COLLEGE OF LETTERS AND SCIENCE

DIVISION OF PHYSICAL SCIENCES

UCLA INSTITUTE OF THE ENVIRONMENT AND SUSTAINABILITY

Audit REPORT #17-5003

Audit & Advisory Services

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Background

In accordance with Campus fiscal year 2016-17 audit plan, Audit & Advisory Services (A&AS) performed an audit of the UCLA Institute of the Environment and Sustainability (IoES).

The mission of IoES is to unite people across campus in various disciplines including physical and social sciences, management and economics, law and policy, art and humanities, public health, and engineering to solve the planet’s greatest environmental problems. IoES addresses urgent environmental priorities such as: understanding climate change and its impacts, conservation and biodiversity, safeguarding communities from air pollution, ensuring safe and sufficient water resources, creating sustainable cities and communities, corporate sustainability and environmental economics, and improving public health.

IoES is part of the Division of Physical Sciences, and one of seven institutes in the College of Letters and Science. IoES currently has 13 core faculty, 11 adjunct faculty, and 12 staff. There are also 50 faculty that are affiliated with IoES. A Director oversees a Chief Financial and Administrative Officer, Associate Directors, Assistant Director, and academic administrators. IoES has a minor undergraduate program, a Bachelor of Science (B.S.) undergraduate program, a graduate certification, and a Doctorate of Environmental Science and Engineering (D. Env.) program. Enrollment for fiscal year 2015-16 included 101 undergraduate minors, 233 undergraduates, and 22 D. Env. students.

IoES research centers include the UCLA La Kretz Center for California Conservation Science (La Kretz Center), Center for Clean Air, Center for Tropical Research, Center for Corporate Environmental Performance, California Center for Sustainable Communities at UCLA, Center for Climate Science, UC White Mountain Research Center (WMRC), and Coast Center. IoES also works collaboratively with a number of research institutes, centers, and initiatives on campus, including UCLA Sustainability, UCLA Water Resources Group, UCLA Luskin Center for Innovation, and UCLA Center for Action Research.

In fiscal year 2015-16, IoES reported total revenues of approximately $13.5 million and expenditures of approximately $9.9 million. Two IoES research centers, WMRC and La Kretz Center, provide lodging, facilities, and services to users at established rates.

Purpose and Scope

The purpose of the review was to ensure that there are adequate internal controls over the Institute's administrative and financial activities. Where applicable, compliance with University policies and procedures were also evaluated. The scope of the audit covered the following areas:

* Cash Handling
* Financial Management
* Research Administration
* Conflict of Commitment
* Information Technology and Security
* Equipment Inventory
* Budget and Planning Processes

The review was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and included interviews, tests, and other procedures considered necessary in achieving the audit purpose.

Summary Opinion

Based on the results of the work performed within the scope of the audit, IoES has established effective systems of internal controls and business practices to ensure that the financial and administrative objectives of the Institute are met. Also, IoES administrative staff appear to be experienced and knowledgeable of the University’s policies and procedures. However, the review did find additional areas where internal controls could be further strengthened. The following were noted:

*Cash Handling*

* Management should designate an independent individual to reconcile deposits to the general ledgers, who does not also have responsibility for collecting payments. Proper separation of duties should be maintained to ensure that no one individual has complete control over cash collecting, depositing, and reviewing related items.
* Management should change business practices so that two individuals are required to be present when opening the safe. For example, one individual could be given the safe combination, while the other individual could be given the key to the locked cabinet that the safe is stored in. Both individuals would need to be present in order to access the safe contents. This would help to strengthen accountability over the funds.
* To ensure that cash receipts are accurately recorded and properly deposited in a timely manner, an independent individual should regularly, on at least a spot check basis, reconcile cash receipts to the general ledgers and to related bank statements. Documentation should be maintained to evidence this review.
* To strengthen accountability over mailed-in payments, they should be verified and processed by two employees. An independent person should also verify that payments on the log were deposited intact.
* When monies are hand-delivered, they should be jointly verified and documented by the person depositing and the person receiving the funds. Also, a log should be used to document when payments are hand-delivered. An independent person should review the dual-signed log, and should verify that payments on the log were deposited intact.

*Financial Management*

* Management should provide regular communication to faculty and staff to remind them to create orders in BruinBuy at the time of commitment and prior to the event taking place, or the service being completed, using an estimate or quote from the vendor. Orders should not be created after the event has occurred or service has been provided. This will help to protect the University by ensuring that the proper terms and conditions are in place, timely payments are made to vendors, and budgeting data is accurate. Also, management should perform periodic reviews of purchase transactions to verify that orders have been properly created in BruinBuy.

* Management should ensure that purchasing transactions are properly processed, and continue to work with Campus Purchasing to ensure that any necessary approvals are obtained. Also, management should perform periodic spot checks to verify that transactions are appropriately processed.

*Research Administration*

* Management should send reminders to faculty and staff that effort reports should be properly certified to help ensure that effort spent on sponsored projects is being properly reported.
* Management should change business practices so that reconciliations between financial transactions and the general ledgers are performed on a monthly basis. Reconciliations should also be documented to evidence review and approval.

*Conflict of Commitment*

* Management should remind faculty members to obtain prior approval for Category I activities, in order to be in compliance with University policy (APM - 025, Conflict of Commitment and Outside Activities of Faculty Members).

*Information Technology & Security*

* Management should follow-up with faculty and staff who do not complete the mandatory Cyber Security Awareness training to ensure that the training is completed by established due dates.

*Equipment Inventory*

* Management should ensure that disposals in the Asset Management System (AMS) are completed timely, in order to help maintain an accurate record of inventorial equipment.

The audit results and recommendations are detailed in the remainder of this audit report.

Audit Results and Recommendations

| **#** | **FINDING and**  **CRITERIA, where applicable** | **RECOMMENDATION** | **MANAGEMENT’S RESPONSE** |
| --- | --- | --- | --- |
| **CASH HANDLING** | | | |
| Audit work included the following:   * Review of safe access, deposit procedures, physical security over cash receipts, individual accountability, and separation of duties. * Discussion with IoES personnel regarding departmental procedures for handling cash payments including those received from the UCLA White Mountain Research Center (WMRC) and La Kretz Center. * From fiscal year 2015-16, selected a judgmental sample of 10 cash deposits. Supporting documentation (deposit slip, evidence of input in CASHNET, etc.) was reviewed for adequacy. Test work indicated deposits were entered in CASHNet and deposited with the bank in a timely manner. Deposit slips reviewed indicated they were signed by two individuals with at least one being the Fund Manager or Chief Financial and Administrative Officer. * Observations of the safe and surrounding areas indicated physical security and accountability is maintained for cash and checks.   Issues noted are summarized below. | | | |
| 1 | Separation of Duties  The same individual who opens the mail and reviews Post Authorization Notifications (PANs) and CASHNet data, also reconciles deposits to the general ledger. As a result, there is a lack of proper separation of duties, as the same individual who has responsibility for payment collection, also reviews related transactions.    \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Criteria:**  BUS-49, II.B, “The Business Unit head is responsible for establishing procedures that ensure that no single individual is responsible for collection, handling, depositing and accounting for cash received by that unit.”  BUS-49, Policy VIIIA.1, “Separation of duties must be maintained when cash is received. No single person should have complete control.” | Management should designate an independent individual to reconcile deposits to the general ledgers, who does not also have responsibility for collecting payments.  Proper separation of duties should be maintained to ensure that no one individual has complete control over cash collecting, depositing, and reviewing related items. | Management will assign two individuals in the Cash Handling duties and both will open collections. The Finance Coordinator will process the collections and the Fund Manager will review deposit paperwork. |
| 2 | Safe  Multiple staff have access to the safe, which may compromise accountability for the payments stored in the safe.  Three people have access to the combination locked safe, which is stored in a locked cabinet. The safe is not dually controlled. The Accounts and Administrative Coordinator is responsible for monies and opens the safe unaccompanied. The Chief Financial and Administrative Officer and Fund Manager also have access to the safe.  Under the current setup, it would be difficult to hold any one person accountable if funds were to go missing.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Criteria:**  BUS-49, Policy VIIIA.2, “Individual accountability must be maintained and documented for all cash handling procedures.” | Management should change business practices so that two individuals are required to be present when opening the safe. For example, one individual could be given the safe combination, while the other individual could be given the key to the locked cabinet that the safe is stored in. Both individuals would need to be present in order to access the safe contents. This would help to strengthen accountability over the funds. | The same two individuals will also handle the safe. The Fund Manager will maintain the key to locked cabinet that safe is located in, and the Finance Coordinator will retain the combination to the safe. |
| 3 | Reconciliation  While deposits are regularly reconciled to the general ledger by the Fund Manager, they are not regularly reconciled to the bank statement.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Criteria:**  BUS 49, Policy XI.1, “Deposits to banks must be reviewed, approved and recorded to the General Ledger in a timely manner and during the appropriate month.”  BUS-49, Section VIII, “Procedure G: Reconciling items associated with a deposit must be resolved within 30 days. Procedure H: Documentation of the reconciliation must be maintained and must include evidence of appropriate review and approval by a supervisor.” | To ensure that cash receipts are accurately recorded and properly deposited in a timely manner, an independent individual should regularly, on at least a spot check basis, reconcile cash receipts to the general ledgers and to related bank statements. Documentation should be maintained to evidence this review. | Since the link to bank statements has been provided by the Audit office, the Finance Coordinator has been confirming deposits have hit against that site. The Department will also continue to verify the deposits hit the ledger, as indicated on the PAN and CashNet files. |
| 4 | Mailed-in Payments  While a log (prepared by WMRC) is included with the mailed-in payments sent to IoES for processing, these mailed-in payments are not opened under dual-custody.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Criteria:**  BUS-49, Policy VIIIA.1.3, "Mailed remittances shall be verified and processed by two employees." | To strengthen accountability over mailed-in payments, they should be verified and processed by two employees.  An independent person should review the dual-signed log, and should verify that payments on the log were deposited intact. | The Department will have both individuals listed above open all future mailed payments together and confirm (by signature) that the log figures match deposits being received. The 3rd individual reviewing the bank deposit will confirm figures and match logs, which was already verified by the Fund Manager and the Finance Coordinator. |
| 5 | Transfer of Accountability  For hand-delivered payments (which management indicated is typically received approximately four times a year), the transfer of funds is not jointly verified and documented by the two individuals involved. Also, a log is not used to document these payments. Under the current setup, if funds were to go missing, it would be difficult to hold any one person accountable.  Controls should be strengthened to ensure that payments are properly received, recorded, and processed. Proper controls will help to minimize loss, theft, misappropriation, and maintain individual accountability.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Criteria:**  BUS-49, Policy IXA.3, “All cash transfers must be documented and the documentation of accountability maintained by category (i.e., currency, checks and other forms of payment).”  BUS-49, Policy VIIIA.2, “Individual accountability must be maintained and documented for all cash handling procedures.” | When monies are hand-delivered, they should be jointly verified and documented by the person depositing and the person receiving the funds. Also, a log should be used to document when payments are hand-delivered. An independent person should review the dual-signed log, and should verify that payments on the log were deposited intact. | Logs are already in place and being used. The Department will have a 3rd individual who also signs the bank deposit slip, and will verify the payments against the logs, and match what should be deposited. |
| **FINANCIAL MANAGEMENT** | | | |
| Audit work included the following:   * Review of 22 judgmentally selected disbursements in fiscal year 2015-16 including, purchasing activity, travel and entertainment, and wire transfers. * Documents reviewed included BruinBuy documentation, general ledgers, invoices, PANs, and other supporting documentation. * Review of compliance with applicable UC and UCLA policies and procedures.   Issues noted are summarized below. | | | |
| 6 | BruinBuy Order Input Delay  For six out of 22 sampled transactions, the order was not created in BruinBuy until after the event had occurred, or goods and services were provided. These included transactions that were processed as Low-Value Orders (LVOs), Purchase Orders (POs), Travel & Entertainment, etc. The delays ranged from three to 57 calendar days.  Orders should be established prior to the receipt of goods or delivery of services, in order to confirm the scope of work or exchange of value, and also to record the obligation (as an encumbrance) on the University’s financial books.  When an encumbrance is not created, this could result in inaccurate decisions when budgeting and allocating monies. Also, University terms and conditions should be presented to the vendor when the order is placed, otherwise the vendor’s terms and conditions may govern the transaction. Vendor terms and conditions may violate UC policies, may not provide the required protection, or may have onerous business terms.  Further, inputting orders into BruinBuy after the invoice date could cause payment delays to the vendor. | Management should provide regular communication to faculty and staff, to remind them to create orders in BruinBuy at the time of commitment and prior to the event taking place or the service being provided, using an estimate or quote from the vendor. Orders should not be created after the event has occurred or service has been provided. This will help to protect the University by ensuring that the proper terms and conditions are in place, timely payments are made to vendors, and budgeting data is accurate.  Also, management should perform periodic reviews of purchase transactions to verify that orders have been properly created in BruinBuy. | The Purchasing Coordinator and Management will communicate with the entire Department about this policy. Management will try to enforce that BruinBuy orders are processed ahead of any services or materials are purchased. |
| 7 | Disbursement Processing  Although supporting documentation appeared appropriate for the 22 sampled items, three transactions were not properly processed:   * One $4,000 transaction dated November 30, 2015, for removing and replacing the sidewalk at the WMRC (on-site construction), should not have been processed as an LVO. * A P-card should not have been used for one $284 transaction dated November 8, 2015, for transcription services. This consulting/contract employee service is a restricted P-card purchase. * A P-card should not have been used for one $2,488 transaction dated February 22, 2016, for lumber flooring for the WMRC Dining Room. This construction services is a restricted P-card purchase.   According to the Pcard Administrator, UCLA Purchasing requires the requesting department to submit the terms and conditions to their office to review, along with business justification before Purchasing determines whether a transaction could be placed on a Pcard.  There were no records on file indicating approval from Purchasing for use of a P-card for consulting or contracting services, and on-site construction materials.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Criteria:**  UCLA Policy 740 & 741 - Attachment A, Purchase Restrictions, “Items that may not be purchased with Low-Value Orders….On-site construction...”  Pcard Quick Reference Guide: “The following goods and services cannot be charged to the Pcard:….on-site construction…consulting or contract employee services (these require a specific UCLA contract).” | Management should ensure that purchasing transactions are properly processed, and continue to work with Campus Purchasing to ensure that any necessary approvals are obtained. Also, management should perform periodic spot checks to verify that transactions are appropriately processed. | The department will implement as recommended and management will continue to spot check periodically to ensure that transactions are appropriately processed. |
| **RESEARCH ADMINISTRATION** | | | |
| Audit work included the following:   * Discussions with personnel to determine IoES processes for managing sponsored projects. * Review of two judgmentally selected sponsored projects awards (funds 21436 and 22103) and associated documentation, including financial reports (general ledger, fund summary, payroll distribution report, etc.) and award documents (contracts, budgets, proposals, closeout reports, etc.).   Fund 21436 – ENGAGE – Behavioral Responses to Advanced Energy Metering Technology: A Large Scale Experiment   * Sponsor: National Science Foundation * Award Type: Grant * Project Period: March 15, 2013, to February 29, 2016 * Total Funds Awarded to Date: $446,912   Fund 22103 – A Neighborhood Scale Assessment of Industrial Sources of Stormwater Pollution   * Sponsor: U.S. Environmental Protection Agency * Award Type: Grant * Project Period: August 1, 2014, to July 31, 2015 * Total Funds Awarded to Date: $59,965 * Review of a sample of eight direct expenditures indicated compliance with applicable federal policies, specific award terms/conditions, sponsor guidelines, UC/UCLA polices, and proposal budget. * Review of propriety and timeliness of effort reporting certification. For sponsored projects awards above, selected one principal investigator (PI) from each fund for testing. Reviewed award documentation and effort certification statements that were certified during fiscal year 2015-16, for each award. * Review of propriety and timeliness of cost transfers for the above awards indicated there were none for the period tested. * Review of closeout documents from UCLA Extramural Fund Management (EFM) indicated the above awards were closed out and applicable closeout packets were submitted to EFM by their due date. * Review of subaward expense invoices and approvals against the subaward proposal and budget indicated the invoices fell within the project budget, charges were appropriate based on the budget proposal, and invoices were properly approved. * Review of business practices and adequacy of controls over technical progress reports indicated business practices have been established to ensure PIs are submitting progress reports to sponsors by the required due dates.   Issues noted are summarized below. | | | |
| 8 | Effort Reporting  Cost sharing was not properly recorded (from pay period July 1, 2015, to September 30, 2015), for a PI on their certified effort report.  In this instance, the PI charged a percentage on the cost sharing contribution report, but the PI did not report cost sharing on the certified effort report.  In addition, another employee listed on the cost sharing contribution report did not complete an effort report.  To comply with federal regulations, UCLA's policy is to certify effort on federally sponsored projects through the Effort Reporting System. Incomplete reporting of effort is a compliance violation that could result in audit disallowances and/or withholding of federal research funding.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Criteria:**  Office of Research Administration Effort Reporting Procedure, Background, “Incomplete or improper reporting of effort is a compliance violation that could result in audit disallowances and/or withholding of federal research funding.”  Office of Research Administration Effort Reporting Procedure, Certification, “Effort that has been directly charged to the federal or federal flow-through fund must be certified. Committed Cost Sharing (i.e., mandatory and voluntary committed cost sharing) must also be substantiated by effort certification.” | For the two individuals noted, IoES should work with EFM to properly complete their effort reports. Also, management should send reminders to faculty and staff that effort reports should be properly certified, to help ensure that effort spent on sponsored projects is being properly reported. | The Fund Manager has reached out to EFM and is processing these late ERS reports with the cost-shared efforts for the project in question. All cost-shared efforts will be reflected on current reports in the future. |
| 9 | Management of Sponsored Projects  While financial transactions are reconciled to the general ledger typically on a quarterly basis, they are not reconciled on a monthly basis.  IoES management indicated that reconciliations are not typically performed on a monthly basis because of the large workload for the Fund Manager.  Timely monitoring of funds helps to ensure that expenditures (purchases, payroll, etc.) are consistent with project purposes and the terms and conditions of the award.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Criteria:**  UCLA Policy 910 Management of Sponsored Projects, V. Responsibilities, the, “director has continuing responsibility to ensure that administrative staff ...maintain budgetary control through the use of departmental bookkeeping and cost control systems and monthly reconciliation with the general ledger." | Management should change business practices so reconciliations between financial transactions and the general ledgers are performed on a monthly basis. Reconciliations should also be documented to evidence this review and approval. | The department has hired a second Fund Manager in April to help with the workload of the first Fund Manager. Plans are in place to catch up and financial reports will be prepared monthly beginning immediately. |
| **CONFLICT OF COMMITMENT** | | | |
| Audit work included the following:   * Review of Faculty Annual Report of Category I and II Outside Activities forms for fiscal year 2015-16.   Issues noted are summarized below. | | | |
| 10 | Conflict of Commitment  All eight core IoES faculty properly completed the Conflict of Commitment form for fiscal year 2015-2016; however, one faculty member did not obtain prior approval for their reported Category I activity.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Criteria:**  UC Policy APM 025, "faculty are responsible for complying with this policy, including....obtaining prior written approval for engagement in Category I activities." | Management should remind faculty to obtain prior approval for Category I activities, in order to be in compliance with University policy (APM - 025, Conflict of Commitment and Outside Activities of Faculty Members). | The Department will implement as recommended and Management has informed the faculty in question. |
| **INFORMATION TECHNOLOGY AND SECURITY** | | | |
| Audit work included the following:   * Review of compliance with mandatory Cybersecurity Awareness training. * Obtained and reviewed a list of IoES desktops, laptops, and mobile devices to determine what devices connect to the UCLA information systems. This list included each machine name, IP address, service tag (if applicable), port, user, and location.   Issues noted are summarized below. | | | |
| 11 | Cybersecurity  The Cybersecurity Awareness training completion rate for fiscal year 2015-16, was approximately 82% for IoES faculty and staff.  A&AS supports management efforts to ensure that all faculty and staff complete the mandatory Cybersecurity Awareness training. | Management should follow-up with faculty and staff who do not complete the mandatory Cybersecurity Awareness training to ensure that the training is completed by established due dates. | The Department will implement as recommended and Management has informed the faculty and staff who have not yet completed the Cybersecurity training. |
| **EQUIPMENT INVENTORY** | | | |
| The department has 56 inventorial items listed in the AMS with a total active cost of approximately $861,000 as of January 31, 2017.  Audit work included the following:   * Review of IoES records in the AMS as of January 31, 2017, indicated that the physical inventory was performed in a timely manner, properly approved, and the last Annual Equipment Inventory Certification was submitted to Equipment Management in a timely manner. * Review indicated controls are in place for removing data from hard drives before disposal. * Review two disposed equipment items from July 2015 to verify that disposal was properly completed, reviewed, and approved in AMS.   Issues noted are summarized below. | | | |
| 12 | Equipment Disposal  Although the two equipment items tested appeared to have been properly disposed in July 2015, IoES did not create the disposal in the AMS until November 2015. The disposal was approved by the IoES Fund Manager on November 9, 2015, and approved by the Equipment Management Associate Director on November 20, 2015. Delays in entering data result in inaccurate AMS records. | Management should ensure that disposals in AMS are completed timely, in order to help maintain an accurate record of inventorial equipment. | There have been rare delays in communication from our off-campus research centers regarding dates and details of disposed IoES assets. Moving forward, Management will ensure that all assets are disposed of in a timely manner by frequent communication of such events. |
| **BUDGET AND PLANNING PROCESSES** | | | |
| Budget and planning processes appear to be adequately controlled. Annual goals are discussed and set by IoES leadership, and the general ledger is monitored by the Chief Financial and Administrative Officer and Fund Manager. The budget is reviewed throughout the year and in detail at year-end to identify, analyze, and discuss variances. IoES had limited variances that were greater than +/-5%. For fiscal year 2017-18, goals and objectives included initiating the examination and design of curriculum, encouraging core faculty to teach more, establishing practices for admission and supervision of graduate students in the new doctorate program, remodeling La Kretz Hall, and hiring two new faculty. IoES has plans to expand fundraising and build an alumni program to generate more revenue in fiscal year 2017-18.  No significant control weaknesses were identified in this area. | | | |

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