March 6, 2019

VICTOR FERREIRA
Chair, Department of Psychology
0109

Subject: **Department of Psychology**
Report 2019-07

The final report for Department of Psychology Report 2019-07 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
        Alex Bustamante
        Peter Hinkley
        Carol Padden
        Nieves Rankin
        Cheryl Ross
        Steven Ross
        Elizabeth Simmons
        Tiffany Swiderski

UC San Diego

AUDIT & MANAGEMENT ADVISORY SERVICES

Department of Psychology
Report No. 2019-07
March 2019

FINAL REPORT

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Approved By:

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ATTACHMENT A – Psychology Department Business Process Review

I. EXECUTIVE SUMMARY

Audit & Management Advisory Services (AMAS) has completed a review of the Department of Psychology as part of the approved audit plan for Fiscal Year (FY) 2018-19. The objective of our review was to evaluate whether internal controls were adequate to provide reasonable assurance that operations were effective, in compliance with University policies and procedures, and resulted in accurate financial reporting.

We concluded that key internal controls within the Department of Psychology 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 identified opportunities for improved policy compliance or internal control practices in Express Card Use Tax adjustments, expense approval processes, employee reimbursements, approval of subrecipient invoices, use of Control Tracker, and accountability for cash. Management Action Plans to address these findings are summarized briefly below.

A. Express Card Use Tax Adjustments
   The Department has set up a targeted sampling process to review Use Tax, provided additional training to the fiscal staff on transaction sampling and reconciliation, and implemented other process improvements to help ensure that Use Tax is properly recorded on Express Card purchases.

B. Expense Approval Processes
   The Department has implemented changes to approval hierarchies to ensure that any expenses incurred by the Chair or MSO are reviewed and approved by someone who does not report to them.

C. Employee Reimbursements
   After determining which card is most appropriate for their needs, the Department will request either a Travel Card or Travel Events Planner card for departmental event expenses.

D. Approval Process for Subrecipient Invoices
   Prior to the completion of our review, the Business Office provided updated guidance to the staff regarding obtaining documentation of PI approval and any back-up documentation from the sub-recipient institution regardless of total invoiced amount. These updated written procedures are in compliance with OPAFS recommended best practices for documenting PI approval of these invoices.

E. Control Tracker
   The Department is in process of implementing Control Tracker for review, documentation, and monitoring of key internal control activities.

F. Accountability for Cash
   The Department Business Office will work with the labs to ensure, to the extent possible, that individuals working in Psychology labs do not share custody of cash on hand.

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 the Department of Psychology as part of the approved audit plan for Fiscal Year (FY) 2018-19. This report summarizes the results of our review.

The UCSD Psychology Department (Department) was established in 1965 with the appointment of George Mandler as founding chair and two other members of the initial Department - William J. McGill and Norman H. Anderson. Within 5 years the Department had grown to 18 faculty.

The view of these founders was that psychology was displayed at its best as an empirical or lab science. Throughout its history, the department has remained steadfastly committed to the belief that the best training for a career in psychology, even for a career in clinical psychology, is a strong background in experimental psychology. The UCSD Psychology Department is widely considered one of the premier experimental psychology departments in the country, a distinction it has long maintained according to various surveys.

Currently there are 28 ladder-rank faculty, 12 research scientists, and 20 staff. There are currently 55 graduate students in the Department's doctoral program. As of June 30, 2018, 413 doctoral degrees had been awarded. The Department has approximately 1,400 undergraduate psychology majors. Approximately 40 Federal and private grants, research contracts and gift funds support diverse research programs throughout the Department.

The Department of Psychology provides advanced training in research in most aspects of experimental psychology. Its graduate training program emphasizes and supports individual research, beginning with the first year of study. The Department offers the following emphases:

- Cognitive & Behavioral Neuroscience
- Cognitive Psychology
- Developmental Psychology
- Sensation & Perception
- Social Psychology

The Department's success is based in part on the strong tradition of interdisciplinary research at UC San Diego, and many of its faculty maintain collaborative relationships with campus units including Neuroscience, Cognitive Science, UC San Diego's Medical School, Rady School of Management, and the Salk Institute for Biological Studies.

The Department of Psychology Business Office supports all of these academic and research programs. Internally, the Business Office is organized into Human Resources/Academic Personnel, Fiscal Operations and Student Affairs teams. A total of ten managers and administrative staff persons make up these teams. The Management Services Officer has overall responsibility for managing the Business Office.

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

The objective of our review was to evaluate whether internal controls were adequate to provide reasonable assurance that operations were effective, in compliance with University policies and procedures, and resulted in accurate financial reporting. The scope of our review included activities and business practices for FY 2016-17 and FY 2017-18. In order to achieve our objective, we performed the following procedures:

- Reviewed system-wide and local policies, including, but not limited to:
    - University of California (UC) Business and Finance Bulletin (BFB) BUS-29: *Management and Control of University Equipment*,
    - UC BFB BUS-49: *Policy for Cash and Cash Equivalents Received*,
    - UC BFB BUS-43: *Materiel Management*,
    - UC BFB G-28: *Travel Regulations*,
    - UC Contracts and Grants and Accounting Manuals,
    - UCSD PPM: *Overdraft Policy*,
    - UCSD Blink guidance including, but not limited to, Express Card practices, Travel, Purchasing, and Meetings and Entertainment,
- Interviewed the following Psychology Business Office personnel:
    - The Fiscal Operations Manager, and
    - the Academic Affairs and Human Resources (HR) Analyst,
- With assistance from the Fiscal Operations Manager and Financial Analyst, completed and reviewed the separation of duties matrix and internal control questionnaires for key business activities;
- Analyzed departmental organizational and financial information and reports, including the transaction sampling report, business and academic unit reports, active awards report, overdraft reports, operating ledgers and expanded budget summaries; and
- 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:
    - Transaction Processing – Non-Payroll Expenditures,
    - Cash Handling with respect to Human Research Subjects payments,
    - Sponsored Research activity including effort reporting,
    - Sub-recipient Monitoring,
    - Accounts Receivables management,
    - Travel,
    - Expenditure Transfers,
    - Operating Ledger Review & Financial Reporting, and
    - Equipment Management.

IV. CONCLUSION

Based on our review, we concluded that Department of Psychology 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 and staff appear to have an excellent working knowledge of University and sponsor policies and internal controls and how they should be implemented.

Attachment A provides the results of the business process review. Specific management actions 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.	Express Card Use Tax Adjustments
Use Tax adjustments for Express Card purchases were not always properly applied.	
Risk Statement/Effect	
Failure to adequately review and adjust system-generated use tax charges on Express Card transactions can result in overpayment of Use Tax.	
Management Action Plan	
A.1	The Department has set up a targeted sampling process to review Use Tax, provided additional training to the fiscal staff on transaction sampling and reconciliation, and implemented other process improvements to help ensure that Use Tax is properly recorded on Express Card purchases.

A. Express Card Use Tax Adjustments – Detailed Discussion

UCSD's Express Card Manager tool (EC Manager) is programmed to automatically calculate Use Tax for out-of-state vendors that do not report tax separately. However, Express Card transaction reviewers in each department are required to review the Use Tax calculated by EC Manager and make adjustments as needed based on the transaction receipt. When the transaction reviewer sees that the vendor charged tax at the point of sale, the reviewer must change any amount reported in the Use Tax field in EC Manager to zero. This change is necessary to prevent the department from paying tax twice on the same transaction. Similarly, the transaction reviewer needs to verify that EC Manager has not applied use tax to Express Card purchases which are not subject to Use Tax.

During our review we observed that the required Use Tax review was not always being adequately performed in the Department. A review of several original vendor invoices demonstrated that the necessary Use Tax adjustments were not made in some cases. In these cases, the Express Card transaction reviewer failed to adjust the Use Tax where EC Manager applied Use Tax where it was not due, either because the vendor had charged tax at the point of sale, or because the items purchased were not subject to the tax. For example, a Use Tax charge of $383.70 on an office furniture purchase was not adjusted, even though the vendor had already charged sales tax as shown on the purchase

receipt. In another example, a system-generated Use Tax charge of $248 was not adjusted, even though the purchase was for cloud-based software and therefore not subject to Use Tax.

The individual who did not properly review Use Tax charges on the invoices we examined had left the Department prior to the commencement of our review.

B.	Expense Approval Processes
Reimbursements for expenses incurred by the Department Chair and MSO were sometimes reviewed and approved by individuals who reported to them directly or indirectly.	
Risk Statement/Effect	
An employee with expense review responsibilities may not feel comfortable in questioning expenses incurred by his or her supervisor or higher management.	
Management Action Plan	
B.1	The Department has implemented changes to approval hierarchies to ensure that any expenses incurred by the Chair or MSO are reviewed and approved by someone who does not report to them.

B.	Expense Approval Processes – Detailed Discussion

As a matter of policy, the University requires that payments for expenses should be reviewed and approved by an individual who does not report directly or indirectly to the person incurring (claiming) the expenditure, (see, for example, UC Policies BFB-G-28, BFB-BUS-43, BFB-BUS-79 and AM-D224-17).

During our review, we noted that the Department has not yet established such a procedure for expenses incurred by the Chair and MSO. Currently the Chair's travel, MyPayments and Express Card activity is reviewed by persons in the Psychology Business Office. The MSO's MyPayments transactions are reviewed by someone who reports to him. (The MSO does not hold an Express Card and did not travel for the University during the period under review.)

We found no indications that any expenses incurred by the Chair or MSO were otherwise not in compliance with University policy. Nonetheless, in order to comply with University of California policy, the Department needs to ensure that these expenses are reviewed by individuals who do not report to them. Hence, typically the Chair would review any expenses incurred by the MSO, while the Chair's expenses should be reviewed by an administrator in the Dean's office.

C.	Employee Reimbursements
We noted that the Department exhibited an over-reliance on employee reimbursements via Payment Authorizations as a method of procurement by the Business Office.	

Risk Statement/Effect
Asking employees to use personal bank cards to pay for departmental expenses may be an imposition on the employee and could make it more difficult to obtain supporting documentation for these purchases.
Management Action Plan
C.1   After determining which card is most appropriate for their needs, the Department will request either a Travel Card or Travel Events Planner card for departmental event expenses.

C.   Employee Reimbursements – Detailed Discussion

University policy (UC Accounting Manual Policy D-371-16) states that reimbursements to University employees for purchases of goods should be discouraged as there are other options available for making such purchases including procurement cards. However, in reviewing procurement activity over the last two completed fiscal years, we noted a greater reliance on employee reimbursement as a procurement method than is typical in most university departments.

Specifically, we noted that because the Department does not have a Travel Card or Travel Event Planner (TEP) Card[1], the Fiscal Operations Manager frequently needed to use her personal bank card to pay for departmental events, and then later to be reimbursed via Payment Authorizations. Each year the Department hosts many such events, some of which are large. From the beginning of FY17 through the end of FY18, the Fiscal Operations Manager personally paid and was subsequently reimbursed for 91 separate departmental expenses with a total value of $24,531. These were nearly all to cover the cost of departmental business meetings and events for which a more convenient payment method did not seem to be available. In other words, an average of about $1,000 per month in Departmental expenses were paid via this employee reimbursement process.

The Department has tried to use alternate payment methods for these expenses in the past without success. For example, we understand that some local event venues do not wish to be paid via purchase orders. Similarly, we understand that in the past the Department has tried to obtain a UCSD TEP card for this purpose, but was not able to obtain one of these cards. However in our opinion, the frequency and combined dollar value of these events in the Department justifies the need within the Department for a Travel Events Planner card or some alternative University payment method rather than via employee reimbursement.

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[1] As described in Blink, UC San Diego's Travel Card can be used to pay for entertainment expenses when the cardholder is acting as the host of official University-sponsored business entertainment. Similarly, the UCSD TEP card can be used by employees who coordinate non-employee group travel, conferences, or activities for UC San Diego. Additional information about the distinction between these two UCSD payment methods can be found on the Blink website at http://www-bfs.ucsd.edu/PUR/Marketplace/homepage/Payment-Card-Matrix.pdf.

D.	Approval Process for Subrecipient Invoices

The Department was not always able to easily locate documentation of the Principle Investigator (PI) approval of sub-award invoices submitted to UCSD for payment.

Risk Statement/Effect

The inability to locate documentation approval of subrecipient invoices by the PI could create the impression of inadequate stewardship of sponsored research funding managed by UCSD and risk noncompliance with federal regulations.

Management Action Plan

D.1	Prior to the completion of our review, the Business Office provided updated guidance to the staff regarding obtaining documentation of PI approval and any back-up documentation from the sub-recipient institution regardless of total invoiced amount. These updated written procedures are in compliance with OPAFS recommended best practices for documenting PI approval of these invoices.

D. Approval Process for Subrecipient Invoices – Detailed Discussion

As stated in the University of California Contracts and Grants Manual, (and as per CFR Section 200.331 (d) of the Code of Federal Regulations), prime awardees who pass-through funds to subrecipients must monitor the activities of the subrecipient to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subawards; and that subaward performance goals are achieved.

During our review we selected a judgmental (i.e. non-random) sample of eleven payments to subrecipients for review to determine if these invoices were reviewed by the PI prior to payment. We found that in two of these selected payments, evidence of the PI's approval for these payments could not be readily located within the Department's centralized file system. (It is possible in these two cases that the approval was documented via email, but that these emails were not saved in the Department's central filing system). In another of the invoices examined, the payment to the subrecipient was less than $10,000, and specific approval of invoices less than $10,000 prior to payment is not strictly required according to guidance in Blink. So, in summary, of the eleven subrecipient invoices we selected for review, documentation of the PI's approval to pay was not readily available in the Department's central file for three of the payments.

During our review we learned that the UCSD Office of Post Award Financial Services (OPAFS) recommends that PIs sign or initial each individual invoice, or provide approval to a department business office via email. As a best practice, the Office of Contract and Grant Administration (OCGA) also recommends that departments request and review backup documentation prior to approving subrecipient invoices. In addition, although PI approval of invoices less than $10,000 is not strictly required per Blink, OPAFS recommends that the PI's approval be documented on all subrecipient invoices, regardless of amount.

We understand that the Psychology Department Business Office has modified their internal procedures to fully conform with the OPAFS recommended best practices in this area. Going forward, documentation of PI approval for the payment of subrecipient invoices will be maintained within their central file, and that this approval will be documented even for invoices less than $10,000 in amount.

E.	Control Tracker
As of the date of our review, the Department was not yet utilizing the UCSD Control Tracker system.	
Risk Statement/Effect	
Omitting the use of Control Tracker impairs the Departments ability to provide documented evidence that internal control activities are being performed on a regular basis as prescribed by SAS 112/115.	
Management Action Plan	
E.1	The Department is in process of implementing Control Tracker for review, documentation, and monitoring of key internal control activities.

E.   Control Tracker – Detailed Discussion

Control Tracker is a web-based application developed by UCSD to document the performance and certification of control activities within a unit in compliance with SAS 112/115. Statement of Auditing Standards No. 112 (SAS 112), "Communicating Internal Control Related Matters Identified in an Audit," is an accounting standard that establishes guidelines for classifying reportable internal control issues. SAS No. 115 supersedes SAS No.112 of the same title. University policy and prescribed guidelines from SAS 112/115 require departments to provide documented evidence that internal control activities are being performed on a regular basis as prescribed by SAS 112.

UCSD implementation of SAS 112/115 requires that units document their performance and certification of key control activities on a regular basis through the Control Tracker Module, which was released to the campus July 2014. Key controls verification should occur on a regular and periodic basis to demonstrate that the controls are working properly. The Control Tracker has guidelines establishing the frequency of certifications (monthly, quarterly and annually).

As of the date of our review, the Psychology Business Office had not begun using Control Tracker due to competing priorities for staff time and training. We were informed that they intend to do so in the near future.

F.	Accountability for Cash
Individual accountability for cash on hand was not always maintained in Psychology Department labs.	
Risk Statement/Effect	
Failure to maintain individual accountability for cash on hand reduces physical security for University	

assets, and may make it difficult to assign responsibility should a cash loss occur.
Management Action Plan
F.1 The Department Business Office will work with the labs to ensure, to the extent possible, that individuals working in Psychology labs do not share custody of cash on hand.

F.   Accountability for Cash – Detailed Discussion

University Policy (Business and Finance Bulletin BUS-49) and guidance on the UCSD Blink website require that individual accountability for cash on hand should be maintained at all times. However, during our review we noted that at least one Psychology lab maintained cash for human research subjects reimbursements in a locked receptacle which various individuals can access as needed. Hence, no one individual was accountable for the cash in the lab's possession. Should any of this cash be lost or stolen, there would be no way to determine who was responsible for the loss.

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)			
Express Card (EC) Management	√	√	√	Evaluated Express Card role assignments; Use Tax charges, and a small sample of purchases	No	Improvement Needed	Use Tax adjustments for Express Card purchases were not always properly applied. (Finding A)
Non-Payroll Expenditures	√	√	√	Judgmentally selected and reviewed a sample of non-payroll expenditures including MarketPlace purchase orders, MyPayments transactions and Bookstore purchases	No	Improvement Needed	Expenses of the Chair and MSO are sometimes reviewed by individuals who report directly or indirectly to them. (Finding B)
MyPayments Transactions	√	√	√	Reviewed 12 MyPayments transactions totaling $42,707; traced to vouchers and supporting documents.	No	Improvement suggested.	A UCSD Travel Event Planner card should be requested so that employees not be required to pay and subsequently be reimburse for University expenses. (Finding C)
Contract & Grant Activity (Post Award Admin.)	√	√	√	Reviewed financial activity on Federally sponsored research and related IDC rates. Also, reviewed invoice approval process for subrecipient invoices.	No	Improvement suggested.	The Department has now aligned its subrecipient invoice review process with recommended best practices. (Finding D)

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

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)			
Operating Ledger Review & Financial Reporting	√	√	√	Examined sample of operating ledgers and financial reports, reviewed internal control questionnaires, and reviewed overdraft balances and resolution plans.	No	Improvement Needed	Department is not yet utilizing Control Tracker. (Finding E)
Cash Handling (Human Subjects Payments)	√	√	√	A sample of human subjects payments was tested for evidence of compliance with required University controls and the adequacy of documentation, including the protection of cash and script on hand within the department.	No	Improvement Needed	Cash handling controls were in general operating effectively. However, labs did not always maintain individual accountability for cash maintained in labs to reimburse human subjects. (Finding F)
Timekeeping & Payroll	√	√	√	Examined trend data for academic and staff salaries during the period under reviewed, and traced one month's totals to DOPE report.	Yes	Satisfactory	No issues were noted.

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

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)			
Equipment Management	√	√	√	Reviewed CAMS records for equipment assets in the department's custody.	Yes	Satisfactory	Departmental equipment inventory records are complete and up-to-date.
Travel	√	√	√	Reviewed a sample of foreign travel expenses incurred on Federal funds.	Yes	Satisfactory	No issues were noted.
Expense Transfers	√	√	√	Reviewed high risk payroll expense transfers.	Yes	Satisfactory	Expense transfers are being processed in compliance with University policy.

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