

**UNIVERSITY OF CALIFORNIA, SAN FRANCISCO
AUDIT AND ADVISORY SERVICES**

**Contracts and Grants Accounting
End of Award Expenditures
Project #14-036**

December 2014

University of California
San Francisco



Audit and Advisory Services

December 24, 2014

Mary Catherine Gaisbauer

Assistant Controller - Contracts and Grants Accounting
Controller's Office

SUBJECT: End of Award Expenditures

As a planned audit for Fiscal Year 2014, Audit and Advisory Services ("AAS") conducted a review of end of award expenditures for federal and federal flow through awards. This review was performed in September 2014. Our services were performed in accordance with the applicable International Standards for the Professional Practice of Internal Auditing as prescribed by the Institute of Internal Auditors ("IIA Standards").

Our preliminary draft report was provided to Contracts and Grants Accounting Management in October 2014. Management provided us with their final comments and responses to our observations in December 2014. The observations and corrective actions have been discussed and agreed upon with department management and it is management's responsibility to implement the corrective actions stated in the report. In accordance with the University of California audit policy, AAS will periodically follow up to confirm that the agreed upon management corrective actions are completed within the dates specified in the final report.

This report is intended solely for the information and internal use of UCSF management and the Ethics, Compliance and Audit Board, and is not intended to be and should not be used by any other person or entity.

Sincerely,

A handwritten signature in black ink, appearing to read 'Irene McGlynn'.

Irene McGlynn
Director
UCSF Audit and Advisory Service

**Contracts and Grants Accounting
End of Award Expenditures
Project #14-036**

MANAGEMENT SUMMARY

As a planned audit for fiscal year 2013-14, Audit and Advisory Services (AAS) completed a review of end of award expenditures. The purpose of the review was to assess the adequacy of internal controls surrounding proportionately large or accelerated expenses charged against federal and federal flow through (Federal) awards during the last three months of the award period and after the award end date and evaluate compliance with Federal Guidelines. The scope of the review was to examine non-payroll expenses (NPEs) incurred during and after the last 90 days of the award period for Federal awards closed between April 1 and September 30, 2013 that were proportionally large expenditures.

To conduct the review, AAS analyzed award data within the general ledger (GL) system and selected a sample of 17 Federal awards where more than \$50,000 and 60% of the NPEs were expended during the last three months of the award period. We examined department procedures for identifying and managing end of award expenses to determine if they are adequate and effective. We took a judgmental selection of NPEs from the selected awards to determine if the expenses were appropriate and for the benefit of the award. Finally, we reviewed the most recent three months of GL verifications to determine if they were completed timely and in accordance with University and department policies and procedures.

Based on work performed, we noted that departmental managers were aware of their responsibilities for managing expenses posted to Federal awards. The departments had established reasonable procedures to help ensure that inappropriate expenses were not posted to Federal awards. The expenditures reviewed appeared to be justified and for the benefit of the award they were charged to.

We did note that currently there is no monitoring mechanism at the department level, to review accelerated spending towards the end of Federal awards for appropriate justification and documentation. We also observed that several departments did not perform timely GL verifications; which has been designated by the Controller's Office as a key control.

More detailed information on the observations and management corrective actions can be found in the body of the report.

**Contracts and Grants Accounting
End of Award Expenditures
Project #14-036**

TABLE OF CONTENTS

MANAGEMENT SUMMARY	i
TABLE OF CONTENTS	ii
I. BACKGROUND	1
II. AUDIT PURPOSE AND SCOPE.....	1
III. CONCLUSION	2
IV. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS	3
A. End of Award Expenditure Monitoring	3
B. GL Verifications	4
C. Expenditure Justifications	5

I. BACKGROUND

As a planned audit for fiscal year 2013-14, Audit and Advisory Services (AAS) completed a review of end of award expenditures. Expenses charged against federal and federal flow-through (Federal) awards are governed by 2 Code of Federal Regulations (CFR) 220 Cost Principles for Educational Institutions (formerly Office of Management and Budget (OMB) Circular A-21). In recent years, funding agencies have performed focused audits on accelerated spending near the end of a Federal award and questioned the benefit that the project received from these expenditures. The University may be subject to repayment of any disallowed expenditures.

The following guidance on allocable costs is given in OMB A-21¹: A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship. UC has also created requirements² that state, "Of paramount concern in justifying a particular expenditure on an extramurally-funded grant, contract, or cooperation agreement is the question of benefit: only those costs which advance the goals of a project may be directly charged to that project."

Additional UC³ and UCSF⁴ guidelines state that the Principle Investigator (PI) has primary responsibility for financial management and control of project funds. The policies state that it is the responsibility of PIs to incur expenditures in accordance with OMB A-21, the terms and conditions of each extramural award, and all applicable University policies.

The campus Accounting Office is responsible for monitoring all financial and budgetary transactions to ensure compliance with University and campus policies and procedures, with provisions of governing laws and related statutory regulations, with the terms and conditions prescribed by external funding sources, and with generally accepted accounting principles.⁵

II. PURPOSE AND SCOPE

The purpose of the review was to assess if existing internal controls were sufficient to ensure that end of award expenditures on Federal awards were compliant with Federal Guidelines and University Policies. The scope of our review was to examine non-payroll expenses⁶ (NPEs) incurred during and after the last 90 days of the award period for Federal awards closed between April 1, 2013 and September 30, 2013⁷ that were proportionally large expenditures.

¹ Appendix A to Part 220 – Principles for Determining Cost Applicable to Grants, Contracts and Other Agreements with Educational Institutions

² UC's Contract and Grant (C&G) Manual, Section 7-300 Justification & Documentation of Expenditures

³ UC's C&G Manual, Section 6-440 Responsibilities of the Principal Investigator

⁴ UCSF Administrative Policy 300-19, Expenditures of Extramural Funds

⁵ UC's C&G Manual, Section 6-460 Responsibilities of Campus Controllers

⁶ Non-Payroll Expense was defined as expenditures posted to Natural Class Accounts (NCAs) between 430000 and 499999 under the old Chart of Accounts

⁷ The sample was selected from closed funds to ensure that the 90 day period for final reporting of expenditures had lapsed and that all NPEs would be final

To identify the target population, we analyzed award data within the GL system and identified 12,035 Federal awards (as determined by their Fund Number, Federal Flow-through Code, or UCOP Group Code). 2,710 Federal awards were active between April 1 and September 30, 2013. Further, 406 Federal awards were closed during this period. These 406 awards had \$37.7 million in NPEs during the last 12 months of their award period or after their award end date. Of the \$37.7 million NPEs, \$9.7 million was expended during the last three months of the award period and \$3.4 million after the award end date (\$13.1 million total).

From the population identified above, a sample of 17 Federal awards, from nine departments, where more than \$50,000 and 60% of the NPEs were expended during the last three months and after the award end date was selected for review. The sample of 17 funds had \$4.8 million in NPEs during the last three months of the award period and after the award end date. These 17 funds and their departments were⁸:

- Biochemistry & Biophysics – Funds 21543 and 29946
- Epidemiology & Biostatistics – Funds 29958 and 30512
- Global Health Sciences – Funds 21645 and 21664
- Medicine – Funds 29121, 33314 and 72853
- Neurological Surgery – Funds 29361 and 29815
- Obstetrics, Gynecology & Reproductive Sciences – Funds 21485 and 33446
- Physiological Nursing – Fund 31282
- Radiology – Fund 30394
- Surgery – Fund 33111 and 71990

To conduct our review, the following procedures were performed:

- Reviewed Federal Regulations and University Policies to document guidelines for recording expenditures to Federal awards;
- Identified the target population of Federal awards closed between April 1 and September 30, 2013;
- Judgmentally selected and reviewed 17 Federal awards with proportionally large expenditures during the last three months of the award period and after the award end date;
- Reviewed Internal Control Questionnaires (ICQs) with departmental management responsible for the selected awards to assess the appropriateness of the department's procedures for monitoring and managing end of award expenditures;
- Inquired of departmental management as to their financial reporting practices used for informing PIs of activities on Federal award to assess its appropriateness;
- Reviewed a judgmental sample of NPEs and their justification and related documentation to determine if these expenditures were for the benefit of the award and services were delivered during the award period; and
- Reviewed the latest three months of GL verifications for the sample of awards to validate the department procedures.

⁸ We excluded five funds from our sample after we identified that an entry relating to intercampus subawards posted by the Controller's Office inflated the amount of expenses posted near the end of the awards.

The scope of the audit was limited to the specific procedures described above and related to Federal awards closed between April 1 and September 30, 2013. As such, work completed is not intended, nor can it be relied upon to identify all instances of potential irregularities, errors and control weaknesses that may occur in areas not covered in this review. Fieldwork was completed in September 2014.

III. CONCLUSION

Based on work performed, we noted that departmental managers were aware of their responsibilities for managing expenditures posted to Federal awards. The departments had established reasonable procedures to help ensure that inappropriate NPEs were not posted to Federal awards. Justification provided for the expenditures appeared to be sufficient to support that these expenditures were used for the benefit of the award they were charged to.

We did note that currently there is no monitoring mechanism at the department level, to review accelerated spending towards the end of awards for appropriate justification and documentation. We also found that several departments did not perform their GL verifications for Federal awards monthly, as required by policy; which has been designated by the Controller's Office as a key control.

IV. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS

A. End of Award Expenditure Monitoring

Currently there is no monitoring mechanism at the department level to review accelerated spending towards the end of a Federal award for appropriate justification and documentation.

During our review, we found that none of the nine departments had established specific procedures to review expenditures posted near the end of a Federal award for adequate justification and documentation. We noted that Contracts and Grants Accounting (CGA) has been planning to incorporate a review of these expenditures into their existing processes to monitor for compliance with federal guidelines. In recognition of the audit being performed by AAS, CGA was waiting for these results to ensure the appropriate criteria are included in their monitoring efforts.

Costs charged to Federal awards are subject to audit by the funding agencies. In recent years, funding agencies have performed focused audits on accelerated spending near the end of a Federal award and questioned the benefit the project received from these expenditures.

Without adequate monitoring of NPEs recorded to sponsored awards near the end of the award period, expenses that do not completely advance the goals of the award may not be identified and corrected timely. This may lead to the University being financially liable for disallowed expenditures and impair UCSF's reputation and adversely affect its ability to compete for future research funding.

Management Corrective Actions

By March 31, 2015, CGA will:

1. Develop a report (with assistance from AAS) to identify proportionately large expenditures posted near the end of awards.
2. Incorporate procedures into their award close out process to review the justification of these expenditures.

B. GL Verifications

Several departments did not perform timely GL verifications; which has been designated by the Controller's Offices as a key control.

The expenditures we reviewed appeared to be appropriate and used for the benefit of the Federal award. However, during our review, we noted the following issues:

- One department had not performed GL verifications for the two funds selected for review since January 2013. Additionally, the department also disclosed that they had not completed all the required verifications for multiple funds between January 2013 and April 2014 (approximately 250 ledger verifications).⁹
- For three departments, GL verifications were not performed on a monthly basis as required; verifications were completed every two to five months. Generally, these funds had minimal activities during the period verified.
- Two departments had one fund each where GL verifications were completed more than 30 days after the close of the period.

Per UCSF Policy, GL verification for federally funded awards must be performed monthly.¹⁰ Additionally, GL verification has been identified as a key control at UCSF to help ensure expenditures are accurately recorded and no misstatements are reflected.

Without this timely validation, unallowable expenditures may be erroneously posted to Federal awards or that the Federal awards may not receive benefit from the incurred expenses. In turn, this may subject the UCSF for repayment of the expenses and impair UCSF's reputation and adversely affect its ability to compete for future research funding.

Management Corrective Actions

1. The department will complete all outstanding verifications to verify that only allowable expenses have been charged to Federal awards by February 28, 2015.

⁹ Per Management, this was caused by loss of staff due to the reduction of overhead allocated to the department from the transition to Research Management Services. The department has met with the CGA Compliance Manager to review the expectations and process for verifications. The department has formulated a plan going forward and expects to be caught-up with their GL Verifications by February 2015.

¹⁰ UCSF Administrative Policy 300-19, Expenditures of Extramural Funds.

2. By June 30, 2015, the Controller's Office will implement a monitoring process, either automated or manual, to ensure GL verifications are being completed for Federal awards monthly by departments in accordance with established policies and guidelines.
3. By June 30, 2015, the Controller's Office will reiterate to campus departmental management the importance and expectations surrounding the completion of GL verifications, including timeliness of completion.

C. Expenditure Justification

Two departments were not able to readily provide justification for expenditures posted to their Federal awards.

For 16 expenses from two funds, the two responsible departments were unable to readily provide adequate justifications upon first request, as we had to go back several times to obtain further explanations. Eventually, justifications provided by management and PIs for expenses reviewed appeared to be sufficient to demonstrate that these expenditures were used for the benefit of the awards.

As noted above, costs charged to Federal awards are subject to audit by the funding agencies. Accelerated spending, near the end of award period, has been subject to more scrutiny by the funding agencies as to the benefit the project received from these expenditures.

The inability of departments to readily provide complete justifications of expenses posted near the end of an award could call into question the allowability of these expenses. This may lead to expenditures being disallowed and result in repayment by UCSF.

Management Corrective Actions

CGA will reiterate to departmental management the increase in scrutiny by funding agencies and the importance of maintaining appropriate documented justifications. By March 31, 2015, CGA will include this topic as a discussion item in an upcoming Research Administration Town Hall and in a future edition of the Controller's Office Newsletter.

* * * * *