

March 8, 2011

STEVE KAY  
Dean, Division of Biological Sciences  
0376

***Subject: Division of Biological Sciences  
Audit Project 2011-09***

The final audit report for the Division of Biological Sciences Audit Report #2011-09 is attached. We would like to thank all members of the department for their cooperation and assistance during the audit.

Because we were able to reach agreement regarding corrective actions to be taken 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 corrective actions. At that time, we may need to perform additional audit procedures to validate that actions have been taken prior to closing the audit findings.

UC wide policy requires that all draft audit reports, both printed (copied on tan paper for ease of identification) and electronic, be destroyed after the final report is issued. Because draft reports can contain sensitive information, please either return these documents to AMAS personnel, or destroy them at this time.

Stephanie Burke  
Assistant Vice Chancellor  
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Attachment

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**AUDIT & MANAGEMENT ADVISORY SERVICES**



University of California  
**San Diego**

**Division of Biological Sciences**  
**March, 2011**

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Project Number: 2011-09

*Division of Biological Sciences*  
*Audit & Management Advisory Services Project 2011-09*

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Attachment A – Audit Results by Business Office Functional Process

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**I. Background**

Audit & Management Advisory Services (AMAS) has completed a review of the Division of Biological Sciences as part of the approved audit plan for Fiscal Year 2010-11. This report summarizes the results of our review.

The Division of Biological Sciences (the Division) consists of four academic sections (Molecular Biology, Cell & Developmental Biology, Neurobiology, and Ecology, Behavior & Evolution). A central administrative business office provides oversight for the four sections. The business office staff support critical department business processes including academic and staff personnel management and payroll, information systems, contract and grant administration, recharge activities, and financial analysis and reporting. There are approximately 88 faculty and research laboratories, and the Division incurs over \$30 million in research expenditures annually.

The Division offers eight Biology majors to over 5,500 undergraduate students, and has approximately 200 Ph.D. students and 170 postdoctoral fellows. A recent assessment of research doctorate programs by the National Research Council ranked the Division's doctorate programs and disciplinary areas as number one in the nation.

**II. Audit Objective, Scope, and Procedures**

The objective of our audit was to evaluate whether internal control procedures in the Division were adequate to provide reasonable assurance that operations were effective, in compliance with University policies and procedures, and resulted in accurate financial reporting. The scope of the review was limited to activities and business practices within the current and prior fiscal years.

In order to fulfill our objective, we performed the following procedures:

- Reviewed departmental organizational and financial information;
- Met with management to discuss any potential areas of concern;
- Requested and reviewed departmental responses to internal control questionnaires and separation of duties matrices;
- Reviewed department policies and procedures for key business processes including:
  - Timekeeping and payroll,
  - Non-payroll expenditure transactions,
  - Sponsored research activities (e.g. effort reporting),
  - Travel and entertainment expenses,
  - Express Card purchases,
  - Operating ledger review and financial reporting,
  - Information systems security,

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- Recharge activities, and
- Expense transfers.
- Interviewed Division managers (including Environment Health and Safety, sponsored projects, recharge facilities) to gain an understanding of their processes; and
- Performed detailed testing of selected key business processes to verify that internal controls were adequate and functioning in compliance with university policy.

### **III. Conclusion**

Based on our review, internal controls within the Division appeared adequate and functioning effectively to provide reasonable assurance that operations are effective and efficient and in compliance with University policies and procedures. Although the Division has undergone administrative staff losses, the central business office has continued to provide an effective structure for managing administrative responsibilities, and applying policies and procedures consistently across the Division's four sections.

We also noted evidence of a number of current practices that supported a strong internal control structure including:

1. Use of an internally developed communication system, BANANAS, for effective communication between fund managers and Division Human Resources (HR)/Payroll.
2. Quarterly review of fund manager activity by sponsored projects manager.
3. Use of MyFunds to facilitate communication on financial information to principal investigators (PIs).
4. Use of the Overdraft Reporting System (ORS) which assists in monitoring of funds in overdraft.

Other initiatives are also planned or underway to strengthen business processes in the Division including:

1. Hiring new financial management personnel,
2. Developing an electronic performance appraisal system for staff, and
3. Developing a process for regular reporting on timesheet submission statistics.

These developments reflect favorably on the Department's objective of maintaining and improving a strong internal control environment.

However, during our audit we also observed several areas where opportunities for improvements in departmental business processes and internal controls were noted. These areas are discussed in the balance of our report.

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**IV. Observations and Management Corrective Actions**

**A. Timekeeping and Payroll**

**Division review and documentation practices for payroll and timekeeping could be improved.**

Documented management reviews provide a key internal control for validating the integrity of payroll data. However, during our audit we noted lapses in Division review and documentation standards, including the following:

*Timekeeping*

- Review of timesheet submission reports for the months of August, September and October 2010 revealed that, on average, 37% of the employees for the Division had not submitted timesheets. Staff averaged 30% and faculty 57% over the three months. There is need to improve the timesheet submission rate to ensure the Division maintains sufficient time reporting documentation to support the authorization of employee payroll and benefits expenses as required by UCSD PPM 395-4.1, *Timekeeping: Attendance Records*.
- We noted that the Division timekeeper was entering her own time.

*Payroll*

Documentation supporting the review of Distribution of Payroll Expense Reports (DOPE) for non-sponsored projects was inadequate. UC Policy, IA 101, *Internal Control Standards: Department Payrolls* requires DOPE reviews to be performed monthly and document that a review was performed. Practices increased the risk that Division would have inadequate documentation to support its expenditures in the event of a federal audit.

**Management Corrective Actions:**

1. The Division has recently developed a process to send automatic reminders to employees to submit timesheets, and to monitor completion supervisors are notified of timesheets that have not been submitted.
2. As of October 2010, the timekeeper does not enter her own time.
3. The Division will perform DOPE reviews monthly and document review by date and signature.

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**B. Financial Deficits**

**Some of the Division’s funds were in overdraft.**

The UCSD Overdraft Policy requires departments to routinely monitor accounts in overdraft. AMAS generated a report from the campus Integrated Financial Information System (IFIS) that included Division of Biological Sciences deficit balances of over \$10K that had been in overdraft for more than three months as of October 31, 2010. Analysis of this review identified 10 index/fund combinations in deficit totaling \$356,684 (excluding recharge operations). The following table includes a summary of the deficit balances in October 2010.

| Index                         | Fund   | Org    | Fund Type                | Deficit Balance as of 10/31/10 | Months in Overdraft | Comments   |
|-------------------------------|--------|--------|--------------------------|--------------------------------|---------------------|--|
| BIO0577                       | 30571A | 786210 | Federal (fellowships)    | (\$26,542)                     | 25                  | Need to transfer benefits (realignment)  |
| BIO03CZ                       | 69750A | 416210 | Contract and grant admin | (\$306,516)                    | 52                  | Overall fund was not in overdraft but Division faces financial deficit due to loss of faculty member. Division has to identify funds to resolve overdraft. |
| BIOCZCO                       | 69750A | 416210 | Contract and grant admin | (\$23,626)                     | 13                  |  |
| <b>TOTAL Deficit Balances</b> |        |        |                          | <b>(\$356,684)</b>             |                     |  |

**Management Corrective Action:**

The Division will develop a plan to resolve the deficits identified above.

**C. Transactional Sampling**

**Transactions selected by the campus Transaction Sampling system were not reviewed and reconciled by Division staff on a timely basis.**

The campus Transaction Sampling process in Financial Link randomly selects a sample of department financial transactions to be evaluated during the monthly

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operating ledger reconciliation and account validation process. During the review process, transaction processing errors are identified by error type, and corrected. To qualify for participation in this process, department fund managers are required to complete training and the department fiscal officer is required to periodically monitor and review the department's transaction queue.

There are over 600 transactions sampled for the Division on a monthly basis. However, our review of the Division's Transaction Management Reports for the period April 1, 2010 through September 30, 2010 indicated that 2,237 of the 3,957 (57%) of computer generated samples for operating ledger reconciliation were not reviewed or reconciled.

The campus Transaction Sampling process provides reasonable assurance that transaction errors are timely identified and corrected. Because only a percentage of total transactions are selected for focused review, department resources are used more effectively. If selected transactions are not timely reviewed, there could be increased risk of non-compliance with federal cost accounting regulations.

**Management Corrective Actions:**

Division management has:

- Assigned the review and reconciliation of transactions to a designated staff member(s) as part of the grant expense validation process.
- Ensured that transactional sampling review is completed for prior and future periods.

**D. System Access Security**

**It was noted that the Division utilized old Access Control Lists (ACL's) that may no longer be valid.**

Networks should be segmented to isolate public facing web servers from internal resources and restrict access to information to those with a demonstrated business need. The Division currently utilizes ACL's to limit access to its servers. however, the Division's ACL's need to be updated to reflect current access rights and restrictions.

The Division processes and stores certain types of student data including grades and enrollment information that is subject to Family Education Rights and

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Privacy Act (FERPA) regulations. There is need to limit access to the Division's system to authorized personnel to avoid a FERPA violation if systems are breached.

**Management Corrective Action:**

The Division has coordinated with Administrative Computing and Telecommunications (ACT) to develop a plan to upgrade current ACL's so as to optimize network security and ensure access is consistent with defined business needs and FERPA regulations.

**E. Lab Safety Training**

**The Division was not fully compliant with laboratory safety training requirements for laboratory employees.**

The Injury and Illness Prevention Program (IIPP) requires laboratory safety training for all employees working in a laboratory or other high-risk environment. The training's purpose is to help employees understand safety procedures, and avoid on-the-job risks.

Campus Environment Health and Safety (EH&S) conducts laboratory audits every six months to assist principal investigators in maintaining their workplace free from safety and health hazards, and to ensure the University complies with safety and environmental regulations. Review of the Division's EH&S lab safety summary report for the period from July 2008 to June 2010 revealed incomplete laboratory safety training as the most frequent violation. The Division should seek to ensure that laboratory safety training requirements are met to decrease the potential risk of disease, illness, injury and harmful exposures to UCSD personnel. Lack of training should be considered as part of the performance appraisal process.

The Division's EH&S manager informed AMAS that she is unable to view completion of laboratory safety training in the new UC Office of the President (UCOP) Learning Management System (LMS) for lab employees which prevents effective monitoring.

**Management Corrective Actions:**

- The Division is coordinating with the Director of Staff HR, VC-Academic Affairs on obtaining access to LMS to monitor laboratory safety training reports.

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- The Division will consider evaluating laboratory safety training with employees as part of their annual performance appraisal process.

**F. Express Card Transaction Reviewer**

**Inappropriate transaction reviewers were assigned for five of the Express Cards for the Division.**

Three of the five Express Cards had the Cardholder designated as the Transaction Reviewer which is inappropriate as the Cardholder would review his/her own transactions. Division management informed AMAS that this was due to the former Transaction Reviewer's transfer from the Division. The system defaults to the Cardholder as the Reviewer in the absence of another employee name. To avoid such conditions in the future, the Division should replace Reviewer information in the system on a timely basis.

The other two Express Cards were held by the Division Business Officer (DBO) and the Associate Dean of Operations individually. The Associate Dean also had an appointment as a PI for the Division. In both cases, the Transaction Reviewer assigned was a Financial Analyst who reported indirectly to the Cardholders in their positions as the DBO and Associate Dean. This is in conflict with UC policy Business and Finance Bulletin BUS-43 which defines a Reviewer as: “*An individual(s) who is responsible for reviewing purchases made by the cardholder. Reviewers may not be in a subordinate relationship to the cardholder.*” While it may be efficient for such individuals to hold procurement cards, the practice also increases the risk that the staff personnel responsible for reviewing Express Card purchases did not perceive they had the requisite authority to question transactions, if the need arose.

**Management Corrective Action:**

The Division will assign appropriate Transactions Reviewers in compliance with UC policy for the Express Cards identified in this review.

**G. Equipment Inventory**

**An equipment inventory count had not been conducted for more than two years.**

UC Business and Finance Bulletin (BUS) 29: *Management and Control of University Equipment* requires that the custodial department complete a physical inventory of all University inventorial equipment, government inventorial

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equipment, other government property, and other inventorial items at least every two years. The policy further states that the individual who performs the inventory may not also be assigned the responsibility for ordering or purchasing the property, maintaining the property records, or maintaining direct custody of the property.

According to the November 2010 Campus Asset Management System (CAMS), the Division's equipment inventory totaled \$66.5 million and an inventory had not been completed in over two years. An equipment inventory is needed to ensure that location codes are correct and that equipment that is unaccounted for is removed from inventory records.

**Management Corrective Action:**

Division management will ensure that an equipment inventory is completed as required by University policy.

**H. Recharge Balances**

**Six of the nine recharge facilities have a balance that is more than two months of operating costs which is in conflict with UCSD policy. Also, the remaining three facilities have an overall deficit of \$138,535.**

The Division operates nine recharge facilities. Campus policy provides that a service center surplus or deficit should not exceed an amount equivalent to an average two months of operating costs (UCSD PPM 300-40, Guidelines for Recharge and Other Income Producing Activities). The Statement of Operations for October 31, 2010 for the nine facilities revealed that six of the facilities had a recharge balance in excess of an average two months of operating costs and the remaining three facilities had an overall deficit balance of \$138,535 that accrue negative STIP<sup>1</sup>.

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<sup>1</sup> The Treasurer's Office at the UC Office of the President (UCOP) invests available university cash in short-term securities called the Short Term Investment Pool (STIP). "Negative" STIP is charged to accounts with a deficit balance.

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The table below summarizes our results:

| Facility  | Fund   | (Deficit)/Surplus<br>as of 10/31/10 | Recharge balance<br>more than two<br>months of operating<br>costs <sup>2</sup> |
|---|--------|-------------------------------------|--|
| Stock Center  | 62154A | (\$78,094)                          | Yes  |
| CMG Conference  | 68013A | (\$2,791)                           | Yes  |
| Fly Kitchen   | 62078A | (\$29,660)                          | Yes  |
| Delta Vision  | 62156A | (6,539)                             | Yes  |
| <i>Total deficit more than<br/>two months average costs</i> |        | <i>(\$117,084)</i>                  |  |
| NSB Cytometry   | 62152A | \$7,722                             | Yes  |
| Material Distribution                                       | 62150A | \$6,843                             | Yes  |
| <i>Total surplus more than<br/>two months average costs</i> |        | <i>\$14,565</i>                     |  |
| Shops   | 62002A | (\$29,730)                          | No   |
| Bonner Hall   | 62151A | (\$4,264)                           | No   |
| Animal/Vivarium   | 62006A | (\$104,541)                         | No   |
| <i>Total deficit less than two<br/>months average costs</i> |        | <i>(\$138,535)</i>                  |  |

**Management Corrective Actions:**

1. The Division will continue to monitor recharge balances and take steps to resolve deficits.
2. The Division has submitted action plan(s) of resolving recharge balances to General Accounting Office (GAO) as required by PPM 300-40.

<sup>2</sup> FY 09/10 operating costs were used to calculate the average costs

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**I. SAS 112 Key Controls Documentation**

**Requirements of campus guidelines for documenting key controls were not being met.**

*Statement of Auditing Standards No. 112 (SAS 112), "Communicating Internal Control Related Matters Identified in an Audit,"* is an accounting standard that establishes guidelines for determining the seriousness of internal control issues. SAS 112 establishes standards and provides guidance on communicating matters related to an entity's internal control over financial reporting identified in an audit of financial statements.

Through specific requirements of the UCSD Office of the Controller, as posted guidance on BLINK, all Department's must certify and document key controls to demonstrate that review and follow-up activities were actually performed. The goal of this campus requirement is to ensure that existing key controls are in place and that UCSD can demonstrate, through documentation that they are operating as intended. Departments are required to provide documented evidence that internal control activities are being performed on a regular basis as prescribed by SAS 112. If the department is not able to provide this documentation, it may be inferred to mean that key controls have not been implemented.

**Management Corrective Action:**

Division management will designate a staff member to implement a process to ensure that SAS 112 requirements are being met.

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| Business Office Process                       | AMAS Audit Review Procedure         |   |  |   | Risk & Controls Balance Reasonable (Yes or No) | SAS 112 Key Control <sup>1</sup>    | Audit Conclusion <sup>2</sup>   | Comments   |
|---|-------------------------------------|---|--|---|--|-------------------------------------|---------------------------------|--|
|   | Analytical Review of Financial Data | Internal Control Questionnaire/ Separation of Duties Matrix | Process Walk-through (Ltd Document Review) | Transaction Testing (Sample Basis)  |  |                                     |                                 |  |
| Timekeeping and Payroll                       | √                                   | √   | √  | Calculated Payroll Time Record (PTR) submission rate and reviewed related documentation.                      | Yes  | Yes<br>Payroll Expense Verification | Improvement Needed              | <p>Following issues were noted:</p> <ul style="list-style-type: none"> <li>-The timesheet submission rate for faculty and staff needs improvement;</li> <li>-The timekeeper was entering her own time</li> <li>-Distribution of Payroll Expense (DOPE) report reviews were not adequately documented for non-sponsored projects.</li> </ul> <p><b>(Audit Report Finding A)</b></p> |
| Operating Ledger Review & Financial Reporting | √                                   | √   | √  | Examined sample of operating ledgers and financial reports and analyzed overdraft balances as of October 2010 | Yes  | Yes<br>Fiscal Operations Review     | Satisfactory/Improvement Needed | <p>Deficit balances were identified.</p> <p><b>(Audit Report Finding B)</b></p>  |

<sup>1</sup> Department is not documenting key controls per campus requirement of SAS 112, refer to Section H of the audit report for further detail on this finding.

<sup>2</sup> Audit conclusions used in this report included the following four levels from highest to lowest; Satisfactory, Satisfactory/Improvement Suggested, Satisfactory/Improvement Needed and Improvement Needed.

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| Business Office Process                                     | AMAS Audit Review Procedure         |   |  |  | Risk & Controls Balance Reasonable (Yes or No) | SAS 112 Key Control <sup>1</sup>       | Audit Conclusion <sup>2</sup>    | Comments  |
|---|-------------------------------------|---|--|--|--|--|----------------------------------|---|
|   | Analytical Review of Financial Data | Internal Control Questionnaire/ Separation of Duties Matrix | Process Walk-through (Ltd Document Review) | Transaction Testing (Sample Basis)   |  |  |                                  |   |
| Non-payroll Expenditure Transactions – Transaction Sampling | √                                   | √   | √  | Analyzed Transaction Sampling Management reports for the period April 1, 2010 through September 30, 2010 | No   | Yes<br>Ledger Transaction Verification | Improvement Needed               | For the period reviewed, a large number of transactions had not been reconciled.<br><i>(Audit Report Finding C)</i>   |
| Information Systems Environment                             |                                     | √   |  | Discussed control questionnaire with Division information systems administrator                          | Yes  | Yes<br>Individual Security Access      | Satisfactory/ Needs Improvement  | Security measures need to be improved for logical security electronic information resources.<br><i>(Audit Report Finding D)</i>   |
| Express Cards   | √                                   | √   |  | Reviewed eight transactions selected judgmentally and traced to supporting documents.                    | Yes  | Yes<br>Ledger Transaction Verification | Satisfactory/ Improvement Needed | Purchases were reasonable and appropriately authorized.<br>However, some Express Cards had an inappropriate Transaction Reviewer assigned.<br><i>(Audit Report Finding F)</i> |

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| Business Office Process  | AMAS Audit Review Procedure         |   |  |  | Risk & Controls Balance Reasonable (Yes or No) | SAS 112 Key Control <sup>1</sup>       | Audit Conclusion <sup>2</sup>       | Comments  |
|--------------------------|-------------------------------------|---|--|--|--|--|-------------------------------------|---|
|                          | Analytical Review of Financial Data | Internal Control Questionnaire/ Separation of Duties Matrix | Process Walk-through (Ltd Document Review) | Transaction Testing (Sample Basis)   |  |  |                                     |   |
| Equipment Management     | √                                   | √   |  | Reviewed 11 equipment transactions selected judgmentally from Financial Link; and reconciled those items to the Equipment Management Report. | Yes  | Yes<br>Physical Inventory              | Satisfactory/<br>Improvement Needed | Equipment was ordered correctly using high value purchase orders.<br><br>However, a physical inventory had not been performed in over two years.<br><br><i>(Audit Report Finding G)</i> |
| Recharge Activity        | √                                   | √   | √  | Reviewed recharge activity reports, recharge analysis worksheet, and supporting documents.   | Yes  | Yes<br>Ledger Transaction Verification | Satisfactory/<br>Improvement Needed | Some recharge balances were in excess of two months of operating costs.<br><br><i>(Audit Report Finding H)</i>  |
| Effort Reporting (ECERT) | √                                   | √   |  | Reviewed ECert reports and certification summary for the four quarters for FY09/10   | Yes  | Yes<br>Effort Reporting                | Satisfactory                        | The majority of effort reports were certified.  |

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| Business Office Process                           | AMAS Audit Review Procedure         |   |  |   | Risk & Controls Balance Reasonable (Yes or No) | SAS 112 Key Control <sup>1</sup>       | Audit Conclusion <sup>2</sup> | Comments  |
|---|-------------------------------------|---|--|---|--|--|-------------------------------|---|
|   | Analytical Review of Financial Data | Internal Control Questionnaire/ Separation of Duties Matrix | Process Walk-through (Ltd Document Review) | Transaction Testing (Sample Basis)  |  |  |                               |   |
| Contract & Grant Activity (Post Award Admin.)     | √                                   | √   | √  | Reviewed three awards totaling \$6.9M; evaluated selected invoices and expenses for FY09/10 and first quarter of FY10/11. | Yes  | Yes<br>Internal Controls               | Satisfactory                  | Contracts were billed timely and expenses appeared reasonable.  |
| Entertainment                                     | √                                   | √   |  | Reviewed 14 transactions totaling \$118,694 selected judgmentally, reviewed approvals and traced to supporting documents. | Yes  | Yes<br>Ledger Transaction Verification | Satisfactory                  | Entertainment activity was monitored for compliance with policies and procedures. No exceptions were noted. |
| Transaction Processing – Non-Payroll Expenditures | √                                   | √   |  | Reviewed 13 transactions selected judgmentally; traced to available supporting documents.                                 | Yes  | Yes<br>Ledger Transaction Verification | Satisfactory                  | Non-payroll expenditures appeared reasonable, and supported by adequate documentation.                      |

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| Business Office Process           | AMAS Audit Review Procedure         |   |  |  | Risk & Controls Balance Reasonable (Yes or No) | SAS 112 Key Control <sup>1</sup>       | Audit Conclusion <sup>2</sup> | Comments   |
|-----------------------------------|-------------------------------------|---|--|--|--|--|-------------------------------|--|
|                                   | Analytical Review of Financial Data | Internal Control Questionnaire/ Separation of Duties Matrix | Process Walk-through (Ltd Document Review) | Transaction Testing (Sample Basis)   |  |  |                               |  |
| Travel                            | √                                   | √   |  | Reviewed 12 transactions totaling \$76,228; traced to supporting documents.                                    | Yes  | Yes<br>Ledger Transaction Verification | Satisfactory                  | Travel activity was monitored for compliance with policies and procedures. No exceptions were noted. |
| Payroll Expenditure Transfers     |                                     | √   |  | Verified adjusted payroll charges per operating ledgers & distribution of payroll expense reports (DOPEs).     | Yes  | Yes<br>Ledger Transaction Verification | Satisfactory                  | Transfer explanations appeared reasonable. No exceptions noted.                                      |
| Non-Payroll Expenditure Transfers |                                     | √   |  | Selected a sample of 14 transfers and reviewed the timeliness, and business justifications for reasonableness. | Yes  | Yes<br>Ledger Transaction Verification | Satisfactory                  | Transfer explanations appeared reasonable. No exceptions noted.                                      |