UNIVERSITY OF CALIFORNIA, DAVIS
INTERNAL AUDIT SERVICES

College of Agriculture and Environmental Sciences
Metro Cluster
Project #12-58

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College of Agriculture and Environmental Sciences
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<u>MANAGEMENT SUMMARY</u>

Internal Audit Services (IAS) performed a supplemental audit at the request of the College of Agriculture and Environmental Sciences (CAES) Management, to help evaluate financial processing activity for the Metro Cluster (Cluster). The requested objectives were to identify opportunities to help create a more cohesive unit, assess compliance, and note processing areas that may be in need of further management attention.

The Cluster was formed in July 2010 and is responsible for accounts and transaction processing for the departments of Land, Air and Water Resources, Environmental Toxicology, and Wildlife, Fish and Conservation Biology. The Cluster has experienced significant turnover in the Chief Administrative Officer (CAO) position since inception, which has impacted its ability to become a single cohesive unit. CAES has begun to remedy this situation by bringing in an experienced CAO to temporarily manage the Cluster and affect positive change in preparation for a new permanent CAO.

IAS was provided a list of 11 staff persons who are responsible for account oversight and transaction processing within the Cluster. IAS helped facilitate a self-assessment questionnaire for the Cluster, which included the following six administrative activities: DaFIS account oversight, purchasing cards, payroll and personnel actions, gift processing, contracts and grants, and equipment management. We received completed self-assessment questionnaires from 9 of the 11 persons surveyed, and selected two groups of respondents to meet with separately in order to understand their responses in context. We compiled and evaluated all survey responses and information obtained in the group meetings to identify areas of risk, noncompliance, inconsistent practices, and opportunities to build cohesiveness. This work was completed during the month of June 2012.

The Cluster personnel who responded to the survey and participated in the group meetings appear to be confident and experienced. All appear eager and ready to move forward as a group to achieve greater consistency and unity within the Cluster.

Within the six key administrative activities reviewed, we found two areas that present a relatively high risk to the Cluster departments because the processes within those areas are not developed, or need significant action to correct issues identified. Cluster staff members were instructed by a previous CAO not to use the on-line General Ledger Review System (GLRS). As a result, paper based reviews are in different stages of completion and information in the GLRS regarding review status is not current. Within the contract and grants area, respondents vocalized the need for more training and definitive internal processing guidelines to ensure consistency in processing transactions and providing oversight for extramural funds. Currently, there is a wide

variation in the types of information provided to each principal investigator (PI), as well as whether the information is provided routinely or on an exception basis (for example when an extramural account is in overdraft status).

We also identified three administrative activities that pose a medium level of risk to the organization. Survey responses related to purchasing card processes indicated that receipts are not always received timely from the card holder and the Feed Payment Distribution (FPD) documents are not always completed within 30 days. Payroll and personnel processes, although currently compliant and low risk, will increase in risk as some system processing is pushed in the near future to the account managers who are not experienced with payroll and personnel matters. Finally the processes for equipment management create some exposure since a risk assessment has not been completed to identify theft sensitive items that should be considered for tracking. In addition, certain equipment has been relocated without informing the department or the equipment custodian.

Effort should be expended to revise the current general ledger review plans to include all organizational accounts, to certify online the ledgers already reviewed through a paper based mechanism, and to make outstanding general ledger reviews current. Processes for oversight of extramural funds should be standardized to provide consistent and complete information to principal investigators on a routine basis. Cluster staff should receive training in the areas of general ledger review, contracts and grants, purchasing card use, and payroll processing, and practices in these areas should be standardized amongst department representatives comprising the Cluster. Cluster managers must also become more knowledgeable in these areas to better support staff when noncompliance is identified, and Department Chairs should communicate their support of Cluster staff and their efforts to ensure compliance with University policies. The equipment custodian should be notified when equipment is moved and, finally, a risk assessment over theft sensitive items should be performed to ensure proper oversight in the equipment management area.

OBSERVATIONS AND RECOMMENDATIONS

The following table reflects issues identified by analyzing survey responses and new processes being implemented, followed by suggested opportunities for enhancement to address any issues noted. In all areas, once best practices are identified and new processes defined, the related procedures should be documented and shared with all Cluster members so greater consistency and cohesion can be achieved within the Cluster.

Process Risk Ranking Key

- High: Process is not developed or significant action needed.
- Med: Process is developed, but action is still needed.
- Low: Process is developed, no additional action necessary.

DaFIS Account Oversight *Risk Ranking = High*	
Observations	**New Processes or Procedures**
This activity provides "high" risk to the organization because updated general ledger review processes have not been established or are in the initial phase of implementation. 1. Due to the actions of former CAOs, hundreds of accounts have been dropped from Active Review Plans in the GLRS. 2. Also due to direction from former CAOs, a majority of all plans have not been finalized in the GLRS during the review process for FY 2012.[1] 3. In regards to statistical sampling exclusions, or auto annotation set up, most respondents were not familiar with how their plans were set up. 4. Persons interviewed stated that although they had not performed the monthly reviews in the GLRS, they had performed a manual review of their ledgers using a paper based process.	One group responded that new procedures are being implemented to revise the review plans to ensure all accounts are included in an Active Review Plan, and that once completed the Plans will be reviewed on a timely basis. Note: One group reported they are awaiting direction from management to start correcting their plans and to begin the online review process again.

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[1] PPM 330-11 *Departmental Financial Administrative Controls and Separation of Duties*- IV.B. 1. The General Ledger Review function in Decision Support must be used by all general ledger reviewers.

Opportunity for Enhancements

1. Complete the task of revising general ledger review plans in the GLRS to include all department accounts.

2. For those plans that have been reviewed using a paper based system, but have not been finalized on the GLRS system, work with A&FS to finalize using the online "Finalize Ledger Review" option for paper based reviews.

3. Allow the account managers to have a voice in how the plans are set up which will also help them become more knowledgeable about how the reviews are to be carried out.

Contracts and Grants *Risk Ranking =* High	
Observations	**New Processes or Procedures**
Although respondents appear to complete their work, this area had the most vocalization of a need for more training, and a need for processing guidelines to help create consistency among processors. Because much attention is needed we deemed this area to be high risk. 1. Most respondents thought additional training in this area would be beneficial. They also thought training should include their Department Chair so that when noncompliance issues arise the Chair would have the necessary knowledge to support the account managers. 2. We also noted a training need for account manager oversight of private investigator's (PI)'s committed effort. The respondents did not appear knowledgeable in this area or agreed training was needed. 3. We found some account managers provided more formalized oversight for the PI accounts assigned to them by using monthly decision support reports and spreadsheets, while others used an exception based process to determine when to communicate with the PI's.	A. Account managers in one department area have begun working with contracts and grants "processing mentors" once a week to obtain knowledge and experience in this area. B. The account managers will no longer approve purchase requests in the pre-purchasing system, but rather will wait to approve when they are in the processing environment.

Opportunity for Enhancements

1. Identify contract and grant training to include effort commitment and refresher courses for all those who process or provide oversight in this area. The current Research Administration Certification Series (RACS) is a possible venue for obtaining this training.

2. As a best practice, consider providing "mentoring" opportunities to all cluster staff responsible for contract and grant activity.

3. Develop internal processing guidelines to ensure that procedures used for providing extramural account oversight and communicating contract and grant activity to PI's on a monthly basis are standardized and performed on a routine basis.

Purchasing Cards (PCard) *Risk Ranking =* <mark>*Medium*</mark>

Observations	**New Processes or Procedures**
The respondents thought the PCard processes have appropriate separation of duties, that the account managers are knowledgeable and ensure purchases are properly authorized, that goods are received prior to payment, and that receiving documents are retained in the department. However, respondents were concerned with faculty not always following policy. 1. Two respondents stated they were not sure the PCard use had a preapproval process, however during group interviews we determined this confusion may be related to faculty who use PCards. Interviewees stated that faculty do not always follow procedures to turn in receipts and do not follow other internal preapproval processes. Responses indicate internal procedures in this area may not be fully formalized or communicated. 2. Respondents stated not all PCard receipts are forwarded to the account manager within 5 days of purchase[2], and on occasion the Feed Payment Distribution (FPD) document is not completed within 30 days[3].	New procedures are being developed where the account manager will create the FPD document when the charges are posted to DaFIS. Managers will then route the document to the purchasers to attach the receipts rather than waiting until monthly bank statements have been received. This new process will allow for the timely forwarding of receipts and completion of the FPD document.

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[2] PPM 350-22 *Purchasing Cards*- Cardholder Responsibilities (V.A.9): Collecting and forwarding source documents to the account manager or account delegate within 5 days of merchandise receipt.
[3] PPM 350-22 *Purchasing Cards*- Account Manager Responsibilities (V.B.8): Verifying or transferring the purchasing card expense in the FPD document within 30 days of receipt of goods or date of the FPD document, whichever is later.

Opportunity for Enhancements

1. Formalize the purchasing preapproval procedures to include PCard use and communicate these procedures to all who have been assigned PCards.

2. In support of cluster staff, department chairs should communicate with faculty PCard holders a reminder about policy requirements for the card holder to forward receipts to the account manager within 5 business days, and also the need to adhere to other internal procedures when making purchases.

Payroll and Personnel Actions *Risk Ranking = Medium*

Observations	New Processes or Procedures
The current payroll and personnel processing appears to be compliant; however, new processes are being drafted to leverage cluster processing efficiencies which include a central processor for complex payroll actions while allowing account managers to process actions that are less complex. The proposed new processes appear appropriate, should provide for a proper separation of duties, and will assign daily activity oversight to the account managers who should be more knowledgeable about their area of responsibility. A "medium" processing risk is assigned because proposed new processes will be pushed to account managers who are not experienced with payroll and personnel matters.	Proposed new processes will involve the HR person recording the initial hire or separation in the Payroll and Personnel System (PPS). The account managers will be responsible for processing funding changes and renewals within PPS, and for providing approval for the time and attendance records for faculty and staff.

Opportunity for Enhancements

The account managers should receive appropriate PPS training prior to implementation of the new processes.

Equipment Management *Risk Ranking = Medium*	
Observations	**New Processes or Procedures**
Two issues were identified within this area that elevates the risk level for equipment management. 1. One equipment custodian expressed concern about not being notified when equipment is moved and the responsible PI has not informed the department or the custodian. 2. A risk assessment to determine which non-inventorial equipment should be tracked has not been completed as suggested by policy.	None noted.
Opportunity for Enhancements	
1. The department chair should remind PI's about their responsibility to notify the equipment custodian when equipment is relocated as required by PPM 350-55 *Care and Control of Equipment*[4]. 2. The organization should perform a risk assessment over non-inventorial equipment as discussed in PPM 350-50 *Classification of Inventorial Equipment*[5].	

Gift Processing *Risk Ranking = Low*	
Observations	**New Processes or Procedures**
The responses for this section were appropriate and supported processing compliance. Those who handle gift account activity appeared to be knowledgeable about University policy governing gifts and provide proper oversight in their areas.	None noted.
Opportunity for Enhancements	
None noted.	

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[4] Section III.C. The physical location of each item of inventorial equipment must be maintained by entering the building and room number in the DaFIS Capital Asset Management System (CAMS). The department must ensure that the CAMS record is updated in a timely manner to reflect any movement of equipment such that an item can be located for inspection or verification within a 24-hour period.

[5] Section IV. Non-inventorial Equipment- B. Departments are responsible for knowing where their non-inventorial equipment is located and how it is being used. B.2. Departments should consider risks (e.g., value to replace, confidentiality of information, criticality to operations, integrity to a process, likelihood of item being lost or stolen) in determining whether to add non-inventorial items to CAMS.