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Sheryl Vacca
SENIOR VICE PRESIDENT
CHIEF COMPLIANCE AND AUDIT OFFICER

May 4, 2011

ASSOCIATE VICE PRESIDENT VAN NESS

Subject: Final Report of Audit Services Project No. 11A013 – Allowability of Laboratory Management Costs for Laboratory Fiscal Year 2009-2010

Attached please find the final report for: Audit No. 11A013 – Allowability of Laboratory Management Costs for Laboratory Fiscal Year 2009-2010. With the issuance of this final report, please destroy any previous draft versions.

We very much appreciate the assistance provided to us by your staff during our review. If you should have any questions, please feel free to contact me at 510-987-0482 (e-mail: Susana.Atwood@ucop.edu), or Benjamin Wong at 510-287-3338 (e-mail: Benjamin.Wong@ucop.edu).


Susana Atwood
Audit Director

Attachment

cc: SVP Vacca
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UNIVERSITY OF CALIFORNIA
ETHICS, COMPLIANCE AND AUDIT SERVICES
OFFICE OF THE PRESIDENT
INTERNAL AUDIT SERVICES

ALLOWABILITY OF LABORATORY MANAGEMENT COSTS FOR
LABORATORY FISCAL YEAR 2009-2010
Internal Audit No. 11A013
May 2011

Work Performed by:
Benjamin Wong, Principal Auditor

Executive Summary

Introduction

The University of California (UC) operated Lawrence Berkeley National Laboratories (LBNL) during the laboratory fiscal year (FY) covered by this review. LBNL is operated under a contract with the U.S. Department of Energy (DOE) that provides for reimbursement of allocable costs for operating the Laboratory Management Office (LMO) at the Office of the President (UCOP). The DOE contract provides for reimbursement of LMO direct costs up to specified not-to-exceed ceiling amounts and are subject to the cost allowability rules and limitations in Office of Management and Budget (OMB) Circular A-21 "Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements with Educational Institutions".

Lawrence Berkeley National Laboratory Internal Audit Services requested an audit of the allowability of costs incurred and allocated to the laboratories by LMO for Laboratory FY2010 (October 1, 2009 through September 30, 2010) in support of annual cost allowability audits required by the DOE contract in place for this period. DOE approved Laboratory Management direct costs of \$635,141 with unspent funds to be returned to reduce Laboratory overhead.

Objectives and Scope

The audit objectives were to: (i) evaluate the allowability of LMO direct costs allocated to LBNL for Laboratory FY2010 and (ii) assess the adequacy of internal controls to ensure compliance with terms of the DOE contract.

LMO allowable direct costs for FY2010 were recorded in account 660825 and fund 69880, comprising of 78% personnel expenditures and 22% non-personnel expenditures. We used judgmental sampling to select one salary and one benefit transactions on each of the 11 employees, and 10 non-personnel transactions for testing. Selected non-personnel transaction samples were based upon expenditure categories with the highest balances and included rent and travel. Beginning this year, LMO indirect costs were unallowable; however, a new earning methodology was instituted related to laboratory performance and other factors; therefore, no audit work was required to validate these new at-risk fees.

Overall Conclusion

We found that LMO had adequate internal controls to ensure that OMB Circular A-21 direct allowable costs were recorded in separate accounts and not billed to the laboratories. We identified LMO was not consistent on general expenditures allocation methodology between January 2010 and September 2010. We worked with LMO Resource Manager to reallocate general expenditures between January 2010 and September 2010 to determine \$6,312.93 was undercharged. LMO made the correcting entries during the audit; hence, no further work was required. Overall, LMO FY2010 allowable direct costs and contributions were \$611,758 and \$635,141 respectively; therefore, the refund due to LBNL should be \$23,383.

Details of FY2010 direct costs composition is summarized in Appendix 1.

Appendix 1

**SCHEDULE OF TOTAL COSTS AND TOTAL CONTRIBUTIONS (UNADJUSTED)
LABORATORY FISCAL YEAR 2010**

<u>Direct Costs</u>	<u>FY2010</u>
Account 660825, Fund 69880 LBNL	\$706,941
<u>Total Contributions</u>	
LBNL	\$635,141
<u>Direct Costs Exceed Contributions by</u>	<u>\$71,800</u>

**SCHEDULE OF COST ADJUSTMENTS
LABORATORY FISCAL YEAR 2010**

<u>Description</u>	<u>FY2010</u>
<u>Direct Costs Exceed Contributions by</u>	<u>\$ 71,800</u>
<u>Prior period adjustments</u>	
Payroll	\$ -14,672
Non-Payroll	\$ -6,179
FY2009 Refund	\$ -80,645
<u>Adjusted Contributions Exceed Direct Costs After Timing Differences and FY2009 Refund</u>	<u>\$ 29,696</u>
Deduct additional General Expenditures per Audit	\$ -6,313
<u>Adjusted Contributions Exceed Direct Costs After Prior Period Adjustments, FY2009 Refund, and Administrative Costs Undercharged</u>	<u>\$ 23,383</u>