

**UNIVERSITY OF CALIFORNIA, SAN FRANCISCO
AUDIT AND ADVISORY SERVICES**

**International Research
Working Capital Advances
Project # 23-006**

April 2023



University of California
San Francisco

Audit & Advisory Services

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Winona Ward
Assistant Vice Chancellor
Office of Sponsored Research

SUBJECT: International Research Working Capital Advances Review

Audit & Advisory Services (“A&AS”) conducted a review to validate the adequacy of internal controls and processes over working capital advances paid to international subrecipients to determine compliance with University’s policies and regulatory requirements.

Our services were performed in accordance with the applicable International Standards for the Professional Practice of Internal Auditing as prescribed by the Institute of Internal Auditors (the “IIA Standards”).

Our review was completed, and the preliminary draft report was provided to department management in March 2023. Management provided us their final comments and responses to our observations in April 2023. The observations and corrective actions have been discussed and agreed upon with department management and it is management’s responsibility to implement the corrective actions stated in the report. A&AS will periodically follow up to confirm that the agreed upon management corrective actions are completed within the dates specified in the final report.

This report is intended solely for the information and internal use of UCSF management and the Ethics, Compliance and Audit Executive Committee, and is not intended to be and should not be used by any other person or entity.

Sincerely,

Irene McGlynn
Chief Audit Officer
UCSF Audit and Advisory Services



EXECUTIVE SUMMARY

I. BACKGROUND

As a planned review for fiscal year 2023, UCSF Audit & Advisory Services (A&AS) completed a review to validate the adequacy of the internal controls and processes over working capital advances paid to international subrecipients to determine compliance with University's policies and regulatory requirements.

Working capital advance payments are issued to subrecipients who lack sufficient working capital to perform the work. At UCSF, capital advances are restricted to foreign subrecipients in resource-constrained countries. The World Bank's list of low and middle-income countries is considered to meet the criteria of resource-constrained countries and used by the Office of Sponsored Research (OSR) in conjunction with other factors when reviewing the working capital advance request from the Principal Investigator. The amount of capital advances is limited to 2 months of the annual budget amount plus the purchase price of any equipment budgeted.

In FY 2022, total working capital advances issued for active subawards, including federal, and non-federal funds by control point, are shown below:

Control Point	Federal (\$)	Non-Federal (\$)	Total (\$)
School of Medicine	2,028,871	322,716	2,351,587
Global Health Sciences	185,881	50,876	236,757
School of Nursing	32,710	0	32,710
School of Pharmacy	18,805	0	18,805
Executive Vice Chancellor & Provost	0	14,990	14,990
Grand Total	\$2,266,267	\$388,581	\$2,654,848

II. AUDIT PURPOSE AND SCOPE

The purpose of this review was to review and validate the adequacy of the internal controls and processes over working capital advances paid to international subrecipients to determine compliance with University's policies and regulatory requirements.

The scope of the review covered federal and non-federal funded international subcontracts with working capital advances for FY 2022 and FY 2023 YTD. Procedures performed as part of the review include reviews of working capital advance requests, and financial management practices of working capital advances, including determining if working capital advances are reconciled each year and if any remaining funds are adjusted against the following year's budget. For more detailed steps, please refer to Appendix A.

Work performed was limited to the specific activities and procedures described above. As such, this report is not intended to, nor can it be relied upon to provide an assessment of compliance beyond those areas specifically reviewed. Fieldwork was completed in March 2023.

III. SUMMARY

Based on work performed, we confirmed that capital advances were issued to foreign subrecipients in resource-constrained countries and the advances were supported by foreign subrecipients submittal of financial hardship letters within the last 5 years. Additionally, subrecipient monitoring assurance letters were signed by the UCSF Principal Investigator (PI).

Opportunities for strengthening internal controls and processes were identified related to capital advance payments, advance budgets exceed the maximum allowable amount, and subrecipient signed hardship letters.

The specific observations from this review are listed below as well as in Section IV.

1. Subrecipient capital advances exceeded the maximum allowable amount, which is in violation of university requirements.
2. One capital advance payment was inconsistent with the advance budget as stated in the subaward agreement.
3. Not all financial hardship letters requesting for capital advances were signed by the subrecipient's ranking officer.

Additionally, during the course of this review, potential opportunities for improvement were noted for enhanced process efficiency on working capital advance instructions on subaward agreements and assessment of the necessity for an advance payment could be improved.

IV. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS (MCA)

No.	<u>Observation</u>	<u>Risk/Effect</u>	<u>Recommendation</u>	<u>MCA</u>
1.	<p><i>Subrecipient capital advances exceeded the maximum allowable amount, which is in violation of University requirements.</i></p> <p>Of the 10 subawards reviewed, we identified two advances for a budget period of 24 months that exceeded the 2-month maximum allowable amount. The methodology used by the department to calculate the advance budget was not in alignment with OSR requirements. The advance budget was calculated based on the startup needs of the project instead of two months of the annual budget amount.</p> <ul style="list-style-type: none"> • Case #1 Subaward advance budget of \$70,209 was over the maximum allowable amount by \$28,265. • Case #2 Subaward advance budget of \$46,928 was over the maximum allowable amount by \$9,533. <p>In accordance with Office of Sponsored Research (OSR) requirements, the maximum capital advance amount allowable on an annual basis is 2 months of the annual budget amount plus the purchase price of any equipment budgeted.</p>	<p>Working capital advances issued over the maximum allowable amount increases the risk of non-compliance with University policy and potential overfunding of the subrecipient.</p>	<p>OSR should review the department's capital advance methodology/calculations to ensure the amount is limited to 2 months of the annual budget amount.</p>	<ol style="list-style-type: none"> 1) The process of calculating the working capital advances will be reviewed with the OSR Subcontracts Team to confirm understanding of the working capital advance calculation. 2) Information will be added to the FAQ section of the OSR website about how to calculate the advance amount. 3) Periodic sample monitoring will be performed to ensure quality control. <p>Target Completion Date: October 31, 2023</p> <p>Responsible Party: Director, Contracts & Awards</p>

No.	Observation	Risk/Effect	Recommendation	MCA
2.	<p><i>One capital advance payment was inconsistent with the advance budget as stated in the subaward agreement.</i></p> <p>Validation of a sample of advance payments issued identified one subaward advance invoice for \$35,557 that exceeded the advance budget amount of \$22,851, as stated in the sub-award agreement.</p> <p>Due to an administrative oversight, the department did not check the advance invoice amount against the budget prior to the invoice payment.</p> <p>In accordance with CFR 200.332 “Requirements for pass-through entities”, All pass-through entities must monitor the activities of the sub-recipient. Monitoring activities include but are not limited to reviewing subrecipient’s performance and financial reports include invoice review.</p>	<p>Advance invoices that do not agree with the budget amount increases the risk that payments may exceed the budget amount resulting in overfunding.</p>	<p>Departments should be reminded to ensure that the advance invoice agrees with the advance budget as stated in the subaward agreement.</p>	<p>OSR will remind departments at the upcoming RA Town Hall in June 2023 to review the working capital advance invoice to ensure the amount agrees with the advance budget amount as stated in the subaward agreement.</p> <p>Target Completion Date: June 30, 2023</p> <p>Responsible Party: Director, Contracts & Awards</p>
3.	<p><i>Not all financial hardship letters requesting for capital advances were signed by the subrecipient’s ranking officer.</i></p> <p>Office of Sponsored Research (OSR) requires foreign subrecipients to submit a written request for a capital advance due to lack of sufficient working capital to start the work. The hardship letter must be signed by a ranking officer of the subrecipient institution, such as the Chancellor, Vice Chancellor, President, CEO, CFO, or Treasurer.</p>	<p>Subrecipient hardship letters may not be valid and justifiable if signed by unauthorized personnel.</p>	<p>OSR should ensure hardship letters are signed by a ranking officer of the subrecipient’s institution.</p>	<p>1) If letter is not signed by one of the high-ranking officials, OSR Subcontracts Team will ask the department for more information to determine if the person is high ranking without having one of these titles. The documentation will be added to CACTAS.</p>

No.	Observation	Risk/Effect	Recommendation	MCA
	<p>4 of the 10 subrecipient hardship letters reviewed were signed by a professor or research scientist, and not a ranking officer of the subrecipient institution as per OSR guidelines.</p>			<p>Target Completion Date: July 31, 2023</p> <p>Responsible Party: Director, Contracts & Awards</p> <p>2) OSR will review the continued need of the hardship letter and will review the entire working capital advance policy to ensure it meets the needs of UCSF and its partners and to consider potential policy changes.</p> <p>Target Completion Date: November 30, 2023</p> <p>Responsible Party: Director, Contracts & Awards</p> <p>3) Training of OSR staff and department staff will occur after the review and update of the policy.</p> <p>Target Completion Date: January 31, 2024</p>

No.	Observation	Risk/Effect	Recommendation	MCA
				<p>Responsible Party: Director, Contracts & Awards</p> <p>4) Monitoring: Periodic sampling of the updated policy will be performed to ensure quality control.</p> <p>Target Completion Date: February 28, 2024</p> <p>Responsible Party: Director, Contracts & Awards</p>

V. OPPORTUNITIES FOR IMPROVEMENTS

No.	Observation	Risk/Effect	Recommendation
1.	<p><i>Working capital advance instructions on subaward agreements could be enhanced.</i></p> <p>It was noted that currently, the subaward agreements require capital advances to be maintained in an interest-bearing account by the subrecipient. However, this requirement is often not applicable for the majority of UCSF's subrecipients as they qualify for exceptions under Uniform Guidance, 2 CFR 200.305(b)(8). As these exceptions are not stated in the subaward agreement, it creates confusion and an impression that the</p>	<p>Not including the complete federal policy in the subaward agreement increases the risk that the terms and conditions are not adequately addressed and may result in non-compliance with the federal regulation.</p>	<p>OSR should consider updating the working capital advance instructions and include the list of exceptions as stated in CFR 200.305(b)(8) or remove the statement requiring advances to be deposited in an interest-bearing account</p>

No.	Observation	Risk/Effect	Recommendation
	<p>subrecipient is not compliant with the regulation.</p> <p>In accordance with Uniform Guidance, 2 CFR 200.305(b)(8), “the non-Federal entity must maintain advance payments of Federal awards in interest-bearing accounts, unless the following apply”.</p> <p>(i) The Non-Federal entity receives less than \$250,000 in Federal awards per year.</p> <p>(ii) The best reasonably available interest-bearing account would not be expected to earn interest in excess of \$500 per year on Federal cash balances.</p> <p>(iii) The depository would require an average or minimum balance so high that it would not be feasible within the expected Federal and non-Federal cash resources.</p> <p>(iv) A foreign government or banking system prohibits or precludes interest-bearing accounts.</p>		
2.	<p><i>Assessment of the necessity for an advance payment could be improved.</i></p> <p>Most foreign subrecipients are provided an advance upon the submission of a hardship request letter without any critical review or</p>	<p>Unspent advances may result in delays in project start-up activities or project goals may not be achieved. Also, there is a risk of funds</p>	<ul style="list-style-type: none"> • OSR should remind the departments to critically review whether an advance payment to a subrecipient is needed. • OSR should consider developing procedures for confirming with the department requesting

No.	Observation	Risk/Effect	Recommendation
	<p>assessment to evaluate the need of an advance.</p> <p>During the review, we noted that due to an administrative oversight, the department, upon the execution of the subaward did not submit the invoice to fulfill the advance request for two subrecipients: advances of \$18,652 and \$70,209, respectively. Also, the subrecipient did not inquire about the unpaid advances.</p> <p>Additionally, one subaward advance invoice for \$191,234 was not issued due to an advance carryforward balance of \$283,410 from the previous period.</p> <p>These cases of unclaimed or unspent advances raises the question of whether there is a true hardship.</p>	<p>being diverted by the subrecipient for other use.</p>	<p>the advance if there is an unspent carry-forward balance to determine if a further advance is needed.</p>

APPENDIX A

To conduct our review, the following procedures were performed for the areas in scope:

- Reviewed federal and non-federal awards policies for issuing working capital advances.
- Reviewed University and local UCSF policies and procedures for issuing capital advances for international subcontracts.
- Interviewed key personnel to gain an understanding of activities for the scope areas and assess controls in place.
- Verified the required documents (e.g., financial hardship letter, subrecipient monitoring assurance letter, and advance budget) were submitted to the Office of Sponsored Research (OSR) for review and approval.
- Verified that sub-award agreements with working capital advance include instructions on how advance payment will be made, invoiced, and reconciled.
- For selected awards, determined if working capital advances were reconciled each year and if any remaining funds were returned by the end of the award.