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May 22, 2012

VICE PROVOST RUMBERGER

Subject: Final Advisory Report No. P12A003, Education Partnership Contracts and Grants Process Review

Attached please find the final report for Advisory Project P12A003: Education Partnership Contracts and Grants Process Review. With the issuance of this final report, please destroy any previous draft versions. We very much appreciate the assistance provided to us by you and members of your staff during our review. If you should have any questions, please feel free to contact me at 510-987-9646 (e-mail: Matthew.Hicks@ucop.edu).

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UNIVERSITY OF CALIFORNIA
OFFICE OF ETHICS, COMPLIANCE AND AUDIT
OFFICE OF THE PRESIDENT
INTERNAL AUDIT SERVICES

EDUCATION PARTNERSHIPS CONTRACT AND GRANTS PROCESS REVIEW

Audit Project No. P12A003
May 2012

Audit Conducted by:
Jeffrey Weiss, Contractor
Adam Shrimplin, Contractor

Executive Summary

Introduction

The Education Partnerships Department was established in 2009 following a re-organization within the University of California, Office of the President (UCOP). The Department is responsible for facilitating activities that promote education programs and services at University of California (UC) campuses and non-UC sites through disbursement of federal and state grant funds. The Education Partnerships Department assists with generating grant agreements between UCOP and project sites approved to receive federal and state grant funds, orchestrating the distribution of funds to project sites, monitoring of project sites' budget, and completing required financial reporting to California Subject Matter Project (CSMP).

Major projects supported by Education Partnerships include the CSMP and Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP). CSMP is a network of nine discipline-based statewide projects that support on-going quality professional development. Each project is composed of 10 to 15 project sites that work together to achieve a common mission. GEAR UP is a project supported in 39 middle schools and one high school to increase the number of low-income students prepared to enter and succeed in postsecondary education. Funding for the CSMP programs is obtained from state awarded grants and federal 'No Child Left Behind' funds. GEAR UP programs are funded through the Higher Education Act of 1965. For fiscal year 2011 – 2012, the CSMP budget is estimated at $9.35 million; $5 million in federal funds and $4.35 million in state funds. The GEAR UP budget for fiscal year 2011-2012 is estimated at $3.5 million in federal funds.

Objectives and Scope

The objective of the audit was to identify key risks and controls within the Education Partnerships contracts and grants process and evaluate process improvement opportunities. Additionally, internal controls were evaluated for operating effectiveness within high risk business activities, including:

- Timely distribution of federal and state funds
- Use of consistent terms and conditions within grant agreements
- Timely, accurate, and complete financial reporting to the California Department of Education (CDE)
- Monitoring of approved project site budgets and expenses in accordance with agreement terms and conditions

The audit scope focused on activities occurring within the Education Partnerships Department from CSMP / GEAR UP committee site request approval to reimbursement of expenses and reporting. All negotiated agreements related to college access and preparation from the inception of the Department in 2009 through December 31, 2011 were in scope. Additionally, all grant funds, including state and federal, were in scope for this review.

To accomplish the project objectives and scope, the following procedures were performed:

- Conducted a walkthrough of the Education Partnerships Contracts and Grants process with Operations Coordinator, Senior Contracts, Grants Analysts, and Budget Analyst to validate process design for control gaps and improvement opportunities.

- Evaluated the timeline for distributing award payments for a sample of project sites to verify payments made were within 30 days of invoice receipt.
- Inspected a sample of project site agreements to verify terms and conditions were consistent and appropriately approved prior to project site distribution.
- Reviewed a sample of project site invoices against internal records and CDE financial reporting documents to verify reporting for project sites were on time, accurate, and complete.
- Conducted a walkthrough of expense monitoring activities for project site expenses to determine whether monitoring activities in place ensure only allowable project site expenses are reimbursed.
- Evaluated a sample of project sites against General Ledger activity to verify total payment distributions did not exceed the project site budget.

Conclusion

Based on the audit steps performed, the Education Partnerships Department maintained effective controls around project site agreements by utilizing standard terms and conditions for all agreements. Additionally, during the past year, the department has taken efforts to further streamline its CSMP project site agreements by 1) reducing the number of agreements from five to two, and 2) posting general contract terms and conditions online to be accessed by project sites. These improved agreements increase efficiency within the department and drive greater standardization. However, instances were noted where terms and conditions within the CSMP agreement did not adequately address travel restrictions for out of state travel as set forth by the CDE.

The audit identified a contracts and grants process that is supported by strong leadership within the Education Partnerships Department and limited staff turnover. Opportunities to streamline the contracts and grants process exist around improving the tools used to reconcile project site expenses to the general ledger, improving the timeliness of project site award disbursements, and increasing the department's utilization of technology around email and electronic documentation to minimize the use of paper and postage. Furthermore, the Education Partnerships Department should consider conducting an internal analysis of activities performed by staff to evaluate if current roles and responsibilities are optimal and equally distributed. Creating a working environment where tasks are shared and staff are cross-trained will more effectively utilize resources and decrease the likelihood of operational disruptions in the event staff has an increased workload or are out of the office for an extended period of time.

Actions developed by the department will strengthen internal controls, improve accountability, and properly safeguard university assets.

Opportunities for Improvement and Action Plans

1. CSMP agreements do not adequately reflect restrictions and responsibilities for travel expenditures.

Per the executed grant award agreement between CDE and UCOP for fiscal year 2011 – 2012, Exhibit D, Special Terms & Conditions, Prior Approval of Out-of-State Travel:

> 'All out-of-state travel by the contractor or subcontractor(s) for purposes of this contract is subject to prior written approval by the Department of Education project monitor specified in this contract.'

Terms and conditions set forth in the fiscal year 2010 - 2011 and fiscal year 2011 - 2012 CSMP agreements do not adequately address out-of-state travel expenditures as required by the California Department of Education. In a review of CSMP agreements; section III of the terms and conditions only address restrictions on foreign travel, specifying "Funds may not be used for alcohol, entertainment costs, equipment costing more than $5,000, or foreign travel." Observed project sites do not provide adequate support for expenditures submitted and inappropriate travel expenses may be reimbursed by UCOP.

Action Plan: The UCOP Contract & Grant Officer will coordinate with Education Partnerships to update section III of the terms and conditions for FY12 – 13 CSMP agreements and amendments to properly restrict out-of-state travel expenditures in addition to the current disallowable expenditures.

Target Date: *9/30/2012*

2. Lack of documented policy or standard for timely submission of project site invoices.

There does not appear to be a documented policy or standard within the Education Partnerships Department that establishes requirements for timely submission of invoices submitted by project sites to the BRC or UCLA Accounting. Per review of 15 state-funded CSMP project sites' invoices, it was observed that invoices age, on average, 54 calendar days before the invoices are submitted by the Education Partnerships Department to the BRC or UCLA Accounting for payment processing. Furthermore, it was noted that 12 of the 15 invoices reviewed aged greater than 35 days from the date of receipt from the project site. The observed delay in invoice submission was due to a lack of designated backups and cross training amongst Education Partnership staff. Failure to establish a documented policy for timely submission of project invoices for processing may result in expense transactions not being recognized in the proper accounting period.

Action Plan: Education Partnerships Management will establish a 60-day invoice submission guideline to measure timely submission of project site invoices to the BRC or UCLA Accounting. Additionally, Education Partnerships will create a log to record all CSMP and GEAR UP project site invoices received and designate an Administrative Assistant to maintain the log and monitor timely invoice submission to the BRC or UCLA Accounting against set guidelines. The log will be used to

record for each invoice 1) the date received, 2) the date all required project site documents are received, and 3) the date of submission to the BRC or UCLA Accounting for payment processing.

Target Date: *12/31/2012*

Additional Recommendations

We recommend management consider the following additional improvement opportunity to better align with leading operational practices.

1. **Update processes and procedures to effectively utilize digital technologies currently available to Education Partnerships**

Education Partnerships currently uses photo copying and post office mailing of documents extensively throughout the process. The following are examples identified during the review:

- Analysts print at least two copies of each created agreement and submit to Procurement Services for review and approval prior to them being mailed to the project site.
- Analysts receive a majority of signed contracts and invoices from projects sites through post office mail.
- Analysts make five copies of the completed contracts and mail them to different parties involved in the process.

Education Partnerships should consider leveraging digital methods for internal processes, as well as, servicing their customers. For example, instead of printing documents, Analysts should send documents to other departments and customers using email. Additionally, Education Partnerships should require other UCOP departments and customers to submit documents to designated emails to centralize document intake. Effectively utilizing digital technologies currently available will lower costs to the institution and enable Analysts within the department to focus on more critical activities.

Additionally, current procedures and tools used to track and reconcile expenditures submitted by CSMP project sites to the general ledger is manual in nature, inefficient, and time intensive to perform. Education Partnerships should consider utilizing additional functionality offered by its software tools (e.g., pivot tables, etc.) to help simplify the reconciliation process.