

April 19, 2017

RONALD BURTON
Section Head, SIO Biology Section
0202

**Subject: *SIO Biology Section Financial Controls Review
Report 2017-04***

The final report for SIO Biology Section Financial Controls Review 2017-04, 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.

David Meier
Director
Audit & Management Advisory Services

Attachment

cc: Judy Bruner
 Peter Cowhey
 Jennifer Davis
 Steve Gallagher
 Margaret Leinen
 John Lohse
 Guy Masters
 Cheryl Ross

UC San Diego

AUDIT & MANAGEMENT ADVISORY SERVICES

SIO Biology Section Financial Controls Review
Report No. 2017-04
April 2017

FINAL REPORT

Performed By:

Tessa Melendez, Auditor
Jennifer McDonald, Manager

Approved By:

David Meier, Director

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ATTACHMENT A – SIO Biology Section Business Process Review

I. EXECUTIVE SUMMARY

Audit & Management Advisory Services has completed a review of Scripps Institution of Oceanography Biology Section Financial Controls Review as part of the approved audit plan for Fiscal Year (FY) 2016-17. The objective of our review was to determine whether internal controls and sound business practices were in place to mitigate financial and compliance risk. The scope of our review included activities and business practices for the FY 2015-2016, and for the period July 1, 2016 through August 31, 2016.

We concluded that key internal controls 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 observe instances where increased oversight could improve compliance. We identified needed improvement in equipment management practices to provide greater assurance for reporting compliance and the management of asset information for compliance with University policy and federal guidelines. During detailed testing, we noted that the asset inventory system was not always updated with building location and serial numbers and that equipment did not always have a UC Identification (UCID) tag affixed to it.

We identified additional opportunities for increased compliance in timekeeping practices and travel. Following are the Management Action Plans to address the observations:

Management Action Plans:

A. Equipment Management

1. The Business Office has validated the completeness of the Campus Asset Management System records as part of the biennial equipment inventory and on an on-going basis, as needed.

The Business Office will:

2. Develop a plan to ensure that UCID tags are consistently applied in a timely manner.
3. Develop procedures for documenting items for which a UCID tag cannot reasonably be affixed.

B. Timekeeping Practices

The Business Office will:

1. Obtain approval and certification for the three timesheets that have not been signed by the employee's PI/supervisor.
2. Incorporate a process to document preapprovals for overtime and time off.

C. Travel

1. The Section has been reorganized to remove Directors of IOD, CMBB, and MBRD from the CAO's reporting structure.

The Business Office:

2. Has collected and processed a reimbursement from the PI in the amount of \$328.

3. Has coordinated with the Assistant Vice Chancellor's office to assign the responsibility for reviewing and approving the Section Head's travel expenses to an individual who does not report directly or indirectly to the Section Head.
4. Will remind travelers that all University travel should be pre-authorized and reimbursements submitted timely. In addition, ensure all expenditures are in compliance with policy.

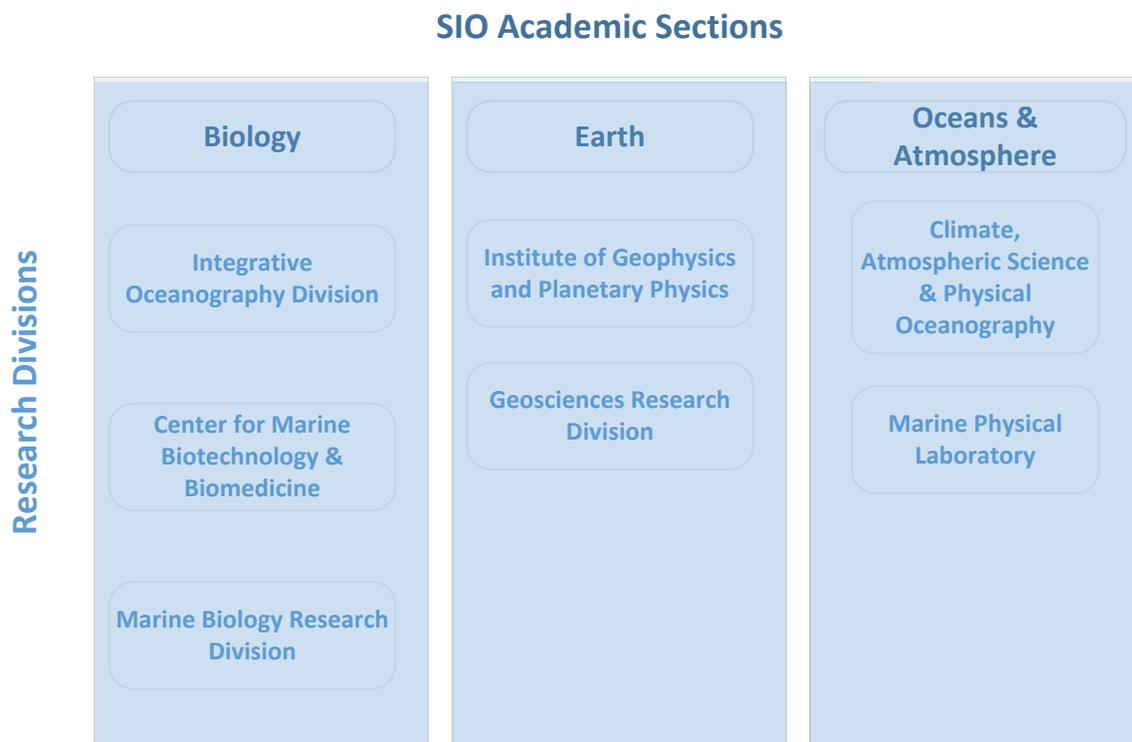
Observations and related Management Action Plans are described in greater detail in section V. of this report.

II. BACKGROUND

Audit & Management Advisory Services (AMAS) has completed a review of Scripps Institution of Oceanography (SIO) Biology Section Financial Controls Review as part of the approved audit plan for Fiscal Year (FY) 2016-17. This report summarizes the results of our review.

SIO is an academic department of the University of California San Diego (UCSD) with a focus on marine and earth science research and education. SIO has three academic research sections: Biology, Earth, and Oceans & Atmosphere. Each section is comprised of two or more research divisions. Within the Biology Section (Section), there are three divisions: Integrative Oceanography Division (IOD), Center for Marine Biotechnology & Biomedicine (CMBB), and Marine Biology Research Division (MBRD) (See Figure 1., below). Two separate business offices serve the three units (resources are formally shared for the MBRD and CMBB divisions); however, many staff provide assistance for all three units, regardless of their designated business office placement. One Chief Administrative Officer (CAO) oversees all three divisions. The IOD and CMBB/MBRD business offices are collectively referred to as one Business Office in the remainder of this report. As of January 2016, the Business Office served and processed actions for 551 personnel comprised of faculty, researchers, staff, students, visitors, and volunteers with total expenditures of more than \$31 million in FY 2015-2016 for all three divisions combined.

Figure 1.



SIO uses labor clearing accounts to recharge payroll costs. Effort is charged every payroll period directly to the IOD or CMBB/MBRD clearing account within the Integrated Financial Information Systems (IFIS). SIO personnel certify their effort via monthly or bi-weekly timesheets, and payroll charges are then recharged by the Business Office personnel from the temporary clearing accounts to the appropriate IFIS accounts based on the effort certified on the timesheets. At the end of each FY, the clearing accounts are reconciled to ensure that payroll expenses are materially consistent with costs charged to accounts via the recharge process.

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

The objective of our review was to determine whether internal controls and sound business practices were in place to mitigate financial and compliance risk. The scope of our review included activities and business practices for FY 2015-2016, and for the period July 1, 2016 through August 31, 2016. In order to achieve our objective, we performed the following procedures:

- Reviewed the Section website, organization structure, and financial information;
- Reviewed applicable federal requirements;
- Reviewed University policies including, but not limited to:
 - UC Accounting Manual,
 - Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance),
 - UCSD Policy & Records Administration (PPM) 395.41 *Timekeeping: Attendance Records*,
 - UCSD PPM 523 *Purchasing*,
 - UC Contract and Grant Manual,
 - UC Business Finance Bulletin (BFB) *BUS 29: Management and Control of University Equipment*,
 - UC BFB *A-47 Direct Costing Procedures*,
 - UC BFB *IA-101 Internal Control Standards: Departmental Payrolls*,
 - UC BFB *BUS 43 Materiel Management*,
 - UC BFB *BUS 29 Management and Control of University Equipment*,
 - UC BFB *BUS 79: Expenditures for Entertainment, Business Meetings and Other Occasions*,
 - UC BFB *G-28: Travel Regulations*;
- Interviewed management and key personnel to discuss business processes and any potential areas of concern;
- Reviewed UCSD BLINK guidance and links to policy including, but not limited to labor clearing, express card practices, expense transfers, purchasing, sales and use tax, travel, entertainment, equipment, delegations of authority, approval hierarchies, effort reporting, facilities management, and Statement of Audit Standards No. 112 (SAS 112 compliance);
- Evaluated the following:
 - IFIS electronic financial approval hierarchies,
 - Business Unit Management Tool roles,
 - Express Card cardholder roles,

- Signature authority for entertainment, invoices, payment authorizations, and travel, and,
 - Marine Sciences' delegations of authority for special entertainment;
- Evaluated business process controls utilizing internal control questionnaires and segregation of duties matrices;
- Reviewed custody and accountability over IOD, CMBB, and MBRD equipment;
- Verified the financial status of section funds and indices for the audit scope;
- Reviewed procedures for CANRA¹ compliance;
- Analyzed procedures and performed limited transaction testing in the following areas to verify that internal controls were adequate and functioning in compliance with University policy:
 - Contract and grant administration,
 - Operating ledger review,
 - Payroll and timekeeping,
 - Payroll and non-payroll expense transfers,
 - Non-payroll expenditures, including:
 - Travel,
 - Entertainment, and
 - Express cards,
 - Effort reporting/Labor Clearing,
 - Equipment inventory,
 - Overdraft reporting, and
 - SAS 112 compliance.

The scope of our review did not include analysis of the information systems and processes or gift processing as those services are provided centrally within SIO.

IV. CONCLUSION

Based on our review, we concluded that Section internal controls 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.

Business Office management appear to have a good working knowledge of internal controls and how they should be established. The strong internal controls include, but are not limited to the following:

- Open and consistent communication between the Business Office and Principal Investigators (PI),
- Use of Transaction Sampling,
- Biennial equipment inventory,
- Use of Control Tracker, and
- Use of the Overdraft Reporting System for monitoring funds in overdraft.

Attachment A provides the results of the business process review. Specific management actions

¹ Child Abuse and Neglect Reporting ActCA

planned or in process for those areas were rated “improvement needed” or “improvement suggested,” as noted in the attachment. Our results are provided in more detail in the remainder of this report.

V. OBSERVATIONS REQUIRING MANAGEMENT ACTION

A.	Equipment Management
Equipment management practices could be improved to provide greater assurance for accounting and reporting compliance.	
Risk Statement/Effect	
Control weaknesses in equipment management could result in lost or stolen assets, inaccurate equipment records, and non-compliance with federal and local policy.	
Management Action Plan	
The Business Office:	
A.1	Has validated the completeness of the Campus Asset Management System (CAMS) records as part of the biennial equipment inventory and on an on-going basis, as needed.
A.2	Will develop a plan to ensure that UC Identification (UCID) tags are consistently applied in a timely manner.
A.3	Will use the CAMS Location Notes field to document the asset location when a UCID tag cannot reasonably be affixed.

A. Equipment Management – Detailed Discussion

Uniform Guidance requires the maintenance of an inventory system that demonstrates an effective system of controls to track and account for equipment purchased with federal funds. University policy also requires the proper safeguarding and timely and accurate verification of inventory property by custodial departments.

CAMS is UCSD’s web-based inventory system used to track inventorial equipment with an acquisition cost of \$5,000 or more. CAMS records a number of details about individual assets including, but not limited to, the unique UCID number, building, serial number, and inventory date.

The Primary Fiscal Analyst Supervisor is responsible for receipt of all UCID tags from the campus Equipment Management office for inventorial equipment within the Section. Once received, UCID tags are forwarded to the PI to place on the equipment. According to policy, “the head of the custodial department and the PI have primary responsibility for the care, maintenance, physical inventory, control and disposition of the inventorial equipment,” including maintaining up-to-date records (i.e. building, manufacturer, model number, and serial number).

During our review, we selected ten capital asset purchases for detailed review, and found that six serial numbers were documented in the CAMS system. Recording serial numbers in the CAMS completes the record and demonstrates the Section’s effective management and control of assets. Additionally, the building location of four assets was improperly indicated in the CAMS records, and six assets did not have a UCID tag affixed to it. Two of the six were identified as assets that deploy to sea, which would not normally have a tag affixed to them. However, there was no indication in CAMS that the UCID tag could not be attached, and the Business Office did not have a process to identify and track assets in situations where a UCID tag could not be reasonably affixed, due to environmental conditions.

B.	Timekeeping Practices
During our review of timekeeping practices, we noted that pre-approval for overtime and time off was not consistently documented. Additionally, we noted instances where timesheets (effort reports) were not signed and certified by the supervisor.	
Risk Statement/Effect	
Failure to provide timely certification of effort puts the University at risk of non-compliance in the event of a federal audit. Additionally, lack of internal controls for timekeeping may allow unauthorized payroll transactions to be processed and overpayments to be made resulting in a loss of funds.	
Management Action Plan	
The Business Office will:	
B.1	Obtain approval and certification for the three timesheets that have not been signed by the employee’s PI/supervisor.
B.2	Incorporate a process to document preapprovals for overtime and time off.
B. Timekeeping Practices – Detailed Discussion	

BLINK guidance states pre-approval by an employee’s supervisor is required for both overtime and vacation leave. University policy further stipulates, “normally advance approval is required” and should be documented prior to an absence or overtime in the form of a *Departmental Approval of Absence or Overtime* (DAAO) or via alternate media. When it is not practical to submit the request prior to the event, “the form must be completed and submitted to the supervisor immediately after the absence or overtime worked and forwarded to the department timekeeper weekly.” The DAAO is optional for employees whose timecards are signed by the department chair, alternate, or designate.

Further, UCSD’s Administrative Responsibilities Handbook (Administrative Handbook) offers additional guidance on administrative responsibilities. Specifically, “each administrative official is accountable for ensuring that appropriate controls are in place in their respective areas of responsibility, and that their areas are operating effectively.” Control activities are described as those “activities performed by the

organization to ensure compliance with sound business practices.” The Administrative Handbook further stipulates that control activities be documented.

Time Records and Effort Reporting

The Business Office policy is to normally obtain a wet signature on all timesheets. In limited circumstances, when it is not feasible to obtain a wet signature in a timely manner, the office accepts electronic signatures that are confirmed by email transmissions from the supervisor. While the Business Office has spent a considerable amount of time in contact with PI/supervisors to obtain approvals, the length of time and nature of conducting research in the field has sometimes led to difficulty in obtaining timesheet approval in a timely manner.

During our review, we noted three timesheets that had not been signed by the employee’s PI/supervisor in accordance with policy. In one instance, an April 2016 timesheet was signed in November 2016. For the other two May 2016 timesheets, the Business Office indicated that the PI/supervisor was at sea for research and a signature would be obtained when he returned in January 2016. The Business Office process is to notify the PI/supervisor via email if the timesheet is submitted without a signature. If no response is received by the PI/supervisor, the employee-reported time is processed and the Business Office waits for the supervisor’s return to campus to sign the timesheet. However, employee and PI/supervisor signatures also act as effort certification to meet federal regulations. Failure to certify effort in a timely manner puts the University at risk in the event of a federal audit.

Overtime

During our review of reported overtime, the Section was not always able to provide documentation to support pre-approval. Employee timesheets reflected overtime worked and were approved by their supervisor after the fact.

The CAO stated overtime procedures for the Section require all overtime be pre-approved, but stated that they did not require written documentation for pre-approvals. She confirmed several instances where overtime pre-approval was given verbally and formal approval was by way of a supervisor’s signature on the employee’s timesheet. Additional supervisors also confirmed that they verbally approved overtime, but did not document the pre-approval prior to signing employee timesheets.

Time off

According to the CAO, the Section also requires all time off to be pre-approved. In instances similar to the Section’s overtime policy, pre-approval for leave may be given verbally (in person or over the phone) or by email. Supervisors indicated pre-approval had been granted in every incidence of time off we reviewed, but written documentation could not always be provided.

In order to validate pre-approval for time off and overtime and ensure compliance with sound business practices and University policy, the Business Office should update its procedures to include obtaining written pre-approvals for leave.

C.	Travel
Our detailed review of travel transactions disclosed that travel was not always approved at an appropriate level, pre-authorized, submitted timely, and appropriately expensed in compliance policy.	
Risk Statement/Effect	
Inadequate controls for travel expenses increase the risk of inappropriate reimbursements.	
Management Action Plan	
C.1	The Section has been reorganized to remove Directors of IOD, CMBB, and MBRD from the CAO's reporting structure.
	The Business Office:
C.2	Has collected and processed a reimbursement from the PI in the amount of \$328.
C.3	Has coordinated with the AVC's office to assign the responsibility for reviewing and approving the Section Head's travel expenses to an individual who does not report directly or indirectly to the Section Head.
C.4	Will remind travelers that all University travel should be pre-authorized and reimbursements submitted timely. In addition, ensure all expenditures are in compliance with policy.

C. Travel – Detailed Discussion

Approving Authority

BFB G-28 requires that travel expenses be approved by an individual who does not report directly or indirectly to the traveler. We noted that two Fiscal Analyst Supervisors were responsible for approving travel expenses incurred by the Directors of IOD, MBRD, and IOD as well as for the Section Head, all of whom the Fiscal Analyst Supervisors indirectly reported to. The Business Office attempted to obtain the AVC's approval for the Section Head's travel, but ultimately approved the travel to ensure the Section Head would not have tax consequences for reporting the expenditures after 45 days.

Our testing of travel expenditures for the Directors and Section Head did not identify any inappropriate or unjustified transactions.

Preauthorization and Timely Submission

University policy governing travel requires all official UCSD travel to be preauthorized and submitted timely (within 21 days of travel). The Business Office notifies all employees of the requirement to pre-authorize travel. In addition, the Business Office sends reminders to all of their travelers to submit their receipts in a timely manner and for those that do not, they are notified that there could be tax

consequences. During our review, we sampled 1% of the Section's travel expenditures, which included 23 travel reimbursements totaling approximately \$68,000. Of the trips selected, we noted six trips were not preauthorized in accordance with policy. The Business Office indicated one of the trips had begun the preauthorization process prior to the trip. However, the formal preauthorization did not occur until the day of travel. In addition, we noted 10 of the trips were submitted after 21 days of the end of the trip.

Unallowable Expenditure

University policy allows certain exceptions to the reimbursement of airfare above coach and economy. Exceptions include, but are not limited to, overnight travel without adequate rest time, documented medical need or disability, and no reasonable or cheaper option available.

One of the travel events selected for review included roundtrip airfare for a PI between San Diego and Brussels, Belgium. The purchase price included an upgrade to economy plus seating for an additional \$328. This expense was not supported with documentation that would have justified an exception to policy. Given that the travel expenditure was funded by a federal award, this expenditure was not in strict compliance with policy. In the event of a federal audit, such expenses could potentially be deemed unallowable.

In order to ensure all travel-related reimbursements are for official University business and compliant with federal and local policy, travel should be approved at an appropriate level, pre-authorized, submitted timely, and compliant with policy.

**SIO Biology Section Financial Controls Review
 Audit Results by Business Office Functional Process
 Audit & Management Advisory Services Project #2017-04**

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 one month of timesheets, absence and overtime approvals, Leave Activity Summary Reports, and Distribution of Payroll Expense Reports (DOPEs) and reconciliations.	Yes	Improvement Suggested	Separation of duties appeared adequate. Supporting documentation for leave and overtime was not always maintained. Timesheets were not always signed by the supervisor.
Transaction Processing - Non-Payroll Expenditures	√	√	√	Judgmentally selected and reviewed transactions; traced to supporting documents.	Yes	Satisfactory	Separation of duties appeared adequate. Non-payroll expenditures appeared reasonable and supported by appropriate documentation.
Express Card	√	√	√	Reviewed process and division management of express cards. Judgmentally selected and reviewed transactions; traced to	Yes	Satisfactory	Express card transactions appeared reasonable and supported by appropriate documentation.

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

**SIO Biology Section Financial Controls Review
 Audit Results by Business Office Functional Process
 Audit & Management Advisory Services Project #2017-04**

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)			
				supporting documentation.			
Travel	√	√	√	Reviewed 23 trips totaling \$68,249; traced to vouchers and supporting documents.	No	Improvement Needed	Selected travel was not always processed with proper pre-authorization or in a timely manner. Approval for Section Head and Directors need to be at the proper authority.
Entertainment	√	√	√	Reviewed a sample of 15 entertainment only expenses for business justification and timeliness in addition to other expenses for any unusual items or amounts.	Yes	Satisfactory	Selected expenses appeared reasonable and appropriately approved. No exceptions noted.
Operating Ledger Review &	√	√		Examined sample of operating ledgers and financial reports. Reviewed internal control questionnaires to	Yes	Satisfactory	Financial activity was routinely monitored for compliance with relevant agency requirements. Internal reporting and communication with Business

**SIO Biology Section Financial Controls Review
 Audit Results by Business Office Functional Process
 Audit & Management Advisory Services Project #2017-04**

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)			
Financial Reporting				determine what their process was for financial reconciliation. Reviewed overdraft balances and resolution plans.			Office and PIs was consistent and thorough. Overdraft balances were closely monitored with resolution plans. No exceptions noted.
Labor Clearing	√		√	Interviewed management, verified effort certification on timesheets, reviewed prior audits, reviewed labor clearing account year end reports for fiscal year 2016 as well as financial activity, traced a small sample to recharge reports and DOPEs, reviewed recharge rate methodology.	Yes	Improvement Suggested	Division appears to have a strong management team that monitors and manages the labor clearing account on an ongoing basis to ensure rates are accurate. The process appears adequate. However effort was not always certified in a timely manner.
Contract & Grant Activity	√	√	√	Reviewed 3 awards totaling \$1 million; evaluated journal	Yes	Satisfactory	No issues noted.

**SIO Biology Section Financial Controls Review
 Audit Results by Business Office Functional Process
 Audit & Management Advisory Services Project #2017-04**

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)			
(Post Award Admin.)				vouchers, non-payroll and payroll expenses, and DOPE reports.			
Payroll Expenditure Transfers		√		Reviewed 13 adjusted payroll charges per operating ledgers and DOPEs	Yes	Satisfactory	Expense transfers and explanations appeared reasonable. No exceptions were noted.
Non-Payroll Expenditure Transfers		√		Reviewed 65 (5% of population) transfers for timeliness, business justifications, and reasonableness.	Yes	Satisfactory	Expense transfers appeared reasonable. High risk transfers were supported with explanations and appropriate approvals.
Equipment Management	√	√	√	Reviewed inventory listing. Reviewed inventory management process and traced sample of equipment purchases from Financial Link through Marketplace and to the Campus Asset Management System (CAMS), verified	Yes	Improvement Suggested	The financial controls over purchases appeared adequate. A physical inventory is completed every 2 years in accordance with policy. Some assets did not have a UCID tag affixed to them, while other asset details had not been updated in CAMS

**SIO Biology Section Financial Controls Review
 Audit Results by Business Office Functional Process
 Audit & Management Advisory Services Project #2017-04**

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)			
				location and existence for ten assets.			including building and serial number.