

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.

UCIRVINE

The logo for Internal Audit Services, featuring the words 'INTERNAL' and 'AUDIT SERVICES' stacked vertically in an all-caps, serif font.

INTERNAL
AUDIT SERVICES

Biological Chemistry

Internal Audit Report No. I2018-206

June 22, 2018

Prepared By

Mike Shead, Senior Auditor

Reviewed By

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Approved By

Mike Bathke, Director



INTERNAL AUDIT SERVICES
IRVINE, CALIFORNIA 92697-3625

June 22, 2018

**PETER KAISER Ph.D.
PROFESSOR AND CHAIR
UC IRVINE SCHOOL OF MEDICINE
DEPARTMENT OF BIOLOGICAL CHEMISTRY**

Re: Biological Chemistry Audit No. I2018-206

Internal Audit Services has completed the review of Biological Chemistry 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.

A handwritten signature in black ink that reads "Mike Bathke".

Mike Bathke
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee
Margaret Walton – Chief Administrative Officer, Biological Chemistry

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2017-2018 audit plan, Internal Audit Services (IAS) reviewed departmental operations to assess business risk and internal controls. Many internal controls within Biological Chemistry (BC) business operations and financial activities are functioning satisfactorily. However, certain internal controls could be improved to ensure compliance with University policies and procedures and/or best business practices. The following concerns were noted.

Payroll Certification – Payroll certification reports are not always completed in a timely manner. This observation is discussed in section V.1;

PALCard Expenditures – BC internal purchase requisitions are required, but not always prepared for some PALCard purchases. The business purpose for PALCard purchases is not always stated. In addition, PALCard purchase documentation does not always include shipping confirmations, packing slips or other receiving documentation as proof of goods received. Receiving documentation that is retained is not always initialed and dated by the receiver, as a best practice. This observation is discussed in section V.2;

Disbursement Vouchers – Employee reimbursements are sometimes requested for purchases that should have been made with a PALCard. In addition, reimbursements are occasionally requested by employees who do not have delegated authority to purchase and/or have purchased items restricted to Central Purchasing. This observation is discussed in section V.3.

II. BACKGROUND

Biological chemistry is the foundation of most, if not all, medicine. As a basic science department, BC is a research focused department within the UC Irvine School of Medicine. Faculty research interests include cancer, epigenetics and

metabolism, stem cells and more. Principal investigators work on mechanisms that are related to cancer, aging and cell development. Researchers also conduct studies on biofuels, infectious diseases, muscular dystrophy and a wide array of other biochemical subjects. Faculty also play a crucial role in the campus-wide research enterprise, and provide leadership as directors of the Center for Epigenetics and Metabolism, the Genomics High-Throughput Facility, and the Chao Comprehensive Cancer Center.

In addition to research, a primary goal of BC is to train tomorrow's scientists. Faculty members teach UC Irvine medical students the basics of proteins, sugars/carbohydrates and other biochemistry topics, and help graduate students to discover and contribute to a better understanding of research that benefits both the scientific community and the community at large.

Most importantly, BC fosters collaboration and teamwork. BC consists of more than 115 individuals, including 28 faculty, joint faculty, and emeritus faculty members. Business operations and other financial/administrative activities are primarily the responsibility of the Chief Administrative Officer (CAO), who reports to the department chair. The CAO is supported by a Senior Administrative Analyst, a Graduate Coordinator/Finance, and an Administrative Assistant.

III. PURPOSE, SCOPE AND OBJECTIVES

The purpose of the audit was to assess fiscal year (FY) business operations and financial activities of BC. The review was designed to determine whether sufficient internal control measures are in place to ensure appropriate and compliant transactions, while ensuring efficiency and effectiveness in business operations. The audit scope included calendar year (CY) 2017, and FY 2017-18 year-to-date business operations and financial activities.

The following audit objectives were included in the review.

1. Verify that internal controls over payroll processes are in place and working efficiently and effectively to prevent or detect non-compliance with University policies.
2. Verify that internal controls over payroll certification processes for federal/federal flow-through contracts and grants are in place to prevent or detect non-compliance with university policies.
3. Verify that internal controls over payroll transfers on federal contracts and grants were prepared within 120 days of the original ledger date, and were not prepared within two months immediately before the project end date.
4. Verify the reason certain funds have negative balances and determine when the funds are projected to have positive balances.
5. Verify that BC disbursement vouchers are proper and compliant with UC/UCI policies.
6. Verify that PALCard purchasing procedures are proper and compliant with UC/UCI policies.
7. Determine whether information technology controls effectively mitigate associated risks.

IV. CONCLUSION

Many internal controls within BC business operations and financial activities appear to be functioning satisfactorily. However, concerns were noted with payroll certification processes, PALCard expenditures, and disbursement vouchers.

Observation details 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

To substantiate salaries charged directly to federally funded projects, UC Irvine uses a Payroll Certification system. Payroll certification reporting is required for the salaries of all employees of the University who are paid from federal funds.

Observation

A review was completed of payroll certification reports for 15 sampled federal and federal flow-through awards. The review disclosed three payroll certification reports that were not completed in a timely manner. A fourth payroll certification report was completed in a timely manner, but had not been signed by the principal investigator (PI).

University policy states that the PI must certify each sponsored project within 70 days of the end of the budget year. Failure to complete payroll certifications within the required timeline is in violation of policy and could adversely impact federal funding.

Management Action Plan

All payroll certifications will be completed by the assigned due date. BC will ensure the timely review and reporting of payroll certifications in the Quali Financial System (KFS). BC will distribute a memo to faculty regarding best practice for payroll certification submission, including the timely completion and submission of payroll certification reports before the established deadline. The policy will be distributed by June 2018.

2. PALCard Expenditures

Background

PALCard is UC Irvine's procurement card. Employees with low value purchase training (including PALCard cardholders) have delegated authority to make low value purchases with University funds. Purchases made without delegated authority are unauthorized.

Observation

IAS reviewed a sample of BC FY 2017-18 PALCard purchases. Sampled purchases included manuscript publishing services, laboratory chemicals, gases, and other laboratory supplies, tissue specimens, computer networking supplies and office supplies. The following concerns were noted.

1. **Purchase Requisitions:** BC internal purchase requisitions were required, but not prepared for two PALCard purchases. BC policy requires that purchase requisitions be completed for all PALCard purchases, unless the vendor is not set-up to accept them.
2. **Stated Business Purpose:** The business purpose for some PALCard purchases is not always clearly stated in KFS documents, the internal purchase requisition, and/or other supporting documentation. As a best practice, in accordance with UC Irvine PALCard purchasing guidelines, each PALCard purchase should include a clearly stated business purpose in the supporting documentation.
3. **Receipt of Purchased Goods:** Receipts, packing slips, or other documentation serving as proof of received goods are not always retained for PALCard purchases. Missing or incomplete receiving documentation may impede the timely review/approval of PALCard purchases.

Failure to maintain adequate internal controls over PALCard purchases may hinder management's ability to prevent or detect inaccurate, incomplete, or improper transactions.

Management Action Plan

Effective June 2018, BC will implement internal controls to ensure compliance with PALCard purchasing requirements. All PALCard purchases will be requested on an internal requisition form with approvals by both the PI and the Department Administrator prior to purchase. The PALCard reviewer will ensure that all required supporting documentation is compiled and available at the time the order is reviewed. On a weekly basis, the BC business office will make requests for receipts, packing slips or other documented proof for goods that were received.

3. Disbursement Vouchers

Background

Disbursement vouchers are used to reimburse employees and nonemployees for expenses incurred while conducting university business, and to pay vendors for performing a service, or providing material goods to the university. Disbursement vouchers require supporting documentation, which varies depending on the type of payment. Disbursement vouchers must be approved by the appropriate individuals in accordance with UC, UCI, and department policy. In some cases, exceptional approval may be required.

Observation

IAS reviewed a sample of disbursement vouchers from BC faculty and staff. Sampled disbursement vouchers included employee reimbursement requests for purchases of furniture, office supplies for events, and postdoctoral employment advertisement expenditures. The following concerns were noted.

Improper Payment Method/Unauthorized Purchasers:

1. One reimbursement request involved the purchase of furniture by a faculty member. The furniture should have been purchased through Central Purchasing. In addition, the faculty member did not have purchasing authority.
2. Two reimbursement requests involved the purchase of advertising for an open postdoctoral position by a faculty member. The faculty member did not have purchasing authority, and the purchases should have been made with a PALCard.
3. Four additional reimbursement requests were made by a staff member on different dates for purchases of office supplies urgently needed for events. A PALCard should have been used to make the purchases.

Only authorized employees should make purchases for BC. PALCard should be used for purchases when required.

Management Action Plan

Faculty and staff will be advised to seek assistance from a PALCard holder or BC central purchasing. At the monthly faculty meeting, weekly lab meetings and in the BC weekly email bulletin, PALCard best practices will be distributed. Monthly and quarterly email reminders will be sent out on purchasing best practices to staff and faculty. New staff will be given the UCI and UC accounting policies and procedures for best practice. Changes will be effective June 2018.