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1111 Franklin Street, 5th Floor • Oakland, California 94607-5200 • (510) 987-0479 • FAX (510) 287-3334

Sheryl Vacca
SENIOR VICE PRESIDENT
CHIEF COMPLIANCE AND AUDIT OFFICER

April 23, 2015

DIRECTOR SMITH

RE: ANR Hansen Research and Extension Center #P15A004

Attached please find a copy of the final report for: Audit No. P15A004 ANR Hansen Research and Extension Center. With the issuance of this final report, please destroy any previous 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 (email: matthew.hicks@ucop.edu).



Matt Hicks
Audit Director

Attachment

cc: Senior Vice President Vacca
Controller McGuire
Director Chin
Manager Cataldo
Business Officer Driskill
Business Officer Johnson
REC Superintendent De Soto
Contractor Weiss
Contractor Schneider
Contractor Berchtold

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

ANR HANSEN RESEARCH AND EXTENSION CENTER
Audit No. P15A004
March 2015

Audit Conducted by:
Julia Berchtold, Contractor

Executive Summary

Introduction

The Agriculture and Natural Resources (ANR) division of UC operates the state's largest research management system for agriculture and natural resources. The system consists of nine Research and Extension Centers (RECs) that support education and research in agriculture, natural resources, and human resources programs throughout the state of California. ANR manages research projects and conducts programs focused on regional agricultural and environmental issues in both rural and urban areas. The RECs have the land, facilities, equipment, and staff to advance the research and educational programs that are being conducted to promote various agricultural initiatives.

The ANR Hansen Agricultural Research and Extension Center (HAREC) conducts applied research to support the rich and diverse agricultural and natural resources of Ventura County. The HAREC operates primarily through endowment funds allocated to the research and extension center under terms originally established by the Hansen 1990 Revocable Trust. The HAREC supports a broad array of county-wide events and initiatives including technical training for growers, education and research grants, and educational activities for youth, family and the community; and works collaboratively with UC Cooperative Extension-Ventura County advisors and programs.

Business activities are initiated by various personnel within the HAREC including the Business Officer, Financial Assistant, and Departmental Purchasing Agent with oversight from the REC System Business Officer. Information processed at the HAREC is submitted to applicable UC Davis departments for issuance and posting as appropriate. The HAREC follows protocols and policies developed by UC Davis. The Human Resource function is handled through UC ANR and UC Davis. The HAREC successfully transitioned from DaFis to the Kuali financial system effective July 2014.

Objectives and Scope

As part of the fiscal year 2014 – 2015 annual audit plan, Internal Audit performed a review of the HAREC. The audit objectives were to a) evaluate adherence of HAREC in-scope business processes to UC Davis policies and procedures and b) identify process improvement opportunities.

The audit scope included a review of the following processes at the ANR HAREC:

✓	Accounts Payable	✓	Financial Management
✓	Rate & Recharge	✓	Gift Acceptance
✓	Purchasing	✓	Contracts & Grants
✓	Cash Collections	✓	Sales, Service & Other Income

The review included activities performed between 7/1/2014 – 12/31/2014.

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

- Conducted meetings with key ANR and HAREC personnel to determine in-scope business processes.
- Performed a risk assessment of each in-scope process against several risk factors, including likelihood of error, history of ineffectiveness, and impact to ANR financials.
- Obtained relevant policy and procedure documentation to gain an understanding of in-scope business processes.
- Based on the risk assessment results and documentation obtained, developed an audit program to evaluate the effectiveness of high risk business processes.
- Evaluated a sample of transactions processed at the HAREC for each in-scope business process to assess adherence to UC Davis policies and procedures and timeliness of business activities.

Conclusion

Based on the audit steps performed, ANR HAREC personnel have a detailed understanding of key business activities as well as UC Davis policies supporting the various business processes. Staff members have an understanding of their responsibilities, and roles within the HAREC appear to be appropriately segregated. In our review of business activities for six of the eight in-scope business processes, Internal Audit noted REC activities were performed effectively in accordance with UC Davis policy. We noted opportunities for improvement within the Purchasing and Accounts Payable processes related to purchase approval and invoice processing.

Actions developed by the HAREC will strengthen business processes and increase effectiveness of operations.

Opportunities for Improvement and Action Plans

1. Non-adherence to HAREC Purchasing Procedures

For 7 of the 25 purchases selected for testing, we noted the Purchase Request form was not processed in accordance with the Hansen Agricultural Research & Extension Center Purchasing Procedures. Specifically:

- Three (3) purchases totaling \$1,933.29 did not have a completed and approved Purchase Request form. Per inquiry with the Business Officer, errors were due to unfamiliarity with new procedures implemented in July 2014.
- Three (3) purchases totaling \$635.88 did not have an approved Purchase Request form until after the order was placed. Per inquiry with the Business Officer, errors were due to unfamiliarity with new procedures implemented in July 2014.
- One (1) purchase totaling \$864.29 had a Purchase Request form submitted and approved by the same individual. Per inquiry with the Business Officer, HAREC purchasing procedures do not specify an authorized approver for forms submitted by the REC Director.

Per the Hansen Agricultural Research & Extension Center Purchasing Procedures: *“The Purchase Request form will be used for all procurement requests (supplies, labor, catering services) regardless of whether a purchasing card is used or not.... You must get pre-approval to place a purchase...Separation of duties needs to be maintained. The person placing an order (non-purchasing card or purchasing card) cannot receive it. Furthermore, policy prohibits the verification of purchases by an employee who is directly supervised by the Cardholder.”*

Additionally, we noted neither the HAREC purchasing procedures nor the REC system procedures specify an authorized process for the following situations outside of standard procedures:

- Emergency and/or immediate orders
- Designating a backup approver in instances where the primary approver may be unavailable or out of office

Failure to specify procedures for situations such as those noted above may result in purchases made without appropriate approval or delays in purchases necessary for the operation of the REC.

Action Plan:

The HAREC Business Officer, REC System Business Officer, and Director of Financial Services will review and update the Hansen Agricultural Research & Extension Center Purchasing Procedures to ensure the following:

- a) *Exceptions to the REC system procedures are approved by the ANR team and documented in the HAREC procedures.*

- b) *Address the authorized process for circumstances that may necessitate action outside standard procedures, including but not limited to:*
 - i. *Emergency and/or immediate orders*
 - ii. *Designating a backup approver in instances where the primary approver may be out of office*
- c) *Updates are made to align with naming conventions (i.e. "Departmental Purchase Orders") used in the REC system procedures.*

Additionally, upon revising the Hansen Agricultural Research & Extension Center Purchasing Procedures, the Business Officer will distribute updated procedures to HAREC employees and reiterate to personnel general purchasing process requirements including correct delegation of purchasing authority.

Target Date: July 31, 2015

2. Untimely Invoice Approval and Payment

We noted 2 of 25 invoices totaling \$549.37 were not paid until 3 to 6 days after the invoice was due. These were a result of delays in entering and approving invoices for payment in Quali by HAREC personnel. Per inquiry with the Business Officer, reorganization and relocation of staff from the HAREC to the UC Cooperative Extension during the testing period led to untimely processing of invoices as individuals authorized to enter and approve invoices in Quali were not on-site and available to do so.

Action Plan:

The HAREC Business Officer, REC System Business Officer, and Director of Financial Services will review and update the Hansen Agricultural Research & Extension Center Purchasing Procedures to ensure the following:

- a) *Exceptions to the REC system procedures are approved by the ANR team and documented in the HAREC procedures.*
- b) *Address the authorized process for circumstances that may necessitate action outside standard procedures, including but not limited to:*
 - i. *Emergency and/or immediate orders*
 - ii. *Designating a backup approver in instances where the primary approver may be out of office*
- c) *Updates are made to align with naming conventions (i.e. "Departmental Purchase Orders") used in the REC system procedures.*

Additionally, upon revising the Hansen Agricultural Research & Extension Center Purchasing Procedures, the Business Officer will distribute updated procedures to HAREC employees and reiterate to personnel correct delegation of purchasing authority.

Target Date: July 31, 2015

Additional Recommendations

Internal Audit recommends management consider the following additional improvement opportunities to better align with leading operational practices.

1. Lack of Formal Review of Grantee Final Reports

We noted a formal review of final grantee reports is not currently conducted by the HAREC to validate funds were used in accordance with the original grant proposal and budget. Grantees submit a final report at the conclusion of the project detailing project results, potential benefits/impacts on agriculture, any extension of results, and a summary of project expenditures. Per inquiry with the Business Officer, noted invoices related to external grants awarded by the HAREC are reviewed and approved by the Business Officer and REC Director as the invoices are received for adherence to the original proposal and budget. Additionally, per inquiry with the REC Director, confirmed that annual reports for continuous, multi-year grants are submitted and subsequently reviewed for interim years to ensure the project expenditures were aligned with the grant agreement and proposal. These interim year reports are reviewed prior to release of funds for the next year. The HAREC should consider defining a process to review final reports from the grantees to ensure grant funds were allocated as originally stipulated in the grant proposal and budget.

2. Documentation for Cash Receipt Not Retained

For 1 of 3 cash receipts relating to a lemon harvest at HAREC, we noted there was no invoice or supporting documentation to validate the accuracy of the cash collected. Per inspection of the cash receipt from South Coast Farm Labor, we noted a payment on September 5, 2014 totaling \$2,700 was received for lemons harvested by South Coast Farm Labor at HAREC. Per inquiry with the Business Officer, the relationship between the HAREC and South Coast Farm Labor is unique due to a Use Agreement with the organization authorizing the use of the facility and land for the purpose of harvesting lemons. Confirmed South Coast Farm Labor is the only organization with this type of agreement with the HAREC. Fair market price per bin is determined by the South Coast Farm Labor representative and the HAREC is paid per bin within 30 days of harvest. Noted the payment was for 18 bins of lemons at a rate of \$150 per bin related to a harvest that occurred from August 11, 2014 to August 13, 2014. Per inquiry with the HAREC Superintendent, a HAREC representative observes the harvest by South Coast Farm Labor to validate the bin quantity and the results are communicated to the Facility Coordinator for recording of cash receipts. Verified the \$2,700 cash receipt was correctly applied to account 6HA6147 ("Hansen Other Sources Non-Rate Based"), sub-account HLGRP, on September 22, 2014. The HAREC should consider maintaining formal documentation to evidence verification of the harvest bin results to validate the accuracy of the cash receipt.

The HAREC Superintendent, Facility Coordinator, and Business Officer have agreed to formally document the harvest bin count and will consider invoicing South Coast Farm Labor for future transactions.

3. Untimely Approval of Rate Package

We noted 1 of 5 invoices tested for rate and recharge activity was not issued by the HAREC timely due to delay in approval from the Budget Committee. We noted labor hours for July 2014 totaling \$258.28 were not billed until September 9, 2014 and the invoice was not paid until October 9, 2014. Per inquiry with the Business Officer, the package for approval of the annual FY14 rate package was submitted by the Business Officer on June 19, 2014, but it was not approved by the Budget Committee until August 29, 2014. As the REC is unable to issue an invoice until rates have been approved, the REC faces the risk of untimely billing and cash collections.

The Director of Financial Services and REC System Business Officer have agreed to discuss the field labor rate approval process with the Rate and Recharge Committee to help ensure timely billing and collections.