



AUDIT AND ADVISORY SERVICES
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May 22, 2023

To: Trisalyn Nelson, Department Chair
Alycia Lewis, Business Officer
Department of Geography

Re: **Department of Geography – Internal Control Review
Audit Report No. 08-23-0003**

We have completed a limited review of the Department of Geography internal controls as part of the 2022-23 annual audit services plan. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Enclosed is the report detailing the results of our work.

We sincerely appreciate the cooperation and assistance provided by the Department of Geography personnel during the review. If you have any questions, please contact me.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ashley Andersen".

Ashley Andersen
Director
Audit and Advisory Services

Enclosure

cc:

Chancellor Henry Yang
Chuck Haines, Vice Chancellor, Chief Financial Officer
Pierre Wiltzius, Dean, Division of Mathematical, Life, and Physical Sciences
UCSB Audit Committee
Alexander Bustamante, Senior Vice President and Chief Compliance and Audit Officer

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UC **SANTA BARBARA**
Audit & Advisory Services

Audit Report

Department of Geography – Internal Control Review

May 22, 2023

Performed by:

Antonio Mañas Meléndez, Associate Director
Irene Camargo, Senior Auditor

Approved by:

Ashley Andersen, Audit Director

Report No. 08-23-0003

EXECUTIVE SUMMARY

OBJECTIVE

The primary purpose of the audit was to evaluate internal controls and procedures established by the Department of Geography to ensure best business practices are in place to support operational effectiveness and efficiency, including compliance with University policies.

The objective of our audit was to determine whether:

- Adequate financial oversight is in place to prevent overdrafts.
- Sponsored projects direct cost administration is consistent with cost principles for federal awards (Uniform Guidance). Specifically, to determine whether project costs were allowable, allocable, approved, reasonable, properly supported with adequate documentation, and costs did not go over the allocated awarded threshold for each cost type.
- Financial reconciliations between the General Ledger and the shadow system, GUS¹, were accurate, timely, and approved by management.
- FlexCard transactions included prior business need approvals, adequate purchasing support documentation, and timely approval.
- Federal Salary Cost Transfers² (SCTs) were properly approved, justified, and documentation was maintained and processed within 120 days from payroll end date and did not exceed 90 days after the award end date.

CONCLUSION

Based on the results of the work performed within the scope of the audit, our review highlighted opportunities for improvement in the following areas:

- Improving the financial oversight to prevent overdrafts.
- Ensuring costs charged to federally sponsored projects are overall allowable, allocable, and reasonable and included in the budget. We found two low value, unallowable costs for the respective awards tested.
- Documentation and retention of appropriate justification to support the business need for FlexCard purchases. Ensuring the processing of them prior to 14-day posting period.
- Reviewing and monitoring payroll administration to limit the number of salary cost transfers.

¹ GUS: A custom departmental financial system used on campus for several departments managing award expenses for managing and maintaining funding source, liens, and other financial information.

² Salary Cost Transfers: expenses that is transferred from one account to another after the expenses was initially recorded in the financial accounting system. Evaluated SCTs were related to federal awards only.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. FINANCIAL OVERSIGHT - OVERDRAFTS

OBSERVATION

Our work found opportunities to improve financial oversight to prevent overdrafts.

We identified and quantified the account strings in overdraft at the end of fiscal year 2021-22 and inquired about the causes of overdrafts and plans for addressing deficits. We found that the department had more than \$151,000 in overdraft in eight account strings.³ See Table 1 for more details.

Table 1		Account Strings in Overdraft
Account Strings	Fund Title	Overdraft
404032-17269	Wildfire Prevention & Policy	(\$1,889)
404032-89996	UCPath ⁴ Error Fund	(\$1,570)
404032-89998	UCPath Dept Default Fund	(\$17,701)
444032-60735	Geography Income	(\$126,832)
784132-19900	State General Funds	(\$2,352)
784132-41321	VRS DNRS-Geography	(\$200)
784132-41618	Dangermond Fund	(\$126)
784132-41811	Akella Family School	(\$446)
Total Amount		(\$151,116)

Source: UCSB Department of Geography fiscal year 2021-22.

Based on the results of our review, we found that the department needs to better manage and project future costs in order to ensure that funds are transferred prior to an expected debt being incurred on account strings with low balances. Funding allocations at the account string level have not been properly overseen to prevent overdrafts. Specifically, we found:

- Two overdrafts resulted in not receiving timely funds to cover expenses. According to the department, one account string was directly associated with a revenue contract with cost-reimbursement payment terms.
- Two were default accounts that had not been administered properly.
- Three cases were associated with student aid accounts. Based on the department, the overdraft was caused because funds were not timely transferred from the funding source.
- One student aid account was part of faculty start-up funds. Funds were received on a cost recovery basis at the end of each fiscal year.

³ Account strings: The accounting string is a combination of account number, fund source, sub-account, and object code.

⁴ UCPath: University of California systemwide payroll system.

We verified that the Department of Geography has already cleared five of the eight overdrafts identified for approximately \$145,570. The Department has initiated a plan to address the remaining overdrafts in three account strings. The plan will consist of obtaining funding from:

- Unrestricted gifts managed by the Division of Mathematical Life and Physical Sciences (MLPS) to address approximately \$1,889 and request cost recovery funds in the amount of \$2,352 to cover fiscal year 2021-22 student aid payments.
- Department of Campus Sustainability⁵ to address two overdrafts that were processed while the department was under the administration of the Department of Geography in the amount of \$1,305.

Adequately managing balances and monitoring expenditures is imperative to limit accounts in overdraft. Overdrafts should be resolved as quickly as possible by transferring funds to cover the cost.

RECOMMENDATION

We recommend that the Department of Geography:

- Formalize a plan with a timeline to guarantee outstanding overdrafts will be cleared. The plan should be approved by the adequate control points of the Division of Mathematics Life and Physical Sciences and Student Affairs.
- Establish an adequate reporting process to periodically track low balances to help prevent overspending and avoid overdrafts as is recommended by sound accounting practices.

MANAGEMENT RESPONSE

The Department of Geography will continue to:

- Formalize a plan with a timeline to guarantee outstanding overdrafts will be cleared. The plan should be approved by the adequate control points of the Division of Mathematics Life and Physical Sciences and Student Affairs.
- Establish an adequate reporting process to periodically track low balances to help prevent overspending and avoid overdrafts as is recommended by sound accounting practices.

Audit and Advisory Services will follow up on the status of these issues by July 31, 2023.

⁵ Department of Campus Sustainability: a part of the Enrollment Services Administrative Cluster within the Division of Student Affairs.

2. SPONSORED PROJECTS

OBSERVATION

The administration of sponsored project costs was not fully consistent with cost principles for federal awards. Specifically, we found that two low value sponsored project costs were not allowable for the respective federal awards. Payroll expenses did not exceed the budgeted threshold.

We selected four sponsored federal projects and reviewed five expenses processed during fiscal year 2021-22 from each award relevant to the mission of the award. We found that eighteen of the twenty expense were allowable, allocable, reasonable, complied with sponsor terms and conditions and costs were adequately approved and support documentation substantiated the costs associated with the award. We noted two unallowable costs were reimbursed on two federally funded projects, one was for alcohol and the second was for a dinner after a project discussion.

Additionally, we found that in all four sponsored projects reviewed cumulative payroll amounts had not exceeded the award budget threshold. We reviewed total payroll expenses in the General Ledger (GL) for fiscal year 2021-22 for the four selected awards and verified that costs did not exceed the budgeted allowances.

During our audit, we verified both unallowable expenses were transferred off the federal award to an unrestricted fund. It is critical that allocation and cost approvers ensure that a full review is performed of costs expensed on sponsored projects.

RECOMMENDATION

We recommend the Department of Geography document clear procedures or guidance to ensure costs associated with the awards are reviewed and consistent with uniform administrative requirements, cost principles, and audit requirements for federal awards. This guidance should be communicated to the grant administrators.

MANAGEMENT RESPONSE

The Department of Geography will document clear procedures or guidance to ensure costs associated with the awards are reviewed and consistent with uniform administrative requirements, cost principles, and audit requirements for federal awards. This guidance will be communicated to the grant administrators.

Audit and Advisory Services will follow up on the status of these issues by July 31, 2023.

3. FINANCIAL REPORTING

OBSERVATION

Reconciliations

Our review of the current GL reconciliation process, including the reconciliation of payroll transactions, found that there is a monthly reconciliation process in place. However, we found

the need to formally document the process in a procedure, and maintain evidence to support that monthly reconciliations are performed and reviewed by management.

We inquired about the current GL reconciliation process, including the reconciliation of payroll transactions with annual payroll allocations. We found that the financial manager reconciles general and payroll expenses tracked in the shadow system (GUS)⁶ with expenses reported in the GL monthly. For payroll transactions, the Distribution of Payroll Expense⁷ (DOPE) report is used to reconcile against GUS. Discrepancies in GUS are individually investigated and resolved. The Business Officer and the Contracts and Grants Manager review the reconciliation generated in GUS. However, this review and approval process is not supported by documented evidence.

Based on the current process discussed, we found there is not a documented reconciliation procedure in place to support the steps and the workflow process described above. In addition, we found that there is no evidence maintained to support the review of expenses and management's timely approval.

During our audit, the Business Officer provided documented GL reconciliation procedures, including payroll reconciliation. We concluded that the documentation provided a detailed financial workflow process by personnel charged with performing these reconciliations. Processes included transaction posting procedures, detailed payroll and general ledger reconciliation steps, and the maintenance of evidence to support the preparation, review, and approval of reconciled general ledger balances.

Furthermore, we reviewed five consecutive months, from September 2022 to January 2023, of payroll reconciliations and verified that reconciliations are timely performed and reviewed by management.

FlexCard Transactions

FlexCard transactions have been processed and approved consistently with separation of duties principles and the support documentation was overall adequate. However, we found opportunities to guarantee all are timely approved and include adequate justification of the business need as part of the support documentation.

We reviewed the FlexCard approval process for all transactions processed during fiscal year 2021-22 and found that they were processed by cardholders and approved by someone other than the cardholder who processed them. However, we found that nine of the 430 FlexCard transactions were not timely reviewed and approved within the 14-day period, inadvertently posted to the designated default account, or usage tax was improperly included as the expense on specific purchases. Untimely transactions that need to be corrected requires the processing a Transfer of Expense (TOE) or a financial journal to correct an error.

Specifically, we found:

- Four transactions required a Transfer of Expense (TOE) to correct the account string that the expense was charged to.

⁶ GUS has a functionality to identify discrepancies with the GL.

⁷ Distribution of Payroll Expenses: Detailed payroll expense report of monthly transactions reported in the GL.

- Two corrections to the expense required journal entries to be processed to reverse the automated use tax.
- Three expenses were correctly allocated to the default account; however, approval was not processed prior to the 14-day posting period.

Additionally, we selected a sample of 15 of the highest dollar FlexCard transaction amounts. We reviewed documentation to support the expense and found that all cases included purchase order/invoice, packing slip/receipt, and proper authorization was obtained. However, we found that in four cases, the justification for the purchase was not completed in the purchase request approval form.

We identified the purchase of an espresso machine in the amount of \$2,719. The justification provided was to support collegiality and collaboration among lab personnel. Even though the expense was allocated using unrestricted funds, the department should avoid the purchase of luxury items paid with University funds; especially when the campus has enough alternatives to fulfill the main purpose presented as justification for this purchase.

4. SALARY COST TRANSFERS

OBSERVATION

Federal SCTs⁸ processed were properly approved, justified, and adequate documentation was maintained and processed within 120 days from payroll end date and did not exceed 90 days after the award end date. However, controls over allocations to the correct funding source need to be addressed to limit processing salary cost transfers.

We verified that all federal SCTs processed during fiscal year 2021-22 were completed within 120 days⁹ and confirmed that no salary cost transfers were initiated 90 days after the fund end date.

Additionally, we selected a sample of six high risk federally funded salary cost transfers processed onto and off of federal grants during fiscal year 2021-22. We found that the transactions were properly approved, justification for the transfer of funds were provided, and the adequate documentation was retained by the department. Of the six SCTs, four were processed onto a federal award, while two were transferred off federal awards. We found that overall causes to prevent SCTs could have been avoided. The causes of these delays were the following:

- Four SCTs were processed due to the account strings not being updated in UCPath for summer salary. One of the four transactions posted to the default/suspense account was associated with an NIH award. A correction was made within 90 days. NIH policy does not consider sufficient justification of corrections to simply be a clerical error¹⁰.
- One transfer was initiated by the Principal Investigator (PI) to change the account string. A correction was made onto the correct account string to align with the effort reported.

⁸ See background section for Salary Cost Transfer requirements.

⁹ Escalation memos approving the transfer were not required.

¹⁰ See background section.

- One award end date was not updated when the appointment was extended. The transfer has been processed onto the correct account string and the end date has been updated.

It is imperative that expenses be processed timely and properly classified. Corrections need to be identified and processed immediately. Frequent federal salary cost transfers can indicate a lack of appropriate oversight and approvals and raise questions regarding adequate internal controls over financial transactions.

RECOMMENDATION

We recommend that the Department of Geography:

- Document a procedure or guidelines to describe the steps to assign and timely verify that the correct account strings are used in UCPath.
- Communicate the procedure to all personnel responsible for the process in the department.

MANAGEMENT RESPONSE

The Department of Geography will:

- Document a procedure or guidelines to describe the steps to assign and timely verify that the correct account strings are used in UCPath.
- Communicate the procedure to all personnel responsible for the process in the department.

Audit and Advisory Services will follow up on the status of these issues by July 31, 2023.

GENERAL INFORMATION

BACKGROUND¹¹

The Department of Geography's vision is to lead the integration of natural, social, and information sciences to solve problems of people and the environment. The department currently has 28 faculty members, 10 administrative staff, four research staff, seven professional researchers, 22 specialists/postdoc scholars, 99 graduate students, over 200 undergraduates, and houses two centers: The Climate Hazards Center and spatial@ucsb.

During FY 2021-2022, the Department of Geography received a total of \$6,895,970 in contract and grant funding, with a total of 20 award actions, including 8 new awards (\$588,787) and 12 continuing awards (\$6,307,183). The Department of Geography submitted 46 new proposals for a total of \$19,138,529. The Office of Research tracks funding by actual funds received; however, some awards are funded incrementally. The total value of the new awards received in FY 21-22 is \$588,787.

¹¹ UCSB Department of Geography website.

*Direct Costs*¹²

Direct costs are costs that are specifically identifiable and which can be charged directly to the contract or grant. This includes salaries, fringe benefits, tuition remission, consultants, equipment, supplies, travel, subawards and other expenses. Examples of such charges are salaries and wages (when the effort devoted and the benefit derived are directly identifiable with a specific sponsor); associated employee benefits costs; supplies and other general expenditures (such as travel and other direct services); equipment purchases; and, for self-sustaining operations, equipment depreciation, operation and maintenance of plant, and campus general administrative support recharges.

*Salary Cost Transfers*¹³

The University is committed to the accurate and timely maintenance of its financial records. Situations require that transfer of recorded cost are identified and processed expeditiously. Additionally, special considerations must be given to transfers onto federal funds to ensure that the University action meets the administrative standards established by the federal regulations.

If the expense is being transferred to a federal or federal flow-through account, it must be recorded in the general ledger within 120 days from the close of the month in which the original charge posts to the ledger. If because of unavoidable circumstances an adjustment must be made beyond the 120-day period, a full explanation, including a well-documented account of all the events leading to the tardy adjustment, must be provided.

Cost Transfers which occur after 120 days (four general ledger cycles) from the date of submittal are considered excessively late. Transfers made after the 120-day period may be considered non-compliant with University policy and therefore deemed unallowable by federal auditors. Departments must assume the risk for these transfers if found unallowable during an audit.

The escalation process will be used strictly for rare and unusual circumstances. In these circumstances, the request will be evaluated based on set criteria and approved by the: PI, Department Head/Chair, Extramural Funds Accounting Manager, Controller, and Vice Chancellor of Research. Departments must correct any inappropriately recorded charges on federal funds regardless of timeliness.

Furthermore, OMB Uniform Guidance dictates that a final financial report be submitted within 90 days from the end date of a contract or grant. Certain awards may have different reporting requirements. The University's status with funding agencies may be jeopardized when financial reports are submitted after the required filing deadlines. In addition, audit findings for failure to submit financial reports within the specified time frame can put the University at risk of the imposition of remedial action. Such actions can include the withholding of award(s) to an investigator or the entire University, the withholding of payments on outstanding invoices, and/or the revocation of the Expanded Authorities Agreement.

*NIH Grants Policy Statement*¹⁴

¹² Direct Costs: UC Business and Finance Bulletin (BFB) A-47-*Direct Costing Procedures*.

¹³ Business & Financial Services Extramural Funds website.

¹⁴ NIH policy website.

NIH Grant Policy states that cost transfers to NIH grants by recipients, consortium participants, or contractors under grants that represent corrections of clerical or bookkeeping errors should be accomplished within 90 days of when the error was discovered. The transfers must be supported by documentation that fully explains how the error occurred and a certification of the correctness of the new charge by a responsible organizational official of the recipient, consortium participant, or contractor.

An explanation merely stating that the transfer was made "to correct error" or "to transfer to correct project" is not sufficient. Transfers of costs from one project to another or from one competitive segment to the next solely to cover cost overruns are not allowable. The transfers must be supported by documentation that fully explains how the error occurred and a certification of the correctness of the new charge by a responsible organizational official of the recipient, consortium participant, or contractor.

UC Procurement Card Program (FlexCard)¹⁵

A procurement card is a credit card authorized by the University of California to designated employees to enable the timely purchase of low-value goods or services. The card is routinely accepted by merchants who accept VISA or MasterCard for payment. The card is a corporate liability card, issued to an employee only for university purposes. Its use is subject to strict cardholder purchasing controls which cannot be exceeded without authorization. A settlement is executed electronically on the settlement date providing the opportunity for the University to eliminate costs for processing purchase orders, supplier invoices and for issuing checks, for each supplier.

There is only one type of procurement card at UCSB, which is referred to as a FlexCard. The FlexCard is issued to an individual, not to a department, and the card and account number cannot be used by anyone other than the cardholder. Separation of duties is critical in order to reduce the risk of errors, intentional or unintentional, that cannot be made by separating functional responsibilities. Payment liability rests with the University, not the cardholder.

FlexCard allocators are responsible for ensuring that FlexCard transactions are charged to the appropriate account fund within a 14-day posting period and usage tax is omitted for specific purchases that does not incur taxes. Adequately monitoring and verifying expenses provides assurance that financial transactions are complete and accurate.

SCOPE

The scope of our review was focused on the Department of Geography's business processes and internal controls during fiscal year 2021-22. To accomplish our objectives, our work included interviews, observations, review of support documentation, testing, and other steps. Specifically, we:

- Researched UC and UCSB policies, best practices, and other guidance relevant to the Department of Geography.
- Conducted interviews with Department of Geography personnel to gain an understanding of core business processes, policies, and procedures for administering and managing University assets.

¹⁵ BFS BUS-43: *Purchases of Goods and Services*.

- Performed a risk analysis that considered business related policy and procedures, sponsored project management, financial reporting, procurement, and federal salary cost transfers.
- Evaluated the Department of Geography's business best practices and procedures to determine whether they incorporated adequate internal controls and reviewed opportunities to enhance and improve operational efficiency.
- Reviewed and analyzed financial administration of overdrafts in the department and plans to reduce deficits in fiscal year 2021-22.
- Tested a sample of federal sponsored project expenses to determine whether direct costs are allowable, allocable, and reasonable, comply with award terms, and are included in the budget.
- Assessed the financial reconciliations process for accuracy, timeliness, and completeness between the campus general ledger and the department shadow system, GUS.
- Tested FlexCard procurement transactions to determine if purchases were approved by someone other than the cardholder, support documentation was maintained, and approvals were timely reviewed and errors corrected.
- Tested federal funded SCTs to determine whether the transfer of payroll was approved, justified, and documentation was maintained by the department, and verified whether transfers were processed within 120 days of the submittal date and within 90 days of the sponsored project contract end date.

CRITERIA

Our audit was based upon standards as set forth in UC and UCSB policies, best practices, and other guidance relevant to the scope of the audit. This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

This review emphasized, but was not limited to, compliance with:

- *2 CFR 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Office of Management and Budget Uniform Guidance)
- UC Business and Finance Bulletin G-28, *Travel Regulations* (UC Policy G-28)
- UC Business and Finance Bulletin BUS-43, *Purchases of Goods and Services* (UC Policy BUS-43)
- UC Business and Finance Bulletin A-47, *Direct Costing Procedures* (UC Policy A-47)
- *UC Contracts and Grants Manual*
- NIH Grants Policy Cost Consideration, *Cost Transfers, Overruns, and Accelerated and Delayed Expenditures*, revised December 2022
- UCSB FlexCard Management Procedures

AUDIT TEAM

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