsored projects. However, our review did identify areas in which internal controls could be strengthened. The more significant of these areas include general ledger reconciliation, effort reporting and payroll, and information security policy and business continuity planning.

We have included a copy of our detailed observations and management corrective actions with this cover memo. 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 by IHC staff during the review was sincerely appreciated. If you have any questions, please feel free to contact me.

Respectfully submitted,



Robert Tarsia
Acting Director
Audit and Advisory Services

Acting Director Ann Bermingham
May 18, 2011

Page 2

Enclosure

cc: Chancellor Henry Yang
Executive Vice Chancellor Gene Lucas
Associate Vice Chancellor Ron Cortez
UCSB Audit Committee
Senior Vice President and Chief Compliance and Audit Officer Sheryl Vacca
Executive Dean David Marshall
Associate Director Emily Zinn
Business Officer Ned Nash

Interdisciplinary Humanities Center

Audit Report No. 08-11-00010

Performed by:

Daniel Samec, Staff Auditor

Approved by:

Robert Tarsia, Acting Director

**UCSB Audit and Advisory Services
Interdisciplinary Humanities Center
Audit Report No. 08-11-00010**

Purpose and Scope

The primary purpose of this audit was to review business practices and internal controls implemented by the University of California, Santa Barbara (UCSB) Interdisciplinary Humanities Center (IHC) over sponsored projects to ensure compliance with University and sponsor regulations. The review included discussions with IHC staff and limited testing of key areas. The scope of the audit included:

- Internal Policies and Procedures
- Accounting and Budgetary Control
- Sponsored Projects Costing
- Effort Reporting and Timekeeping
- Research Involving Human Subjects
- Information Security & Business Continuity

Background

The IHC is a research center within the College of Letters and Science, Division of Humanities and Fine Arts. The mission of the IHC is to promote interdisciplinary scholarship, and to support new and emerging fields of study by providing opportunities and funding for collaborative research for faculty and graduate students in the humanities, fine arts, and humanistic social sciences. The IHC accomplishes its mission through several means, including providing fellowships and awards, grant management and assistance; support of research focus groups; hosting multi-campus research groups (MRGs); and sponsoring interdisciplinary academic classes at the graduate and undergraduate level.

In addition to financial management, IHC grant assistance includes research development assistance, grant-writing workshops, funding searches, and help with budgeting and proposal submission. The IHC research focus groups bring together faculty and graduate students from different fields in the humanities, with the goal of developing interdisciplinary research topics. MRGs have developed as a result of the focus groups, including the African Studies MRG, Italian Studies MRG, and the Subaltern-Popular Workshop, and the Center continues to provide space and administrative support to these groups.

The IHC is funded from a variety of sources, including allocations from the University of California Office of the President (UCOP) and UCSB, gifts and endowment funding, research contracts and grants from various sponsors, and revenue from tickets sales for IHC events. The Center received \$636,572, \$769,790, and \$410,324 in research awards in fiscal years 2008, 2009, and 2010, respectively. Sponsored project administration is conducted by the IHC Business Office, which is comprised of 2.85 FTEs divided among five employees: the Business Officer, Research Development Coordinator, Department Financial Assistant, Administrative Coordinator, and Director of Research

Development. The Business Office experienced high turnover and has recently been re-organized; four of the five employees in the Business Office have been hired since April 2010.

Summary Opinion

Based on the results of the work performed within the scope of the audit, the IHC has established effective controls over the management of sponsored projects. However, our review did identify areas in which internal controls could be strengthened. The more significant of these areas include general ledger reconciliation, object coding, effort reporting and payroll, and information security policy and business continuity planning.

The audit observations and management corrective actions are detailed in the remainder of the audit report.

Detailed Observations and Management Corrective Actions

A. Lack of Documented Policies, Procedures, and Internal Controls

The audit found that the IHC has not formally documented its internal policies and procedures related to sponsored projects and administrative matters, including documentation of internal controls required by Statement of Auditing Standards No. 112 (SAS 112). To ensure consistency and compliance with accounting and audit standards, the IHC should document its policies, procedures, and internal controls.

Management Corrective Actions

The Business Officer will document internal policies and procedures to SAS 112 standards, ensuring consistency and compliance with applicable accounting and audit standards. This major project is expected to be completed by September 30, 2011.

B. Accounting and Budgetary Control

Audit and Advisory Services reviewed several aspects of the IHC's accounting and budgetary control, with a particular focus on sponsored projects. Areas of review included delegation of responsibilities, sponsored projects training, signature authority, general ledger review, overdrafts, and shadow system usage. We noted the following:

- At the beginning of the audit, IHC signature authorizations were not up to date. One individual who had separated from the IHC was still listed as having signature authority, and one employee who was supposed to have signature authority had not been formally granted it. Although this issue was resolved during the audit, the IHC should establish business practices for maintaining current signature authorities, including granting authority for new hires and cancelling signature authorization when employees leave the IHC.
- The Online General Ledger portion of the monthly general ledger review was inconsistently documented and possibly not performed. The Business Officer indicated that the former employee responsible for the reconciliation did not perform the review properly; this was not discovered until the employee left the department, and the ledger accounts had to be re-reconciled after the departure of the employee. To help ensure that the monthly general ledger review is properly completed and documented, the work should be reviewed by the supervisor of the employee responsible for the reconciliation.
- The Associated Students (AS) sells tickets and collects cash for IHC events at the Magic Lantern Theater in Isla Vista. The audit found that the backup sent from AS to the IHC after events does not always include the AS Ticket Office Sales Invoice, which details the number of

tickets sold, prices, and seller fees. Without the sales invoice, the IHC cannot properly ensure that the appropriate amount of cash was received from the AS.

- The IHC use the Grand Unified System (GUS) as a shadow system for managing sponsored projects. However, the IHC does not use the online portion of GUS, which allows Principal Investigators (PIs) to access their award information from anywhere using a web browser. The Business Officer indicated that the volume of sponsored projects does not necessitate this level of information, but that the volume of sponsored projects is expected to increase in the near future. To make information more readily available to PIs, the online portion of GUS could be implemented as the volume of sponsored projects increases. Other departments have credited the online GUS application with helping to reduce overdrafts and quickly identifying the need for cost transfers. It also can be used to track other information important to PIs, such as final technical report due dates.

Management Corrective Actions

IHC management will implement or already has implemented the following:

- The Business Officer will establish, as part of documented policies and procedures, a process to ensure that signature authorizations are kept up-to-date. The estimated implementation date for this action is June 30, 2011.
- Currently, the Business Officer reconciles the general ledger to paper copies downloaded from Espresso, with the exception of account/funds assigned to UCIRA. The Business Officer will implement and document practices and procedures to demonstrate adequate oversight and review of UCIRA account/funds. The estimated implementation date for this action is June 30, 2011.
- Associated Students, at the request of the Business Officer, began including sales invoices with its ticket sale checks as of April 2011. This action has already been implemented.
- PIs were given GUS access to account information as of February 9, 2011. This action has already been implemented.

Audit and Advisory Services will follow up by September 30, 2011, to verify completion of implemented corrective actions.

C. Sponsored Projects Costing Practices

To ensure that costs are appropriate direct charges to sponsored project account-funds and are consistent with UC and UCSB policies, Audit and Advisory Services reviewed a sample of 25 direct costs charged to sponsored projects and all four IHC cost transfers for the period July 2010 to December 2010. Direct costs were reviewed to determine whether they are allowable under the

terms and conditions of the awards, reasonable, consistent with UC and UCSB policies, and assigned the appropriate object codes. Cost transfers were reviewed to ensure that the reason for each transfer was adequately documented, in accordance with applicable policies, properly approved, and made in a timely manner. The following table summarizes the results of our review:

Table		Sponsored Projects Costing Practices	
Audit Issues		Instances	
Non-compliance with UC Business and Finance Bulletin G-28, <u>Policy and Regulations Governing Travel (G-28)</u> .		3 instances of non-compliance with meals and incidentals reimbursement.	
Circumvention of high value purchase order/Flexcard use.		1 case of split orders.	
Incorrect Object Coding.		7 instances of at least partially incorrect coding.	
Review and approval of cost transfers.		2 cases of high risk transfers not signed by appropriate individuals.	

Source: Auditor Analysis

For cost transfers, in all four cases, the reason for the transfer was appropriate and documented, and the cost was allowable under the terms and conditions of the award.

The IHC has been able to ensure costs are allowable, allocable, and reasonable, minimize cost transfer activity, and document easily understandable reasons for cost transfers. To further improve sponsored projects costing, Audit and Advisory Services recommends the following:

- UC Policy should be followed for travel meal reimbursement to ensure consistent treatment of costs across campus and across the University, as required by OMB Circular A-21 (2 CFR 220), *Cost Principles for Educational Institutions* (OMB Circular A-21). Inconsistent costing treatment can result in disallowance of costs.
- Costs should not be split to circumvent procurement policy; Flexcard should be used for purchases, when appropriate.
- The IHC should take greater care in assigning the appropriate object code, as proper object coding prompts additional review of expenses by Accounting, affects the indirect cost calculation and rate negotiation for grants, contracts and other agreements with the federal government, and helps ensure accurate financial reporting.
- Cost transfers deemed “high risk” by the TOE system should be reviewed and approved by the appropriate individual.

Management Corrective Actions

IHC management will implement or already has implemented the following:

- Per advice of Travel Accounting, use of “travel allowance” for UC employee travel meals was discontinued April 2011. All travel meals are now documented per policy. This action has already been implemented.
- The split cost issue was from previous personnel, and is not allowed per policy. This action has already been implemented.
- Proper assignment of object codes is a very high priority for IHC and refinements in our processes to ensure proper assignment are on-going. We work with Extramural Funds Accounting (EMF) and General Accounting as necessary to improve our general methods, and in specific instances of uncertainty. This action has already been implemented.
- High risk cost transfers are normally avoided at all costs by monthly reconciliation and review. In the rare future instances where such might be made necessary – either as the result of unavoidable human error or campus audit request – the Business Officer will ensure that proper signatures are obtained. This action has already been implemented.

Audit and Advisory Services will follow up by September 30, 2011, to verify completion of the corrective actions.

D. Effort Reporting and Payroll

Under UCSB policy and OMB Circular A-21, administrative personnel’s salary and benefits are not typically allowable charges to sponsored projects. Audit and Advisory Services reviewed administrative personnel charged to IHC sponsored projects during the period of July 2010 to December 2010 to determine the appropriateness of any charges for administrative personnel. We also reviewed IHC’s compliance with effort reporting policies and procedures. Our review found the following:

- Salary and benefits of two individuals in Student Assistant title codes (4919 through 4921) were charged to sponsored projects, including one federal award. Although Student Assistant title codes can be used for individuals performing either administrative or research-related functions, and the work performed by these individuals was research-related, there were no job descriptions for these employees. Job descriptions are required by UC personnel policies, and serve to document that costs are properly chargeable to sponsored projects.
- According to UCSB’s Accounting Manual, summer 2010 Personnel Activity Reports (PARs) were required to be certified by February 1, 2011. However, as of March 24, 2011, Extramural Funds Accounting did not have records of IHC PAR submission. Although the IHC has records

of signed PARs, the effort percentage fields were not completed and the certifications were not dated. PARs are an after-the-fact method of confirming the level of individuals' efforts on federally sponsored research projects and the University's method of complying with OMB Circular A-21. Lack of timely submission of PARs can result in disallowed payroll costs on federally-sponsored research projects. The Business Officer indicated that the department was working with Extramural Funds Accounting to determine proper submission requirements.

- The IHC does not appear to have adequate separation of payroll duties. According to the UCSB Guidelines for Financial Management, "different employees should be responsible for updating the online Payroll/Personnel System (PPS), reviewing PPS transactions (PAN notices), and reviewing the monthly Distribution of Payroll Expense Reports" and "payroll checks and Surepay statements should be distributed by an employee not involved in updating the PPS, or preparing or approving payroll documents." However, the primary PAN reviewer is also the primary person for reviewing the payroll ledgers, and the primary PPS preparer is also responsible for distributing payroll checks.

To improve internal controls over effort reporting and payroll, IHC should:

- Complete job descriptions for all employees, including student employees hired into Student Assistant title codes to work on sponsored projects.
- Complete and submit all PARS to Extramural Funds Accounting by the due dates specified in UCSB's Accounting Manual.
- Implement additional separation of duties. Due to the small size of the IHC Business Office (2.85 FTE), it is difficult to attain proper separation of duties, but additional separation of duties is recommended as it improves the chances of identifying and fixing payroll errors.

Management Corrective Actions

IHC management will implement or already has implemented the following:

- The Business Officer will update and create an archive of job descriptions for all active titles, including "Student Assistant," in concert with HR. The estimated implementation date for this action is September 30, 2011.
- PARS are up to date as of May 16, 2011.
- The Business Officer will analyze current separation of duties in payroll-related activity, and correct as possible and practical. The estimated implementation date for this action is September 30, 2011.

E. Research Involving Human Subjects

The National Institutes of Health (NIH) requires mandatory training for researchers on NIH awards that use human subjects. To help ensure that all researchers are aware of how to properly protect human subjects, UCSB also requires all faculty, researchers, students, and staff who work with human subjects or their identifiable data to complete UCSB's human subjects training module before beginning that portion of the research. From July 2009 to December 2010, the IHC received two research awards that involved human subjects. Audit and Advisory Services reviewed payroll and training records to determine compliance with these requirements. For both awards, all individuals underwent the UCSB human subjects training module before working with human subjects or their identifiable data.

F. Information Security Policy and Business Continuity Plan

The audit found that the IHC does not have an information security policy in place. The primary purpose of an information security policy is to establish departmental expectations regarding information, particularly protected information such as social security numbers or protected health information that is maintained on departmental computers and other electronic devices. This protects the University and all parties involved, and helps ensure compliance with applicable regulations. We did note that IHC sponsored projects do not identify any current awards that utilize protected health information or social security numbers. However, an information security policy should be developed and communicated to protect all information, including potential protected information related to future awards.

We also noted that the center did not have formal disaster recovery and business continuity plans in place to cover its operations. Disaster recovery and business continuity planning should be in place for all types of disruptions, including natural disasters, hardware/communications failures, internal or external sabotage or acts of terrorism, and the failure of affiliated systems or organizations.

IHC should develop and document disaster recovery and business continuity plans. The plans should be kept up to date, and their viability and functionality should be assessed on a periodic basis.

Management Corrective Actions

The Business Officer will seek out appropriate models in similar campus areas and adapt them to implement appropriate IHC practices for information security, as well as disaster recovery and business continuity. The estimated implementation date for this action is September 30, 2011.

G. Travel – Insurance

Business and Finance Bulletin G-28 requires travelers to “register all out-of-state and foreign country business trips to ensure coverage.” Travel booked through Connexus (a Web portal for booking University business travel) automatically fulfills this requirement. Travel booked outside of Connexus, however, requires registration on the UC Risk Services website and completion of the Traveler Insurance form before the travel occurs. The Business Officer concurred that the department needs to improve in this area. Until UCSB completes implementation and requires use of Connexus, the IHC should send email reminders to out-of-state travelers to complete the Traveler’s Insurance form before commencing travel.

Management Corrective Actions

The Business Officer will implement practices designed to ensure that travelers (of which we are made aware) intending to go out-of-state complete the Traveler’s Insurance form before commencing travel. Since we cannot be aware of travel which we do not directly book, we cannot be responsible for the actions of those travelers regarding this requirement. The estimated implementation date for this action is September 30, 2011.