UNIVERSITY OF CALIFORNIA, SAN FRANCISCO
AUDIT & ADVISORY SERVICES

School of Medicine
Department of Biochemistry & Biophysics
Financial & Administrative Review
Project #23-003

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Audit & Advisory Services

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SUBJECT: School of Medicine Department of Biochemistry & Biophysics Financial & Administrative Review

As a planned internal audit for Fiscal Year 2023, Audit & Advisory Services ("A&AS") conducted a review to assess administrative and financial practices and procedures in the department of Biochemistry and Biophysics within UCSF School of Medicine to determine if internal controls are adequate and compliant with university 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 November 2022. Management provided their final comments and responses to our observations in November 2022. 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 Board, 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 audit for Fiscal Year 2023, Audit & Advisory Services conducted a review to assess administrative and financial practices and procedures in the department of Biochemistry and Biophysics within UCSF School of Medicine (SOM) to determine if internal controls are adequate and compliant with university policies and regulatory requirements.

SOM departments are responsible for the oversight of financial, scientific and compliance aspects of their clinical, research and educational activities. Department oversight includes establishing, maintaining, and supporting a system of internal controls and ensuring that internal controls are operating as intended. Additionally, the department is responsible for identifying, capturing and communicating reliable and relevant information in a form and time frame that enables management and staff to carry out their responsibilities efficiently.

The Department of Biochemistry & Biophysics has a number of Graduate Programs:

- Tetrad (Biochemistry and Molecular Biology, Cell Biology, and Genetics),
- Integrative Program in Quantitative Biology
- Chemistry and Chemical Biology,
- Developmental and Stem Cell Biology and
- Biomedical Sciences.

The department has several core resources: the Center for Advanced Technology, the Nikon Imaging Center, and the Macromolecular Structure Group. Additionally, the department of Biochemistry and Biophysics supports the Laboratory for Genomics Research (LGR). LGR is a collaboration between the UCSF, the University of California Berkeley, and GlaxoSmithKline (GSK) to develop and deploy next-generation CRISPR technologies. As the LGR is wholly privately funded (by GSK), LGR awards were excluded from this review.

The department's primary source of revenue comes from sponsored projects, accounting for 68% of revenue over the past three fiscal years. The three-year high-level financial result for the department is outlined below[1]:

	FY 2019-20	FY 2020-21	FY 2021-22
Total Revenue	49,591,166	58,767,591	63,508,933
Total Expense	51,983,931	58,746,628	62,722,712
Net Operating Income (Loss)	(2,392,765)	20,964	786,221

Non-compliance with relevant policies and regulatory requirements related to sponsored awards may subject UCSF to repaying expenses that are later determined to be unallowable. This may impair UCSF's reputation and, in turn adversely affect the campus' ability to compete for future research funding.

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[1] Per MyReports Organization Reports

II.   AUDIT PURPOSE AND SCOPE

The purpose of this review was to assess administrative and financial practices and procedures implemented within the department of Biochemistry and Biophysics to determine if internal controls are adequate and compliant with university policies and regulatory requirements. The scope of the review was limited to the following areas:

- Payroll and non-payroll late cost transfers,
- Management of Sponsored award expenses, including cost sharing commitments, cost allocations, overdraft monitoring, award verification, and budget status reporting,
- Department financial management, (including general ledger verification and procurement processes), and
- Employee expense reimbursements.

The scope of the review covered transactions and activities during Fiscal Year 2021-22 (July 2021 to June 2022). Procedures performed as part of the review included: review of department responses to an Internal Control Questionnaire, discussions with key department personnel to gain an understanding of processes under review, review of department financial reporting, and review of a sample of transactions. 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 October 2022.

III.   SUMMARY

Based on work performed, department financial and administrative procedures and practices appear to be operating effectively and provide appropriate internal controls for management and oversight of expenses charged to sponsored awards (including cost transfers and cost sharing commitments), and administrative salaries charged to federal awards.

Opportunities for improvement exist for overall financial processes and oversight, budget status reporting to Principal Investigators, review of employee expense reimbursements, and purchasing of computers and software.

The specific observations from this review are listed below:

1. Department financial processes and oversight are not effective in ensuring that required verifications and the timely reporting of the financial status of awards to Principal Investigators occurs.
2. Budget status reporting provided to Principal Investigators do not present sufficient detail to manage individual awards.
3. Purchase of computers and software do not always comply with university policy.
4. Departmental review of employee expense reimbursements is insufficient to identify duplicate payments and exceptions to university policy.
5. The methodology and rational for allocating costs among several awards is not documented to demonstrate the proportional benefit to the projects.

IV.   OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS (MCAs)

No.	Observation	Risk/Effect	Recommendation	MCA

1	***Department financial processes and oversight are not effective in ensuring that required verifications and the timely reporting of the financial status of awards to Principal Investigators (PIs) occurs.***
	
	• General Ledger Verification (GLV): Review of data from the GLV tool for the Scope Period (7/1/21-6/30/22) shows that 4 verifications out of 12 (33%) were completed more than 3 months after period close.
	
	It is the responsibility of each department to verify the financial transactions recorded in the general ledger are reasonable, accurately represent department activity, have been properly recorded, and errors have been identified or corrected. GLV is a key internal control of UCSF and is a requirement per Campus Administrative Policies (300-46). The GLV process should be completed within the following month after each month-end close.
	
	• Award Verification (AV): The process to ensure PIs verify their sponsored awards on a timely basis could be improved. At the time of our review, 39 Award Verifications out of 114 awards (34%) for the department were past due.
	  • 17 awards > 3 months past due (15%),
	  • 5 awards > 2 months past due (4%), and
	  • 17 > 1 month past due (15%).
	
	University of California's Contract and Grant Manual (Chapter 7-330), requires a timely review and
		Without a regular, monthly review of financial transactions, incorrect charges to the department/ sponsored awards may go uncorrected.
		
		The lack of completed verifications may jeopardize the submission of future proposals, cause a proposal to be withdrawn, or result in personal services and other unverified expense activity being unallowable and transferred to an unrestricted fund.
		
		Without timely financial reporting and review of award budget status, then PIs may not have the complete information to manage their awards.
			Department management should review their relevant financial verification processes, including back-up support for RSAs and follow-up to help ensure that verifications of transactions are completed within the required cadence to meet policy requirements and that financial information is provided to the PI timely.	**Action Plan:**
				a) Finance Manager to start monitoring timeliness and completeness at least twice a month. Any overdue items to be discussed as a group at standing Biochemistry weekly finance meetings.
				
				b) Post-award RSA's to get caught up on all overdue Award Verifications and late quarterly BSRs.
				
				c) GLV is currently completed through September 2022 ledgers.
				
				Responsible Party: Finance Manager
				
				Target Completion Date: 1/31/23 for all Award Verification to be up-to-date.

No.	Observation	Risk/Effect	Recommendation	MCA
	confirmation of personal services and other expenses charged to sponsored awards. • Budget Status Reports (BSR): The process to ensure PIs receive timely reporting on the financial status of their awards, could be improved. BSRs are prepared on a quarterly basis by the Research Services Analyst (RSA) to inform PIs of the financial condition of their awards. Review of the department BSR tracking spreadsheet noted BSRs for 6 of 38 PIs (16%) were currently past due ranging from 1 to 3 months. Department management noted the following in regards to the timeliness of budget status reporting: • There are no back-ups for RSA's when it comes to updating BSRs. • The redistribution of portfolio assignments along with personnel changes, continued pandemic disruptions, and time devoted to UCPath issues and corrections resulted in some overall late budget status reporting.			3/31/23 for all BSRs to be up-to-date.
2	***Budget status reporting provided to Principal Investigators do not present sufficient detail to manage individual awards.*** BSRs inform PIs of the financial condition of their awards. It reports how much has been spent, what is projected and the balance. It also provides visibility into what personnel are charged against the grant. The department has a uniform template for completing budget status reports (BSRs). General ledger data is obtained via MyReports to populate the report. On an individual award basis, department BSRs compare actual	Without presenting the financial position in sufficient detail, as to payroll / non-payroll budget splits, monthly forecasts of revenue and expense including supplies and materials on an individual award basis, then overspends in one category or the other would be undetected.	a) Department management should review the relevant processes to report financial performance to PIs on an individual awards basis and integrate the missing elements into	**Action Plan:** The department will evaluate the need to change the BSR format using the School of Medicine's PLUS Faculty Portfolio Report (PFP). If the department decides to adapt the PLUS PFP, change management plans

No.	Observation	Risk/Effect	Recommendation	MCA
	cumulative expenses plus projected personnel expenses for the remaining period to the total appropriated award amount. Review of the BSR reporting for sponsored awards identified the following reporting gaps: • BSRs do not compare budget split between payroll and non-payroll expenses categories. BSRs projected expenses against the total award budget split between direct and indirect budget. • Supply and material expenses are not forecast for individual awards. Supply and material expenses are forecast on the basis of a six-month average of the entire portfolio for the PI. • The BSR reports accumulated expenses since the start of the project. However, the BSR does not track expenses for each individual budget period. The BSR should present expenses for each budget period and cumulative. • Monthly projections are not prepared for individual awards. Monthly projections for the PI's whole portfolio are presented on the BSR. The department standard is for an 18-month projection. • Finally, the department does not maintain documented procedures to prepare and review BSRs.		the department BSR template. b) Department management should develop written procedures for the preparation and review of BSR.	will need to be implemented by Department leadership in conjunction with the PIs. **Responsible Party:** CAO & Finance Manager **Target Completion Date:** 9/30/23
3	***Purchase of computers and software do not always comply with university policy.***	Purchasing computers outside of the preferred procurement methods may by-pass	Department management should review the best practices for	**Action Plan:** a) Faculty will be reminded and encouraged of the

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	Analysis of department procurement transactions for Fiscal Year 2021-22 noted that 53% ($56,396) of Computers and 57% ($11,469) Software were purchased out-of-pocket by employees and reimbursed through MyExpense.[2] . Additionally, an expense of $5,702 processed through MyExpense for a custom computer was not capitalized as required by University Accounting policy, whereby equipment of $5000, or more in value should be capitalized (and not expensed). As the reimbursement of the purchases through My Expense is after-the- fact, it by-passes prior purchasing approvals and can result (as indicated above) in assets not being appropriately identified for capitalization. Additionally, computers and software purchases outside the standard procurement process creates risks as these may by-pass IT Security risk assessment and also the required enterprise security features may not be installed on the computer devices. BearBuy is the preferred method to purchase goods and services. Additionally, per the UC Electronic Information Security policy (BFB IS-3), systems that create, store, process, or transmit data internally at UCSF or externally through a supplier or other third party must be assessed for risk.	pre-approval controls and hinder the University's ability to aggregate campus spend with preferred vendors to obtain better pricing contracts. Additionally, software and cloud computing purchases without appropriate vetting can potentially expose the university to risk from legally binding agreements and data security.	buying goods and services with department shoppers to encourage strategic sourcing to optimize spend and purchasing activities. Additionally, management should work with the Controller's Office to appropriately capitalize the identified computer expense.	proper procurement procedures for computers and software. RSA's will monitor MyExpense for computer purchases that should be capitalized. **Responsible Party:** Department Chair & CAO **Target Completion Date:** 2/28/23 b) Department management has contacted Capital Accounting to correct the capitalization of the identified equipment. **Responsible Party:** CAO & Finance Manager **Target Completion Date:** 1/31/23

[2] For the Scope Period (7/1/21-6/30/22), the department spent $106,442 for Computers, of this amount, $56,396 (53%) was processed through MyExpense reimbursements.

No.	Observation	Risk/Effect	Recommendation	MCA
4	***Departmental review of employee expense reimbursements is insufficient to identify duplicate payments and exceptions to university policy.*** Review of a sample of employee reimbursements noted the following exceptions to reimbursement policy: • Duplicate Expense Reimbursements: Three duplicate expenses reimbursements for the review period (7/1/21-6/30/22) totaling approximately $700 were noted. • Of the 45 employee expense reimbursement lines reviewed, 7 (16%) were submitted more than 45 days after the expense was incurred and 6 were more than 60 days after the date of the expense. UC Travel Regulations Policy G-28 and Expenditures for Business Meetings, Entertainment, and Other Occasions BUS 79 require employees to submit expense reports within 45 days of the completion of a trip or event. In order to comply with IRS regulations, employee expense reports submitted to an Approver more than 60 days after the trip or last purchase date are reported as taxable income for the employee and subject to applicable payroll taxes.	Without appropriate review of employee expense reimbursement claims, then inappropriate payments may be made or expenses may be miscategorized.	The department should review requirements for reimbursement expenses claims with those who prepare and those who review and approve employee reimbursements to help ensure that reimbursement requests are appropriate and properly classified. Additionally, the department should inform the appropriate individuals regarding the duplicate payments and request re-payment. (Note: All duplicate MyExpense payments identified in the audit have been recovered.)	**Action Plan:** a) MyExpense delegate practices for tracking reimbursements will be reviewed and updated, where the tracking is deemed insufficient. b) Department practices for MyExpense delegates and faculty support administrative personnel will be presented at an administrative meeting. c) MyExpense delegates and RSAs will prospectively check previous MyExpense approvals for the same employee as an extra control. **Responsible Party:** CAO **Target Completion Date:** 3/31/23

No.	Observation	Risk/Effect	Recommendation	MCA
5	***The methodology and rationale for allocating costs among several awards is not documented to demonstrate the proportional benefit to the projects.*** Per discussion with department personnel (Finance Manager, Purchasing Manager, and Research Service Analysts), the department relies on the requisition preparers (shopper) to determine cost allocations among awards or projects. Cost allocations may be discussed with knowledgeable personnel (e.g. PI or Lab Manager), but the methodology and rational is not always documented. Per the NIH Grants Policy Statement: "… In general, a cost that benefits two or more projects or activities in proportions that can be determined without undue effort or cost should be allocated to the projects on the basis of the proportional benefit. A cost that benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved may be allocated or transferred to the benefiting projects on any reasonable basis as long as the costs charged are allowable, allocable, and reasonable under the applicable cost principles …"[3]	Non-compliance with cost allocation can increase the risk of penalties or fines by federal sponsors to UCSF.	The allocation method should be identified when the cost is charged and should be included with the journal entries recording the transaction. Management should update its processes to require Principal Investigators or other designated staff to both document and justify the allocation methodologies used when charging expenses to sponsored projects.	**Action Plan:** a) Department Chair and CAO will present on this topic and lead a discussion at a faculty retreat. b) CAO & Finance Manager will assist RSAs and PIs with implementation of new standards for documenting methodology of common cost allocations. **Responsible Party:** CAO & Finance Manager **Target Completion Date:** Presentation and discussion: 1/30/23 Implementation and further trainings as deemed necessary: 3/31/23.

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[3] National Institutes of Health Grants Policy Statement, 7.6 Allocation of Costs and Closely Related Work

APPENDIX A

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

- Reviewed regulations, and University and campus policies relevant to the financial and administrative areas under review.
- Interviewed key department personnel to gauge the department's internal control environment.
- Reviewed a sample of payroll and non-payroll cost transfers posted by the department for the scope period.
- Reviewed transactions for potential unallowable expenses charged to federal awards (specifically, expenses posted after the award end date, increased spending in the last 90 days of an activity period, and administrative salaries directly charged to federal awards).
- Reviewed the General Ledger and Award Verification status with management to determine compliance with University policies.
- Reviewed deficit monitoring procedures for sponsored awards.
- Reviewed the department's processes for ensuring cost sharing commitments are met.
- Reviewed budgeting and forecasting process and determine whether it effectively allows monitoring of expenditure at the PI/Award level.
- Reviewed a sample of employee reimbursements.