

August 14, 2018

MARK COOPER  
Director  
Office of Post Award Financial Services  
0954

**Subject:        *Sponsored Projects Closeout  
Report 2018-09***

The final report for Sponsored Projects Closeout, Report 2018-09, is attached. We would like to thank all members of the department for their cooperation and assistance during the review.

Because we were able to reach agreement regarding management action plans in response to the audit recommendations, a formal response to the report is not requested. The findings included in this report will be added to our follow-up system. We will contact you at the appropriate time to evaluate the status of the management action plans.

UC wide policy requires that all draft reports be destroyed after the final report is issued. We also request that draft reports not be photocopied or otherwise redistributed.

David Meier  
Director  
Audit & Management Advisory Services

Attachment

cc:     Judith Bruner  
       Alexander Bustamante  
       William McCarroll  
       Pierre Ouillet  
       Cheryl Ross

# UC San Diego

AUDIT & MANAGEMENT ADVISORY SERVICES

Sponsored Projects Closeout  
Report No. 2018-09  
August 2018

**FINAL REPORT**

**Performed By:**

Aparna Handa, Auditor

**Approved By:**

David Meier, Director

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## I. EXECUTIVE SUMMARY

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Audit & Management Advisory Services (AMAS) has completed a review of Sponsored Projects Closeout as part of the approved audit plan for Fiscal Year (FY) 2017-18. This report summarizes the results of our review. The objective of our review was to evaluate whether closeout procedures for sponsored awards (1) were in accordance with the established sponsor requirements, and (2) provided effective management of funds after sponsor requirements were met.

We concluded that closeout procedures were generally in compliance with established sponsor requirements, however, fund administration over expired awards needed improvement.

We noted that fund management procedures were not effective in timely inactivation of funds after final reporting requirements were met, including resolution of any deficit or surplus balances remaining on the award. In addition, we noted instances when deallocation was not processed timely by OPAFS causing overstated balances on expired awards.

### A. Fund Closeout - Balances and Inactivation

1. With the Campus Controller, OPAFS will develop a standard or policy to address sponsored projects fund closeout process, including inactivation timelines and central enforcement mechanisms if fund balances are not resolved within a defined time frame at the department level, as a supplement to the existing overdraft policy.
2. OPAFS will process deallocation entries for the eight awards and deobligate funds for the one federal award identified in the review.

Observations and related Management Action Plans are described in greater detail in section V. of this report.

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## II. BACKGROUND

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Audit & Management Advisory Services (AMAS) has completed a review of Sponsored Projects Closeout as part of the approved audit plan for Fiscal Year (FY) 2017-18. This report summarizes the results of our review.

The Office of Post Award Financial Services (OPAFS) is a division in the department of Business and Financial Services (BFS) that oversees the financial management of University of California, San Diego (UCSD) federal, state, and private contracts and grants. The University has an obligation to ensure fiscal compliance in accordance with sponsor and University policies, managing the sponsored award from inception to closeout. Award closeout involves reconciliation of final expenditures and submission of financial, technical, equipment, invention and other required reports, within the timeframe established by the sponsor. OPAFS is responsible for submitting the final invoice or final financial report (FFR) and, certifying on behalf of the University that project expenditures comply with agency financial terms and conditions.

UCSD's award portfolio comprises primarily of federal sponsors (65%) totaling \$1.1B<sup>1</sup>, with the Department of Health and Human Services (DHHS) constituting 50% of the total federal project funding. Uniform Guidance CFR 200.343, Closeout, sets forth requirements with respect to the complete and timely submission of final reports for federal grants and agreements. To be compliant, final reports must be submitted within 90 calendar days<sup>2</sup> after the date of completion of the award and any unobligated funds promptly refunded to the agency (deobligated). Uniform Guidance sets a definite standard on federal awarding agencies to close out awards timely, removing funding authorizations promptly and preventing award recipients from drawing cash outside of the closeout period.

To better meet sponsor financial reporting obligations, in April 2017, OPAFS launched the electronic Financial Expense Reporting (eFER) module to the Sponsored Projects Accounts Receivable and Cash Management (SPARCM) tool, allowing departments to electronically submit their final award expenditures. The eFER module sends automated notifications to department contacts at pre-defined time points before and after the award end date, and generates an FER using cumulative expenditures posted for the award period. Departments have up to 90 days to add any subsequent expenses or pending items to the report for submission to OPAFS. OPAFS reviews and approves completed eFERs which are then merged to the sponsor reporting template for submission.

OPAFS also coordinates the inactivation of the sponsored project funds after agency reporting requirements are completed. Departments are responsible for updating payroll, recharges and express card indexes and, processing cost transfers to eliminate any deficit or surplus balances. OPAFS realigns fund budgets to match sponsor payments and can process refunds or write off small balances (positive or negative balances under \$100) to facilitate fund inactivation.

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<sup>1</sup> Based on Finlink Award query for awards with a project start date between July 1, 2016 through April 26, 2018.

<sup>2</sup> National Institute of Health (NIH), the principal agency for UCSD's DHHS funding, and the National Science Foundation (NSF) allows up to 120 days from project expiration to submit closeout reports.

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### III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

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The objective of our review was to evaluate whether closeout procedures for sponsored awards (1) were in accordance with the established sponsor requirements, and (2) provided effective management of funds after sponsor requirements were met. In order to achieve our objective, we performed the following procedures:

- Reviewed applicable University, campus and OPAFS policies and procedures on award closeout, reporting and overdraft management;
- Reviewed Uniform Guidance on closeout requirements for federal awards;
- Interviewed OPAFS Associate and Assistant Directors to get an understanding of closeout practices, sponsor reporting and mechanisms to monitor compliance;
- Evaluated timelines for fund inactivated for awards ended in the period July 1, 2016 through April 18, 2018;
- Ran the Sponsored Projects Deficit Balance Analytics Report – Closed Awards for April 2018;
- Ran Finlink award and balance queries to identify award information, including project end dates and balances for closed awards;
- Obtained NIH Final Financial Federal Report (FFR) submission report from eRA Commons<sup>3</sup> for reports due in the period July 1, 2016 through April 20, 2018. Assessed overall reporting compliance and analyzed reporting delays for a sample of awards;
- Reviewed final reporting timelines, deobligation and, deallocation procedures for a judgmental sample of closed federal and federal flow through awards; and
- Reviewed write off procedures for a sample of closed awards with balances under \$100.

The audit scope was limited to final financial reporting compliance and excluded technical, equipment, invention, progress reports and other reports required by the sponsor. In addition, the review did not test the accuracy of expenditures on final financial reports submitted to the sponsor.

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### IV. CONCLUSION

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Based on our review procedures, we concluded that closeout procedures were generally in compliance with established sponsor requirements, however, fund administration over expired awards needed improvement. The eFER module helped facilitate compliance with financial reporting deadlines by generating automated notifications and electronic financial reports, replacing the historical manual process for submitting final expenditures to OPAFS. An OPAFS Campus Training Tool, available to OPAFS staff and members of the research community, described award management procedures including fund set up, closeout financial report preparation and, fund inactivation procedures. OPAFS had also developed an internal process to monitor submission for final financial reports that helped ensure compliance with reporting deadlines for federal awards.

However, we noted that fund management procedures were not effective in timely inactivation of

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<sup>3</sup> eRA Commons is an online interface where grant applicants, grantees and federal staff at NIH and grantor agencies can access and share administrative information relating to research grants.

funds after final reporting requirements were met, including resolution of any deficit or surplus balances remaining on the award. In addition, we noted instances when deallocation was not processed timely by OPAFS causing overstated balances on expired awards. We noted a need to formally establish definite standards for the fund inactivation process, addressing central enforcement mechanisms and roles when sponsored project financial balances were not effectively managed at the department level. This finding is discussed further in the remainder of the report.

## V. OBSERVATIONS REQUIRING MANAGEMENT ACTION

<b>A.</b>	<b>Fund Closeout - Balances and Inactivation</b>
Sponsored project fund closeout procedures were not effective in timely inactivating funds after final reporting requirements were met, including resolution of any deficit or surplus balances on the award.	
<b>Risk Statement/Effect</b>	
Deficits and surpluses may continue to be unresolved if there are no published standards defining specific actionable ramifications when departments do not eliminate balances on expired awards within a defined time frame. Delayed fund inactivation also increases the risk of inappropriate expenditures posting to the fund.	
<b>Management Action Plans</b>	
A.1	With the Campus Controller, OPAFS will develop a standard or policy to address sponsored projects fund closeout process, including inactivation timelines and central enforcement mechanisms if fund balances are not resolved within a defined time frame at the department level, as a supplement to the existing overdraft policy.
A.2	OPAFS will process deallocation entries for the eight awards and deobligate funds for the one federal award identified in the review.

### A. Fund Closeout – Balances and Inactivation – Detailed Discussion

UCSD Policy and Procedure Manual (PPM) 300-2, Funds Management (Overdraft) Policy requires immediate resolution of any sponsored project deficits or development of a written resolution plan for overdrafts longer than 30 days. The policy specifies consequences if overdrafts are not resolved at fiscal year-end by authorizing the Campus Budget Office, at the direction of the CFO, to process transfers “from unrestricted fund sources within the department/unit or cognizant Vice Chancellor area and ...withhold future budget appropriations from the Vice Chancellor to clear the Overdraft.” To assist compliance with this policy, the Sponsored Project Deficit Balance Analytics report was developed in FY2017 to help Administrative Officials effectively monitor deficits for closed and open awards.

As of April 30, 2018, there were 1,268 sponsored projects with end dates on September 30, 2017 or prior with corresponding funds in active status. The table below summarizes the number of closed

awards and associated balances:

Fund Status	Federal and Federal Flow Through Awards		Non-Federal Awards		Total	
	# of awards	Balance	# of awards	Balance	# of awards	Balance
Deficit <sup>4</sup>	276	(\$ 6,847,310)	140	(\$ 2,560,140)	416	(\$ 9,407,450)
Surplus <sup>5</sup>	285	\$ 4,059,851	347	\$ 8,384,340	632	\$ 12,444,191
Zero balance <sup>5</sup>	138	\$ 0	82	\$ 0	220	\$ 0
<b>Total</b>	<b>699</b>	<b>(\$ 2,787,459)</b>	<b>469</b>	<b>\$ 5,824,200</b>	<b>1,268</b>	<b>\$ 3,036,741</b>

55% of the closed awards represented federal awards with reporting deadlines of 90 days (or 120 for NIH) after award end but funds remained active months or years beyond the final report due date. OPAFS Accountants followed up repeatedly with the department for resolution of award balances, but this was not consistently performed due to competing priorities. Resolution of expired award balances required departments to initiate cost transfers, realign expenses or, provide alternative funds to transfer balances. Inadequate responsiveness from departments in conjunction with the lack of central enforcement authority prevented timely resolution of fund balances and inactivation.

Fund closeout also involved OPAFS deallocating funds to match budget allocations to the final invoice/report, soon after financial reporting requirements are met. However, our analysis identified eight awards that were not deallocated by \$764,198 even though reporting obligations had been met for several months. This caused fund balances to be overstated which may lead departments to post inappropriate charges or transfers on the award after expiration. In addition, we identified one National Science Foundation (NSF) award that needed to be deobligated by \$22,210 and the federal agency refunded promptly in accordance with Uniform Guidance requirements.

Developing formal fund closeout practices with definite timelines for fund inactivation after reporting requirements are satisfied, will facilitate timely processing of adjustment entries and resolution of expired award balances. There is currently no standard or policy to address timelines for sponsored project fund inactivation and resolution of surplus balances. The overdraft policy does specify central enforcement for sponsored project deficits to be initiated at fiscal year-end, but awards expire over the course of the fiscal year and represent high risk to the University if deficits remain unresolved till year end. In addition, the focus of the Campus Budget Office is on core funds<sup>6</sup> and central enforcement for sponsored project balances by OPAFS may be more effective enforcement mechanism.

Timely fund inactivation procedures reflect robust accounting practices, facilitates full-cost recovery and reduces risk of unauthorized expenditures posting to the fund after award expiration.

<sup>4</sup> Based on Sponsored Project Deficit Balance Analytics report for awards with budget end date of September 30, 2017 or prior.

<sup>5</sup> Based on Finlink Balance by IFOP Query for awards with overall fund balance in surplus or zero balance, for awards with award end dates of September 30, 2017 or prior.

<sup>6</sup> Funds provided by the State or generated by the University (general funds, tuition and fees, non-State research and administrative overhead, investment income and patent income).