

**UNIVERSITY OF CALIFORNIA, DAVIS
AUDIT AND MANAGEMENT ADVISORY SERVICES**

**UC Davis Health
Biochemistry
Audit & Management Advisory Services Project #20-01**

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**Biochemistry
AMAS Project #20-01**

MANAGEMENT SUMMARY

Background

As part of the fiscal year (FY) 2020 audit plan, Audit and Management Advisory Services (AMAS) reviewed controls over business operations for the UC Davis School of Medicine's department of Biochemistry and Molecular Medicine.

Biochemistry and Molecular Medicine is an academic research department that provides day-to-day administrative and operational support to eight locations. At the Davis campus, the department maintains laboratories at Tupper Hall, and shares administrative duties with the Genome Institute and Department of Chemistry. In Sacramento, the department maintains laboratories at the Oak Park Research Building, Research I and III Buildings, MIND Institute, and Shriner's Hospital. The department's primary research funding comes from the National Institutes of Health, National Science Foundation, Department of Defense, and a wide variety of private agencies.

The department is led by a Chair, who is the head of the faculty, and a Chief Administrative Officer (CAO), who manages the administrative staff. The department has a designated Contract & Grant Manager as its fiscal officer, who ensures proper approval and separation of duties in financial transactions. Since FY 2017, the department has experienced high administrative turnover, in the roles of CAO and six administrative staff. The department currently has a Chair, an interim CAO (effective May 1, 2019), a Contract & Grant Manager, four administrative staff, and a vacant position for Non-faculty Academic Coordinator.

Purpose and Scope

The purpose of this audit was to review controls over business operations, including administration and management oversight, and to evaluate business processes. A risk assessment performed during the preliminary phase of our review informed emphasis in the following areas: purchasing, receiving, timekeeping, and payroll processes; review of travel & entertainment (T&E) expenses; and compliance with university policy and requirements.

In order to accomplish these objectives we interviewed and performed a walkthrough of business processes with the department's Administration. We interviewed or otherwise sought input regarding the department from Academic Personnel, Office of Research, Staff Development and Professional Services, Services for International Scholars and Students, Real Estate Services, and The School of Medicine Dean's Office's Financial Services. We reviewed relevant UC and UC Davis policy and procedures; and examined applicable UC Davis general ledger, personnel data, and internal documentation.

The timeframe under review was July 2018 to June 2019.

Conclusion

We were able to verify that the department was structured to maintain appropriate separation of duties in the purchasing and receiving process, timekeeping approval, and T&E approval. In addition, we concluded the department's Administrative leadership is knowledgeable and professional, and is working hard to fulfill all administrative duties in spite of the recent changes of leadership and staff.

We also conclude that there was opportunity for improvement in the areas of documentation for reimbursement agreements; management oversight over personnel's compliance with University policies and requirements; payroll, timekeeping, and receiving processes; and prevention and detection of T&E non-compliance.

We thank management in the department for agreeing to take the following actions:

- Determine and obtain the appropriate form of agreement for reimbursement due from Shriner's Hospital;
- Ensure that personnel are compliant with disclosure requirements;
- Improve processes to ensure payroll accuracy;
- Strengthen controls over receipt of goods and supplies;
- Educate personnel on proper travel and entertainment procedures.

Observations, Recommendations, and Management Corrective Actions**A. Reimbursement from Shriner's Hospital.****Written agreements are not in place to support reimbursement due to UC Davis from Shriner's Hospital.**

In order to properly account for a financial relationship between two parties, it is important that the parties involved have a clear understanding of the expectations and commitments. For operation and collection purposes, terms of reimbursement should be established in written form.

During our review, we noted that four employees in the department were performing regular services for Shriner's Hospital. We were not however able to obtain documented service contracts. Per a discussion with Management, UC Davis absorbs the expenses¹ for this service, and bills Shriner's Hospital for reimbursement. The department informed us that a verbal agreement was in place for reimbursement from Shriner's in the amount of \$325,425 for the 2019 calendar year. As of April 2019, \$97,759 was not collected, though UC Davis Health had already absorbed the expense. Payment for this expense was not received until June 2019.

While payment in this case was ultimately received, the lack of a documented agreement hinders the department in effecting timely collection of accurate amounts owed.

Recommendation

We recommend the department determine and obtain the appropriate agreement needed for amounts due from external affiliates.

Management Corrective Action

- 1) By October 15, 2019, the Department of Biochemistry and Molecular Medicine will consult with Health System Contracts' office to determine the appropriate form of agreement needed for reimbursements due from Shriner's Hospital. Subsequently, the required agreement will be obtained from Shriner's representative.

B. Compliance with University policies and requirements.**There is no mechanism to ensure that personnel are compliant with training and disclosure requirements.**

The department of Biochemistry and Molecular Medicine has 126² employees. We reviewed these employees' compliance with UC policies in regard to: required training, outside professional activities (OPA) and near relative disclosures. In order to review compliance, we analyzed personnel data in the PPS system, and related supporting documentation.

¹ Expenses related to payroll distributions and supplies.

² Employees with a status of inactive – does not have a current appointment (I), paid leave of absence (P), or separated from UC Davis (S) were excluded from this review.

Required training:

Staff Development and Professional Services provides mandatory annual or bi-annual training for all employees based on their role at the University. Training courses expand the knowledge and ability of the employee to build a safe work environment, ensure data are properly used, and comply with external regulations.

In order to review compliance with training requirements, we obtained the Training Status report from Staff Development and Professional Services as of June 5, 2019. Per our review, 18³ employees had a combined total of 40 trainings overdue. This included 3 faculty with up to 5 trainings overdue, and in some instances, courses were overdue for more than 4 years. See below for a completed listing of trainings overdue.

Name of training	Trainings Overdue
Cash Handling	1
Credit Card Handling	1
Hazardous Waste Management & Minimization	1
Mandatory Annual Training ⁴	6
Privacy and Security Training	8
UC Compliance and Conflict of Interest for Researchers (COIR)	1
UC Cyber Security Awareness Fundamentals	10
UC Laboratory Safety Fundamentals Refresher	4
UC Sexual Violence and Sexual Harassment Prevention Training for Supervisors and Faculty	3
Workplace Violence Prevention in Healthcare	5
Total	40

Although notifications of non-compliance are received by management, further discussion with employees is not performed to ensure that action is taken. The department will benefit from managing compliance with training requirements, and could prevent instances that might be harmful to the employee and the organization such as security breaches, damage of reputation, and unethical behavior.

Outside Professional Activities:

Outside professional activities (OPA), compensated or uncompensated and regardless of financial interest, are defined as those activities that are within a faculty member’s area of professional, academic expertise and that they advance or communicate that expertise through interaction with industry, the community, or the public. APM 671⁵ requires disclosure of outside professional activities annually by participants of the Health Sciences compensation plan in order to avoid conflict of commitment. Conflict of commitment occurs when a faculty member’s outside activity interferes with obligations to the University of California.

³ Employees newly hired (within 90) days were excluded as they are within the timeline to complete trainings.

⁴ MAT is the annual safety training and code of conduct required for all employees as required by The Joint Commission, State of California, Department of Public Health and Hospital Policy 2903.

⁵ UCOP APM 671: https://www.ucop.edu/academic-personnel-programs/_files/apm/apm-671.pdf

In order to ensure outside professional activities were fully disclosed, we requested FY 17⁶ and FY 18 OPA data and compared them to conflict of interest forms filed with the Office of Research. We found at least two instances where faculty did not disclose all activities on their OPA forms. In addition, we were not able to locate 73%⁷ of the expected FY 17 OPA forms within the department's personnel files or through the Academic Personnel office. As such, we were not able to determine if additional disclosures were made.

Full disclosure of outside professional activities is the responsibility of the faculty and there is no process in place at the department to ensure all activities are properly disclosed.

Near relative:

A near relative of a university employee is any of the following:

- (1) A spouse, parents, domestic partner, child, sibling, aunt/uncle, or niece/nephew; or
- (2) An in-law or step-relative, including a relative of a domestic partner in one of the relationships listed above; or
- (3) Any other person residing in the same household.

In addition, UC and UC Davis policy⁸ require heightened approval prior to employment of near relatives in the same department who would have:

- (1) A direct or indirect supervisory relationship; or
- (2) The same immediate supervisor; or
- (3) A close working relationship.

This provision also covers instances when a relationship between two current employees changes so that the employees become near relatives in the same department. Furthermore, when at least one is in an academic title, the employee should complete a "Near Relative Identification and Approval Form." This form provides the two employees with instructions necessary to outline and manage their relationship at work. If the working relationship requires one near relative to supervise the other, an unrelated and qualified third party shall be identified as supervisor to avoid a perception of a conflict of interest.

In order to determine compliance with policy, we utilized PPS employee address and payroll data to identify pairs residing in the same household (i.e., who have matching addresses). Two pairs were identified who a) were married; b) had a supervisory relationship or the same immediate supervisor; and c) at least one of the employees had an academic title. Near Relative approval letters were not submitted by either pair.

Our fieldwork indicated that management had knowledge of the near relative relationship but were not familiar with the policy requirements.

⁶ FY 17 forms are due in FY 18 and FY 18 forms are due in FY 19. As such, not all FY 18 forms were available for review. It was determined that FY 17 forms will be appropriate to review although they were not in the timeframe of our audit.

⁷ 26 forms were requested, and 6 were obtained.

⁸ UCOP APM 520 applies to faculty appointments and UC Davis PPM 380-13 applies to staff.

Recommendation

We recommend the department strengthen management oversight controls to improve compliance with University policies and requirements.

Management Corrective Actions

- 1) By January 15, 2019, the Department of Biochemistry and Molecular Medicine will review the status of employees' mandatory trainings on a quarterly basis. Follow-up will be performed by the CAO, and the Chair will intervene if actions are not taken timely.
- 2) By December 15, 2019, the Department of Biochemistry and Molecular Medicine will issue a communication to employees summarizing the requirements of APM 671, and instructions regarding completion of disclosure forms.
- 3) By December 15, 2019, the Department of Biochemistry and Molecular Medicine will issue a communication to employees summarizing the requirements of APM 520 and PPM 380-13 and collect Near Relative forms as necessary.
- 4) By November 15, 2019, the Department of Biochemistry and Molecular Medicine will reorganized its shared drive to ensure all collected forms are properly stored in personnel files.

C. Process for review of payroll distributions and merit increases.

Current processes do not ensure that changes to payroll are accurately reflected in payments to employees.

The payroll process at the department requires procedures to ensure that payments are distributed accurately and timely and in accordance with negotiated salary agreements and approved merit increases.

Payroll for faculty is processed through the PPS system. Subsequent to payroll close,⁹ the payroll staff runs the IDSP Check¹⁰ report, and performs a comparison of actual payroll to expected. Variances are mainly due to merit increases and noted as such by the payroll staff; however, these are not reviewed for accuracy.

In addition, leave time requests for faculty are applied and tracked by the payroll staff, but they are not submitted to the CAO for review.

Although the department has a process in place to review payroll, this process doesn't verify accuracy over leave time and is performed after payroll close, which creates opportunity for discrepancies.

⁹ After payroll payments are made.

¹⁰ This is the final payment report for the month.

During our review of compensation, there were at least two instances in which payroll errors were not caught:

- 1) A merit increase from FY 17 was not processed timely. It was only discovered and updated by Academic Personnel in March 2019. Even then, our calculation indicates that the merit balance was entered improperly, resulting in an underpayment of \$182 in March 2019. As of May 2019, the error had not been corrected.
- 2) A promotion increase effective July 1, 2018 was not properly applied in the system resulting in an underpayment of \$2,903 as of May 2019.

Failure to resolve discrepancies increases the risk of unsatisfied employees, reputational damage, and tax penalties for the organization and the employee.

Recommendation

We recommend the department establish a process to properly review payroll distribution including leave time reported. In addition, we recommend the department establish a process to ensure merit and promotion increases are accurately and timely applied.

Management Corrective Actions

- 1) By December 15, 2019, the Department of Biochemistry and Molecular Medicine will implement a process to review payroll payments prior to payroll close. The process will include leave time reported.
- 2) By December 15, 2019, the Department of Biochemistry and Molecular Medicine will create a tracking listing of merit increases and share it with payroll staff to ensure these are properly and timely applied.

D. Process for review of timesheets.

The current process for review of timesheets does not ensure accuracy of adjustments processed, or retention of documented authorization for leave time requests.

The timekeeping process at the department requires review by someone other than the preparer. This reviewer should confirm the accuracy of time or leave reported.

Timekeeping for non-faculty is performed through the Ecotime system. Leave time requests are submitted in the system and approved by the CAO. Adjustment requests¹¹ are sent by the employee to the payroll staff via email. Payroll staff review and submit adjustments in the system. At the end of the bi-weekly pay period, employees review and mark timesheets "Completed." Payroll staff review the timecard for completeness¹², and mark the timesheet "Submitted." The CAO is the final approver.

¹¹ Adjustment requests are mostly related to edit of time in and out. For example, when an employee forgets to input their time for the day or has input the incorrect amount of hours.

¹² The Payroll staff ensures 80 hours were input in the timecards and investigate variances.

In order to ensure that timesheets are accurate, the CAO confirms leave time requests with the appropriate supervisor prior to approving them in the system. Confirmations are performed via email and not documented otherwise. While these correspondences are deemed an appropriate source of authorization, these are not accessible for our review¹³ (e.g. authorizations granted prior to May 1, 2019 are embedded in a prior CAO's email). In addition, adjustment requests are not submitted¹⁴ to the CAO for proper review.

The department has a proper three-tier approval in place, but the CAO should ensure that time reported and adjustment transactions are accurate based on supporting documentation. In addition, documentation over supervisors' authorization can improve accountability and accuracy of leave time requests.

Recommendation

We recommend that the department establish a process to review timesheets based on supporting documentation. In addition, we recommend that the department establish a process to retain documentation of authorized leave time.

Management Corrective Actions

- 1) By November 15, 2019, the Department of Biochemistry and Molecular Medicine will create a leave time form for documenting supervisors' authorization of leave time requests. The executed form will be submitted to the CAO prior to approval in the system.
- 2) By November 15, 2019, the Department of Biochemistry and Molecular Medicine will implement a process for retention of timesheets and supporting documentation (e.g. adjustment requests and approved leave requests) to show that appropriate review was performed. The CAO will access and review this documentation prior to approval of timesheets in the system.

E. Process for documenting goods received.

A three-way match process is in place to control the receipt of goods, but it is not sufficiently documented.

The purchasing process at the department requires a three-way match between purchase orders, invoice, and supporting documentation of goods received (e.g. packing slip) in order to avoid paying an incorrect or potentially fraudulent invoice.

Orders are submitted through PrePurchasing¹⁵ or Aggie Buy¹⁶ by lab personnel and approved by the Contract & Grant Manager. Once the purchase order is approved, it is routed to purchasing staff to submit the order.

¹³ A PI authorization will justify appropriate approval over employees at multiple locations, given that the CAO is not the immediate supervisor to ensure requests are accurate.

¹⁴ Although the Payroll Staff ask for employees to include the CAO in the email request, this is not always the case.

¹⁵ PrePurchasing is an application that allows users to submit order requests for departmental approval.

¹⁶ Aggie Buy is a purchasing tool used by UC Davis employees.

Purchases are received at the eight locations across the Sacramento and Davis Campuses by lab personnel. Once an invoice is received, purchasing staff follow up with lab personnel to verify that goods were received. Once a confirmation is received, the purchasing staff submit the invoice for payment. Confirmations are performed via email and not documented other than in the purchasing staff person's email account. These correspondences are deemed an appropriate source of confirmation, but they are not accessible for review¹⁷ (e.g. confirmations from FY17 are embedded in prior purchasing staff's email). In addition, the receiver does not submit adequate supporting documentation (e.g. packing slip) to validate that items were received and to document a three-way match.

Although the department has a separation of duties in place, sufficient evidence should still be documented. To the extent practicable, purchasing staff should obtain evidence of verification of receipt of goods via signatures or initials on delivery receipts, packing slips, or other supporting documentation. In providing this support, the receiver will confirm the quantity and quality of goods received.

Recommendation

We recommend the department establish a process to maintain adequate supporting documentation of goods received.

Management Corrective Actions

- 1) By November 15, 2019, the Department of Biochemistry and Molecular Medicine will implement a process requiring receivers to submit supporting documentation to purchasing staff. This documentation will be in the form of a packing slip, delivery receipt, or other tracking report, and will include the receiver's signature and receiving date.
- 2) By November 15, 2019, the Department of Biochemistry and Molecular Medicine will implement a procedure for retention of receiving documentation that satisfies policy requirements.

F. Travel and Entertainment (T&E) expenses.

Current controls are insufficient to prevent and detect T&E non-compliance.

The department of Biochemistry and Molecular Medicine had 168 reports submitted from July 2018 to April 2019 for a total balance of \$126,035. We judgmentally selected several¹⁸ transactions and reviewed for compliance with UC policies in regards to: submission timeliness, use of T&E cards, appropriate business purpose, and required receipts. In order to review transactions, we analyzed T&E data contained in the Quali Financial System, Aggie Travel, T&E reports and related supporting documentation. During our review, we noted the following:

¹⁷ UCOP Retention requires receipts such as packing slips are retained for five years after the end of the fiscal year in which the records was created (<https://recordsretention.ucop.edu/>). Furthermore, Agencies such as National Institutes of Health and National Science Foundation required retention of documentation of three years.

¹⁸ All reports were reviewed for submission timeliness, 146 transactions were reviewed for use of T&E Cards, appropriate business purpose, and required receipts; and all meals transactions were reviewed for reasonableness, including frequency of events and meal expenses over the limit.

- 1) 24 out of 168 reports (\$10,336) were not submitted for approval in the Aggie Travel system within 45 days of the trip end date as required by UC Davis policy¹⁹.
- 2) 12 out of 146 transactions reviewed were personal transactions (\$87) completed using the university corporate T&E card, and eight had not been reconciled by the employee as of May 2019. University policy²⁰ requires that corporate travel cards should only be used for expenses related to official University business travel, and the cardholder is personally responsible for paying personal charges on the corporate card.
- 3) One group purchased food for 20 Business meetings (\$3,540), which exceeds the frequency allowed by policy. University policy²¹ requires meals be limited to no more than once a month or twelve times per year, per group.

Our fieldwork indicated that one of the obstacles to proper management of T&E expenses is that employees are not aware of updated policies. While the financial impact and amount of transactions out of compliance may not be significant individually, in aggregate, they present a risk that can lead to loss of external confidence, damage the department's culture, incur monetary penalties for employees,²² or other corrective actions required of the University.

Recommendation

We recommend the department improve its controls over the prevention and detection of T&E non-compliance.

Management Corrective Actions

- 1) By December 15, 2019, the Department of Biochemistry and Molecular Medicine will issue a communication to all employees with information summarizing the requirements of UC Davis' T&E policy. This summary will include policies relating to:
 - a. Submission timeliness;
 - b. Personal expenses;
 - c. Frequency of business meal meetings.
- 2) By December 15, 2019, the Department of Biochemistry and Molecular Medicine will implement a process to ensure that employees submit all required receipts, and to demonstrate that expenses are in compliance with university policies.

¹⁹ UC Davis Policy 330-10: <https://ucdavispolicy.ellucid.com/documents/view/339>

²⁰ UCOP Policy G-28: <https://policy.ucop.edu/doc/3420365/BFB-G-28>

²¹ UCOP Policy BUS 79: <https://policy.ucop.edu/doc/3420364/BFB-BUS-79>

²² (e.g.) late fees.