UCIRVINE | INTERNAL AUDIT SERVICES

Department of Pharmacology

Internal Audit Report No. I2015-203

October 15, 2014

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UNIVERSITY OF CALIFORNIA, IRVINE

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INTERNAL AUDIT SERVICES
IRVINE, CALIFORNIA 92697-3625

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OLIVIER CIVELLI, PH.D.
DEPARTMENT CHAIR
DEPARTMENT OF PHARMACOLOGY

RE: Department of Pharmacology Audit
Report No. I2015-203

Internal Audit Services has completed the review of the Department of Pharmacology 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
Dale Lee, Chief Administrative Officer, Department of Pharmacology

I. MANAGEMENT SUMMARY

In accordance with the fiscal year 2014-2015 audit plan, Internal Audit Services (IAS) reviewed the business operations, internal controls, and policy compliance in the Department of Pharmacology (Pharmacology) within the University of California, Irvine (UCI) School of Medicine (SOM). In general, internal controls and processes in Pharmacology appear to be functioning as intended. However, the review disclosed some internal control/compliance weaknesses that should be improved to minimize risks and ensure compliance with University policies and procedures and/or best business practices. The following concerns were noted.

Payroll Certification Reporting – Payroll certification reports had not been submitted to the Contracts and Grants Accounting (C&G Accounting) office or were submitted late. This observation is discussed in section V.1.

Leave Approvals - Concerns were noted with leaves of absence approval process. Leave approvals were either not obtained or documented. Also, for leaves of absence that were more than seven days, the Dean's approvals were not obtained as required by policy. This observation is discussed in section V.2.

Non-payroll Expenditures – For some PALCard purchases, the required supporting documents were not always retained. This observation is discussed in section V.3.a.

Concerns were also noted with PayQuest reimbursements. The requested reimbursements were not properly processed and reviewed. The review disclosed the following issues: incomplete, unjustified, or poorly documented reimbursement requests and lack of exceptional approvals. This observation is discussed in section V.3.b.

II. BACKGROUND

Pharmacology is the academic home to nine faculty members and 16 joint faculty members with a commitment to developing research directions that will translate into therapeutic applications and to mentor the next generation of researchers devoted to pharmaceutical discovery.

In Pharmacology, research and teaching include several fields, such as molecular pharmacology, cellular regulation, neuropharmacology, cardiovascular biology, behavioral pharmacology, and drug development with an emphasis placed on studies on the actions of neurotransmitters and neuropeptides in vitro and in vivo and the discovery of novel signaling pathways and their physiological roles.

Administratively, the Department Chair (Chair), who serves as the academic leader and administrative head, reports directly to the SOM Dean. The Chief Administrative Officer (CAO), who reports to the Chair, directs the administrative and clinical operations in Pharmacology. The CAO's responsibilities include administrative and clinical oversight and management of all budget and financial operations, academic and clinical staff personnel, etc.

III. PURPOSE, SCOPE, AND OBJECTIVES

The scope of the audit focused on the business operations during calendar year 2013 through present. The primary purpose of the audit was to assess whether the internal controls in place in the non-clinical areas are adequate and sufficient to prevent or detect fraudulent or non-compliant transactions, while ensuring the overall efficiency and effectiveness of business operations.

Based on the assessed risks, the following audit objectives were established.

1. Review non-payroll expenditures for proper accountability and separation of responsibilities, adequate documentation, assurance of valid, properly pre-authorized and approved transactions, and compliance with UC/UCI policies and procedures.

2. Verify whether services agreements were properly reviewed and approved and used for invoicing where Pharmacology received income from rendering a service to non-University entities.

3. Evaluate the equipment inventory tracking procedures and sample inventorial items to ensure appropriate UCI tagging, storage, and maintenance.

4. Review appropriateness of payroll cost transfers, completion of payroll certifications, and federal award overdrafts.

5. Determine whether the annual conflict of commitment reporting forms were completed properly and submitted in a timely manner.

IV. CONCLUSION

In general, internal controls and processes reviewed appear to be functioning as intended. However, select internal control/compliance concerns were identified in the areas of payroll certification, leaves of absence, and non-payroll expenditures.

It should also be noted that there were transitions in key administrative positions within Pharmacology. Shortly before the audit period in April 2013, the current CAO and a senior finance analyst both started working in Pharmacology.

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

V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Payroll Certification

Background

Payroll certification is required for the salaries of all University employees who are paid from federally funded awards. To properly substantiate salaries charged directly to federal funds, UC Irvine uses an annual Payroll Certification System (PCS). Through payroll certification, principal investigators attest to the accuracy of direct salary charges and confirm that the reported totals are accurate and acceptable for disclosure to the federal government.

Observation

The PCS reports with budget month-end dates in fiscal year 2013-2014 were reviewed and IAS noted 11 awards that required payroll certification reporting. Further review of Pharmacology's payroll certification reporting disclosed the following:

- Three awards were submitted timely;
- Three other awards were submitted one to five months late;
- Five awards, with budget end dates in January, March, and April 2014, were not submitted as of July 28, 2014.

Reporting payroll certifications timely ensures that direct salary charges are complete, accurate, and valid for the period reviewed. Failure to perform reviews for timely reporting may adversely impact past and/or future federal funding.

Management Action Plan

Pharmacology has not been consistently receiving email notifications for payroll certifications nearing budget month-end due dates that they had come to rely upon which contributed to the late reporting.

During the course of the audit, as soon as the CAO informed of the current reporting status, all five PCS reports noted above were completed and submitted by July 30, 2014. Also, in the future, Pharmacology will closely monitor and track award budget end dates to ensure that all payroll certifications are completed by the assigned due date.

2. Leave of Absence

Background

An academic appointee is considered to be on a leave of absence any time he or she takes a leave from normal duties during the prescribed periods of service. Academic appointees who leave the campus prior to obtaining formal approval are in violation of university policy. An appointee may be granted a leave with pay to attend a professional meeting or for University business. All leaves of absence should be requested in advance.

An online leave system mandated by the SOM Dean's office was implemented in August 2013 to authorize and track faculty leave of absence. The system also includes a note informing faculty to submit AP-76 form in order to obtain the SOM Dean's approval when leaves are more than seven days.

Observation

IAS noted that for half of the leaves reviewed, the approvals were not documented. Further review also revealed that for the two leaves of absence that were for more than seven days, the AP-76 form had not been completed and submitted to the Dean's office for approval as required by policy.

Properly obtaining authorization for leaves of absence in advance reduces the risk of inaccurately tracking and reporting the number of leaves of absence.

Management Action Plan

In the next monthly faculty meeting, Pharmacology management will inform faculty of the audit observations and work with all academic appointees to ensure that leaves of absence are obtained in advance and properly documented. Also, faculty will be reminded to submit form AP-76 for the Dean's approval when leave of absence that is more than seven days.

In addition, Pharmacology management will access the online leave system to ensure that faculty members have submitted leave requests in advance and that form AP-76 is submitted for the Dean's approval when required.

3. Non-Payroll Expenditures

a. PALCard Transactions

Background

The purchasing card (PALCard) is used by staff with purchasing responsibilities to buy equipment, supplies, and services. UC purchasing policies require purchases to be pre-authorized either formally through an internal requisition or informally, such as an email. In addition, UCI PALCard policies require an administrative reviewer to review PALCard supporting documentation and account/fund for appropriateness for each transaction in a timely manner.

Observation

A sample of 16 PALCard transactions was selected from July 1, 2013 through present for further review and the following observations were noted.

- The required supporting documents, such as packing slips, were not maintained on file as appropriate supporting documentation and for administrative review in accordance with policy. However, the PALCard reviewer confirmed and documented delivery.

- For one PALCard transaction reviewed, the tax amount associated with an online purchase was not posted to the ledger as required by policy.

In addition, further review of the purchasing process and the PALCard holders and reviewers disclosed an exception. The back-up PALCard holder in Pharmacology was issued a PALCard and access to PayQuest as the back-up preparer in January 2012. However, the back-up PALCard holder and PayQuest preparer had not submitted to a background check as required by policy.

Implementation of internal controls, such as maintaining proper documentation, thorough administrative review, and background checks of PALCard holders, minimizes the risks of error, fraud, waste, and improper use of University funds.

Management Action Plan

By March 31, 2015, the audit findings will be shared with all PALCard holders, reviewers, and approvers to ensure compliance in maintaining necessary supporting documentation. In addition, the back-up PALCard holder will be scheduled for a background check.

b. PayQuest Transactions

Background

UC Irvine employees utilize the PayQuest automated system to request reimbursement for various expenditures and certain other payments. Reimbursement requests pertaining to travel expenditures must comply with Office of the President (UCOP) Business and Finance Bulletin G-28; expenditures for business meetings, entertainment, and other occasions must comply with UCOP Business and Finance Bulletin BUS-79. Reimbursement requests must also comply with all applicable UCI policies.

Observation

A sample of 14 PayQuest transactions from July 1, 2013 to present was selected for review to determine if Pharmacology complied with policy and procedures. The following is a summary of the observations.

Some PayQuest reimbursement requests were not properly supported. Proper support documentation, such as an invitation letter substantiating

compensation and/or travel expense reimbursements, necessary for appropriate reimbursement were not obtained and reviewed prior to submitting it with the travel expense voucher. Also, PayQuest cover sheets were not properly completed with the required notes to document the number of personal days taken while on official travel status, explain why a missing receipt was not being submitted, or substantiate the discrepancy in a reimbursed amount.

In addition, it should be noted Pharmacology does not have a proper mechanism in place to accurately authorize and monitor travel expenses. IAS recommends that once leave for travel is approved, travelers should discuss travel details, such as business purpose and budgeted expenses, with management prior to making any travel arrangements to ensure that sufficient funds are allocated for the anticipated travel and to promote compliance with policies.

Internal controls such as a proper assessment of anticipated travel details and expenditures in advance as well as a detailed review of reimbursement requests reduce the potential for reimbursement of improper expenses as well as errors/inaccuracies, waste, and fraud to go undetected.

Management Action Plan

By March 31, 2015, the audit observations and policy requirements will be communicated to faculty and staff to ensure compliance in completing PayQuest reimbursements accurately, submitting required supporting documentation, and documenting justification as needed.

In addition, PayQuest preparers and approvers will review and adhere to the current travel policy.