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## Audit Report

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### Extramural Fund Accounting

Report No. SC-20-07  
June 2020

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**Approved**  
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## I. EXECUTIVE SUMMARY

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Audit and Management Advisory Services (AMAS) has completed a review of the Extramural Funds unit (EMF) with a focus on their processes for the setup, billing, and closeout of awards. This audit was included on the campus FY 2019-20 internal audit plan.

Overall, based on the results of work performed within the scope of the audit, we found that current processes ensure unit responsibilities are carried out appropriately in regards to the setup, billing, and closeout of awards. However, documented procedures are not consolidated or formalized. Further, EMF was not tracking how often existing procedures are reviewed and updated by appropriate staff.

The establishment of centralized, formalized procedures promotes efficiency and ensures processes are not lost or overlooked, especially upon separation of key staff. With the potential enhancements of the electronic grants management system, this may be a favorable time to review current unit procedures with feedback from the Office of Sponsored Projects and the Office of Planning and Budget, as necessary.

The following observation requiring management corrective action is identified below:

### A. Formalize Internal Procedures

Current documented procedures are not consolidated or formalized. Further, EMF was not tracking how often existing procedures are reviewed and updated by appropriate staff.

Agreement was reached with management on the recommended action to address the risk identified in this area. The observations and the related recommendation are described in greater detail in section III.

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## II. INTRODUCTION

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### Purpose

The purpose of this audit was to review Extramural Funds (EMF) processes that ensure compliance with appropriate regulations and that key operations are being managed effectively.

### Background

Much of the campus research effort is funded by external agencies and sponsors. These agencies and sponsors expect those engaged in sponsored research to prudently use of funding for a specified purpose and to accurately account for it. According to the Office of Sponsored Projects Annual Report: Fiscal year 2018-19:

- Grants and contract awards totaled \$165.9M, a 7.4% funding increase from last year.
- Over the last five years, UCSC has received \$689.8M in grants and contracts funding.
- During FY 2019, the federal government funded 64% (\$105,715,493) of the campus awards while charitable organizations accounted for 7% (\$10,786,685).
- The single-largest funding source was the National Institutes of Health (NIH) with \$41,049,218 followed by the National Science Foundation (NSF) with \$25,366,377. The Heising-Simons Foundation was the campus' single-largest private fund source with awards totaling \$2,267,931.
- University Extension received the two largest award amounts, \$9,687,693 and \$5,891,620, from the California Department of Education and the State of Washington, respectively. Biomolecular Engineering received the campus' next largest award, in the amount of \$3,611,010, from the National Institutes of Health (NIH).
- The top five campus units receiving awards were University Extension (\$30,053,568), Biomolecular Engineering (\$20,975,710), Institute of Marine Sciences (\$16,014,997), Chemistry & Biochemistry (\$12,771,954), and Molecular, Cell & Developmental Biology (\$11,145,218).
- 1,038 Proposals were submitted with a total value of \$521,856,983.

These trends indicate that as the volume of extramural awards increase, the EMF unit will also need to grow and quickly adapt to change as the years progress.

### Extramural Funds (EMF)

This unit operates under Financial Affairs and is responsible for post-award administration of federal and federal flow-through awards, state and local government awards, and private awards. The primary goal of post-award administration is efficient and effective award management in a manner consistent with underlying agreements, program objectives, and award terms and conditions.

Extramural Funds works closely with principal investigators (PIs), department accountants, Office of Sponsored Projects, and sponsors to ensure that post-award administration of campus awards is accurate and leaves no cause for audit scrutiny. PIs and departments are responsible for monitoring award operations and supported activities to ensure compliance with applicable requirements and performance standards. As part of their services, Extramural Funds offers contract and grant funds specialized training for transfers of expenses and budgetary adjustments to staff and faculty.

### Office of Sponsored Projects (OSP)

This unit is responsible for soliciting and accepting contracts and grants for research and other sponsored projects on behalf of the Board of Regents of the University of California. OSP works with campus research faculty to prepare budgets, ensure compliance with UC policy and sponsor guidelines, and signs off on the final submission. At the award stage, OSP reviews terms and conditions to comply with UC policy, negotiates with sponsors when needed, and accepts awards on behalf of the Board of Regents.

### Cayuse Proposal Management

Cayuse is an electronic grants management system used to process and distribute awards to the campus accounting system. It is also used to submit all proposals, project renewals, and supplemental funding submissions to OSP. This system electronically collects internally required proposal data, PI certification, departmental, divisional, and OSP approvals. Cayuse tracks project status, award history and associated documents. It also allows PI's and research administrators to easily access current and closed award information and documents. EMF staff have access to this system to reference award documentation, such as the budget, which is then manually entered into the financial system. During the course of this audit, it was our understanding that the system-wide contract for Cayuse is expected to be renewed and may include additional features and enhancements.

## Scope

Our scope was limited to EMF post-award responsibilities and awards active from 2018-2020. Gifts were not included in our scope. We conducted this audit by means of the following:

- Reviewed UC and UC Santa Cruz policies, best practices, and other relevant guidance.
- Reviewed audit or advisory reports conducted at UC campuses related to sponsored projects.
- Interviewed personnel from Extramural Funds and Office of Sponsored Projects to gain an understanding of campus processes and procedures for post-award administration and to document any concerns.
- Performed and documented a risk assessment based on the results of our preliminary work, such as interviews, review of documentation, and other observations.
- Limited testing to determine the accuracy of financial information and whether awards are closed in a timely manner.
- Detailed testing to determine whether processes ensure billing is overall accurate and appropriate.

For additional details, please see Appendix B. Summary of Work Performed and Results.

### III. OBSERVATIONS FOR MANAGEMENT CORRECTIVE ACTION

<b>A. Formalize Internal Procedures</b>		
Current documented procedures are not consolidated or formalized. Further, EMF was not tracking how often existing procedures are reviewed and updated by appropriate staff.		
<b>Risk Statement/Effect</b>		
The establishment of centralized, formal procedures promotes efficiency and ensures processes are not lost or overlooked, especially upon separation of key staff. With the renewal of the Cayuse system and its potential enhancements, this may be a favorable time to review current unit procedures with feedback from the Office of Sponsored Projects and the Office of Planning and Budget, as necessary.		
<b>Agreement</b>		
<b>A.1</b>	Extramural Funds will consolidate and formalize current procedures with feedback or input by the Office of Sponsored Projects or division accountants, as necessary. A periodic review should also be established by the department.	<b>Implementation Date</b>
		December 31, 2020
		<b>Responsible Manager</b>
		Extramural Funds Director

#### A. Formalize Internal Procedures – Detailed Discussion

Overall, based on our work, we determined that current processes ensure unit responsibilities are carried out appropriately in regards to the setup, billing, and closeout of awards. However, documented procedures are not consolidated or formalized. Further, EMF was not tracking how often existing procedures are reviewed and updated by appropriate staff.

When reviewing current unit procedures, we made the following observations:

- Lack of Documented Periodic Review:** Management provided procedures dated for November 2018. These procedures do not document whether this has been reviewed since that date. Tracking the regular review of procedures and any changes for each revision ensures information is current and not overlooked. The regular review by management can also help ensure current procedures are in alignment with any campus changes that new staff may not be apprised of.
- Multiple Procedure Versions:** Staff provided us with the “EMF Assistant Accountant Duties” procedures, revised as of January 2020. We understand this is an updated version of the procedures we received from management entitled “General Accountant 2” with a date of November 2018. When generally reviewing both procedures, we noted the way in which they were organized and written were not similar in any way (we did not review the content of the information). Through further follow-up, we understood that management is aware of these processes but may not have known this was already documented by staff. Having multiple procedures may cause confusion, especially if there are new staff who are not familiar with current internal processes.

- **Current Guidance:** Other than the procedures mentioned above, the unit heavily relies on a collection of emails and excel workbooks, which include very detailed instructions. These documents are located together as a reference resource but have not been formalized in a more cohesive way. Although we understand this is a small unit, establishing formalized guidance can ensure efficient operations in the event of key staff separation, new staff, or high turnover.
- **Manual Entry:** Through interviews, we found that it is standard practice for staff to manually document information from Cayuse. This is due to the inability of Cayuse to preserve historical data, which can be valuable in instances when information is changed. Historical information can be critical to resolve any issues or for new staff to understand the history and context of an award that has gone through many changes.

Current discussion with EMF and OSP management indicated that this is a known area for potential inefficiency, especially if the complexity and volume of awards increases. Although this process has saved time and added clarity in the past, it may be prudent to discuss with management and OSP any potential inefficiencies in this area. With the renewal of the Cayuse system and its potential enhancements, this may also be a favorable time to review current unit procedures with feedback from Office of Sponsored Projects and Office of Planning and Budget, as necessary.

While performing our work, we also identified the following areas that could be improved through the formalization of procedures:

- Four minor errors were found in the award data, which is manually maintained by the unit. During the course of our audit, we were informed this was corrected. This data is frequently accessed by all staff as part of their daily work. Although these errors were minor, there is potential for more impactful errors. New staff may make errors that may go unnoticed and may result in unintended non-compliance with award terms or federal requirements. This risk is increased if new staff reference outdated or incorrect procedures.
- When reviewing the “Federal Reporting Report (FFR) Log”, two out of 11 samples did not indicate an internal review was performed before the division accountant submitted the applicable report to the agency. We understand that process was recently added as of August 2019. As a new process, this should be formally documented as a procedure to ensure processes are consistently followed.
- We identified 39 out of 66 awards were still active in the financial system after 90 days of the award end date. When following-up with our results, EMF attributes this to timing factors that influence when an account is inactivated in the financial system. As a precaution, it is also part of their process to freeze these funds to prevent erroneous charging. We also understood there are situations where a fund may need to stay active to perform various administrative functions that cannot be performed if it was inactive due to the financial system limitations. Including this as part of a formalized procedure would help ensure new staff inactivate or freeze funds as soon as possible.

The establishment of centralized, formal procedures promotes efficiency and ensures processes are not lost or overlooked, especially upon separation or hiring of key staff. With potential system enhancements, this may be a favorable time to revisit and update current unit procedures with feedback from Office of Sponsored Projects, Office of Planning and Budget, or other departments, as necessary.

**APPENDIX A. SUMMARY OF WORK PERFORMED AND RESULTS**

<b>Preliminary Analysis</b>	
<b>Work Performed</b>	<b>Results</b>
Reviewed UC and UC Santa Cruz policies, best practices, and other relevant guidance.	<p>1. We identified the most relevant policies and guidance:</p> <ul style="list-style-type: none"> <li>• The Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)</li> <li>• UC Policy BFB A-47: Direct Costing Procedures</li> <li>• UC Accounting Manual</li> </ul> <p>2. We reviewed the local guidance developed by EMF for the campus division accountants.</p> <p>3. There were no local policies, as the campus heavily relies on the Uniform Guidance, OMB circulars, and UC Policy.</p>
Reviewed relevant audit or advisory reports conducted at UC campuses related to extramural funds.	Identified common issues from other campuses.
Interviewed key stakeholders from Extramural Funds and Office of Sponsored Projects.	<p>Gained an understanding of overall campus processes and procedures for post-award administration.</p> <p>Document any concerns.</p>
Performed a general walkthrough of EMF processes.	Gained an understanding of EMF internal processes and procedures.
Reviewed interviews, walkthroughs, provided procedures, and other unit documentation.	Developed a risk matrix and audit program to address the risk areas identified.



Fieldwork	
Work Performed	Results
<b>1. To determine the overall accuracy of financial reporting, specifically, whether the budget entered in the financial system is in accordance with the award terms, performed the following:</b>	
Performed interviews with key stakeholders and staff to gain an understanding of the award setup process.	Based on our interviews, we observed a high level of procedural detail. However, this information is not consolidated.
Obtained a complete list of awards from EMF as of November 2019 and performed an analysis of 1,879 lines of data.	Identified 62 awards that were closed during 2019.
From this data, judgmentally selected nine awards from three different divisions based on prior interviews and the risk assessment.	Selected two state awards, five federal awards, and two private grant awards.
Independently obtained budget data from Cayuse for each of the nine awards.	We reviewed the budget tab in Cayuse for the total budget amount. If this was not available or updated, we reviewed the attachments.
Independently obtained budget data from the financial system for each of the nine awards.	Ran at least nine separate reports from the financial system based on the fund code.
Compared the budget data in Cayuse with the budget data from the financial system.	We identified five awards that had variances, which is acceptable considering the age of the sample awards, any budget adjustments, and system limitations.  The remaining four samples had no variances.
<b>2. To determine whether EMF processes ensure billing is overall accurate and appropriate, performed the following:</b>	
Performed interviews with key stakeholders and staff to gain an understanding of the billing process.	Based on our interviews, we observed a high level of procedural detail.
Obtained a complete list of awards from EMF as of November 2019 and performed an analysis of 1,879 lines of data.	Identified 175 active awards dated to end during 2019.
From this data, judgmentally selected nine awards based on prior interviews and the risk assessment.	We selected two state awards, five federal awards, and two private grant awards.
From this sample, we requested the most recent invoices from EMF from 2018-2019.	We received a total of 11 invoices.
Obtained Award documentation independently from Cayuse or requested from EMF.	Reviewed a total of 13 documents for award terms. This included contracts, budget justification, proposals, etc.

<b>Fieldwork</b>	
<b>Work Performed</b>	<b>Results</b>
Independently obtained supporting documentation from the financial system or other appropriate sources.	Reviewed a total of 13 documents from the financial system, etc.
To determine whether billing is accurate, we compared each expense amount with the amount in the financial system.	For all samples, the amount for each expense item agrees with supporting documentation.
To determine whether billing is overall appropriate, we evaluated whether each expense is compliant with the award purpose and terms.	For all samples, expenses were relevant and appropriate to the award.
To determine whether any fixed prices are accurate, we reviewed award documentation to identify the payment amount and compared this with the billing amount. When appropriate, we also performed additional work to show the financial system expenses incurred over the same period are approximately the same as the fixed price.	For invoices with fixed price expenses, we found prices are correct according to award terms, payroll records, and other sources.
<p>To determine whether any salary or benefits expenses are appropriate, we reviewed and compared award documentation with expense details for the following:</p> <ul style="list-style-type: none"> <li>• Whether the staff being paid is listed in the award documents, fills a role listed in the award documents, or is otherwise working for the purpose of the award.</li> <li>• Whether the salary rate in the financial system matches the rate listed in the award documents.</li> </ul>	For invoices with salary or benefits expenses, we found these expenses were appropriate according to referenced award terms, payroll records, and other sources.
<b>3. To determine whether EMF processes ensure awards are closed in a timely manner, performed the following:</b>	
Performed interviews with key stakeholders and staff to gain an understanding of the closeout of awards.	<p>Based on our interviews, we observed a high level of procedural detail.</p> <p>Based on the type of award, reporting requirements and record-keeping vary.</p>
Obtained and reviewed the internal Federal Reporting Report Log (FFR Log).	We were informed that EMF has developed a log (“FFR Log”) to track certain federal reports. Generally, the Extramural Funds Associate Director signs off on federal reports to retain for their own internal records. These are not the same reports submitted to the federal agency. We understand that not all federal reports appear on the FFR Log or the same review/sign off

<b>Fieldwork</b>	
<b>Work Performed</b>	<b>Results</b>
	<p>process and that the practice of recording submittal confirmation varies.</p> <p>We observed that two out of 11 awards indicated that the internal review occurred after the division accountant submitted the applicable report to the agency. As this is a new process, we understand this to be a clerical error.</p>
Obtained a complete list of awards from EMF as of November 2019 and performed an analysis of 1,879 lines of data.	Identified 66 awards closed during 2018-2019.
From this data, we identified the number of days between the award end date and the award close date in the financial system.	<p>We identified 39 out of 66 awards were still active in the financial system after 90 days of the award end date. Three of these awards are federal awards. The remaining 36 are private, intercampus, and local awards.</p> <p>When following-up with our results, EMF attributes this to timing factors that influence when an account is inactivated in the financial system. It is our understanding that inactivation in the financial system is not a federal requirement, and that non-federal closeout requirements vary.</p> <p>Although inactivation may not be timely, funds are frozen by EMF staff to prevent erroneous charging. There are also situations where a fund may need to stay active to perform various administrative functions that cannot be performed if it was inactive (system limitation).</p>