



UCSB Audit and Advisory Services

Internal Audit Report

Kavli Institute for Theoretical Physics

January 20, 2017

Performed by:
Laurie Liao, Staff Auditor

Approved by:
Jessie Masek, Acting Director

Report No. 08-17-0004

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AUDIT AND ADVISORY SERVICES
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January 20, 2017

To: Lars Bildsten, Director
Cori Montgomery, Business Officer
Kavli Institute for Theoretical Physics

Re: **Kavli Institute for Theoretical Physics
Audit Report No. 08-17-0004**

As part of the 2016-17 annual audit services plan, Audit and Advisory Services has completed an audit of the Kavli Institute for Theoretical Physics (KITP). Enclosed is the report detailing the results of our work.

The purpose of this project was to determine whether KITP sponsored projects administration and select business processes are consistent with University of California and UCSB policies and procedures. The scope of our audit included a review of sponsored projects and select KITP business practices, such as conflict of interest disclosures, travel reimbursement, procurement practices, and other related areas during fiscal year 2015-16.

Based on the results of the work performed, we found that KITP has established overall effective internal controls related to sponsored projects administration and costs charged to awards consistent with key federal requirements and University policies. However, our review did identify opportunities to formalize procedures and enhance travel documentation and procurement practices.

Detailed observations and management corrective actions are included in the following sections of the report. The management corrective actions provided indicate that each audit observation was given thoughtful consideration, and positive measures have been taken or planned in order to implement the management corrective actions.

We greatly appreciated the assistance on this project provided by KITP personnel. If you have any questions, please contact me.

Respectfully submitted,

A handwritten signature in blue ink that reads "Jessie Masek".

Jessie Masek
Acting Director
Audit and Advisory Services

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Enclosure

cc: Chancellor Henry Yang

Executive Vice Chancellor David Marshall

Vice Chancellor Administrative Services Marc Fisher

Interim Vice Chancellor for Research Joe Incandela

Assistant Vice Chancellor for Research Karen Hanson

UCSB Audit Committee

Senior Vice President and Chief Compliance and Audit Officer John Lohse

PURPOSE

The purpose of this project was to determine whether KITP sponsored projects administration and select business practices are consistent with University of California (UC) and University of California, Santa Barbara (UCSB) policies and procedures. This audit is part of the fiscal year 2016-17 audit services plan of the University of California, Santa Barbara.

SCOPE, OBJECTIVES AND METHODOLOGY

The scope of our audit included a review of sponsored projects and select KITP business practices, such as conflict of interest disclosures, travel reimbursement, procurement practices, and other related areas during fiscal year 2015-16.

Our main objectives included determining whether:

- Sponsored projects administration practices are consistent with main federal requirements and University policies.
- Travel reimbursement practices follow UC Policy G-28, *Travel Regulation*.
- Procurement practices are in accordance with UC Policy BUS-43, *Material Management*.

To accomplish our objectives, we:

- Researched and reviewed relevant UCSB audits and reports from other institutions of higher education related to sponsored projects administration.
- Researched and reviewed UC and UCSB policies, best practices, and other guidance relevant to the scope of the audit. See Table 2 for summary of policies. Key guidance includes:
 - *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)
 - UC Business and Finance Bulletin G-28, *Travel Regulations* (UC Policy G-28)
 - UC Business and Finance Bulletin BUS-43, *Material Management* (UC Policy BUS-43)
 - UC Business and Finance Bulletin BUS-29, *Management and Control of University Equipment* (UC Policy BUS-29)
 - UC Business and Finance Bulletin BUS-38, *Disposition of Excess Property and Transfer of University-Owned Property* (UC Policy BUS-38)
 - UC Business and Finance Bulletin BUS-49, *Policy for Cash and Cash Equivalents Received* (UC Policy BUS-49)
- Gained an understanding of KITP operations through interviews with key personnel and review of the department's business processes and internal controls.
- Performed a risk analysis that considered sponsored projects direct costing procedures and conflict of interest compliance, travel procedures, and select department business processes.
- Tested a sample of transactions to determine whether sponsored projects administration practices were in compliance with award terms, federal requirements, and University policies and procedures in the areas of direct costs, effort reporting, cost transfers, and cost adjustments.

- Reviewed conflict of interest disclosure submissions for a sample of awards to ensure compliance with applicable federal, state, and policy requirements as appropriate, and relevant campus processes.
- Tested a sample of travel expense reimbursements and performed a detailed review of documentation for compliance with UCSB and UC travel policies.
- Evaluated procurement practices by testing a sample of expenses. We also identified whether purchases over the bid threshold followed appropriate procedures. In addition, we reviewed whether purchases used strategically sourced vendors, as appropriate.
- Reviewed department inventory tracking procedures and reviewed for compliance with relevant sections of UC policies BUS-29, BUS-38, BUS-49, and campus procedures regarding tracking, conducting an annual inventory, security of cash and cash equivalents, and disposition practices.

This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

BACKGROUND¹

Kavli Institute for Theoretical Physics (KITP)²:

Launched in 1979 under the auspices of the National Science Foundation (NSF) and located on the campus of the University of California at Santa Barbara. Initially conceived principally as a national center for theoretical physics, the KITP has evolved a model for collaboration that has been widely imitated both by other disciplines (mathematics, for example) and by other countries.

The KITP is the first and foremost scientific research facility where theorists in physics and allied fields congregate, for sustained periods of time, to work together intensely on a broad range of questions arising from investigations at the leading edges of science.

Table 1		KITP Financial Data	
Area		FY 2015-16	
Sponsor Awards		\$6,447,453	
Travel		\$2,079,581	
Purchasing		\$638,656	

Source: Kavli Institute for Theoretical Physics

The number of participants in KITP programs and conferences averages 1,000 a year. That simple body count does not convey how well the KITP does in attracting scientists to engage in the sustained interactions that foster productive collaborations. A better metric for that assessment is the total number of days invested by visiting scientists, which currently averages 23,500 visitor days per year. (That number is equivalent to 230 visits of 100 days each or 2,300 visits of 10 days each.) The average length of visit to a KITP program is 36 days.

¹ Source: Department website.

² Kavli Institute for Theoretical Physics site.

Table 2		Relevant Policies
Policy	Summary	
<i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)</i>	Published in the Federal Register (79 Fed. Reg. 75871) on December 19, 2014, this policy became effective for new and continuation awards issued on or after December 26, 2014. The new Uniform Guidance streamlines and consolidates government requirements for receiving and using federal awards.	
<i>UC Contracts and Grants Manual</i>	Provides guidance on policies for the solicitation, acceptance or execution, and administration of contracts and awards from extramural sponsors.	
UC G-28, <i>Travel Regulations (G-28)</i>	Includes special policy and regulations to comply with IRS regulations regarding the provision and reimbursement of business-related travel.	
UC BFB-BUS-29, <i>Management and Control of University Equipment (BUS-29)</i>	Establishes requirements for management and control of property owned by or in custody of the University.	
UC BFB-BUS-38, <i>Disposition of Excess Property and Transfer of University-Owned Property (BUS-38)</i>	Addresses general requirements to ensure the proper protection of, accounting for, and disposition of University-owned excess property.	
UC BFB-BUS-43, <i>Material Management (BUS-43)</i>	Governs University procurement procedures and establishes bid thresholds and selection criteria.	
UC BFB-A-47, <i>Direct Costing Procedures (A-47)</i>	Provides guidelines for direct costing to improve uniformity and consistency in the recording of direct costs throughout the University.	
UC BFB-BUS-49, <i>Policy for Cash and Cash Equivalents Received (BUS-49)</i>	Establishes the University's policies related to handling and processing cash and cash equivalents, and defines roles and responsibilities related to receipt, safeguarding, reporting and recordkeeping for all University cash and cash equivalents.	
Research Circular D.1, <i>Disclosure of Financial Interests Related to Public Health Service Sponsored Projects for Promoting Objectivity in Research</i>	Designed to promote objectivity by establishing standards that provide a reasonable expectation that the design, conduct and reporting of Public Health Service (PHS) funded research will be free from bias resulting from any Investor's Financial Conflicts of Interests (FCOI).	
Research Circular D.3, <i>Disclosure of Financial Interests Related to National Science Foundation Sponsored Projects for Promoting Objectivity in Research</i>	Supplements the State of California requirements for disclosure of financial interest.	
Research Circular D.5, <i>Disclosure of Financial Interests Related to Acceptance of Private Funds for Research to Promote Objectivity in Research</i>	Defines financial interest and explains the disclosure and review of financial interest in non-governmental sponsors for Principal Investigators.	

Source: UC Policy and federal regulations

SUMMARY OPINION

Based on the results of the work performed, we found that KITP has established overall effective internal controls related to sponsored projects administration and costs charged to awards consistent with key federal requirements and University policies. However, our review did identify opportunities to formalize procedures and enhance travel documentation and procurement practices.

Audit observations and management corrective actions are detailed in the remainder of the audit report.

DETAILED OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS

A. Procurement Receiving

Our review of procurement processes and tracking of theft-sensitive inventory found that processes are overall in compliance with University policies and procedures. However, we identified opportunities for formalizing department practices and enhancing processes to improve supporting documentation. Table 3 summarizes our procurement audit findings. We found the following:

- Purchases are generally made in accordance with UC and UCSB procurement policies.
- Procurement greater than \$99,999 were bid out or included appropriate sole source justification.
- There were no restricted commodities purchased.
- Strategically sourced vendors were utilized when appropriate.

When reviewing Gateway³ purchase orders, we found the following:

- Four purchases did not include supporting receiving documentation in the Gateway system.
- For one purchase, the invoice was dated and marked as received, but there was no signature or packing slip to document the receipt.

In our review of FlexCard⁴ purchases, we found the following:

- At the time of our work, one purchase for an advertisement did not include appropriate documentation to show receipt, proof in advertising or proof of publication with appropriate signatures. Campus procedure requires receipt documents to be retained, signed or initialed, and dated.
- One transaction showed evidence that a payment was made prior to obtaining proper approval. Based on the documentation and through conversations with the department personnel, this was an isolated case.

Signing and retaining receipt documents is an encouraged best practice that helps establish accountability, ensures accuracy and integrity of the items purchased, and strengthens supporting documentation.

We recommend that the department review best practices, and campus policy and procedures to enhance department procurement practices. This should include formalizing procedures and strengthening receiving documentation for all purchases.

Management Corrective Actions

KITP will review best practices and campus policy and procedures to enhance department procurement practices. This will include formalizing procedures and strengthening receiving documentation for all purchases.

³ UCSB e-procurement system.

⁴ A procurement card issued to UCSB employees.

Audit and Advisory Services will follow up on the status of this management action plan by March 31, 2017.

Table 3		Gateway and FlexCard Procurement
		Compliant
Criteria		
Gateway	Prior approval was obtained for the purchase.	✓
	Goods and/or services were received appropriately.	P
	Restricted commodity processes followed, as required.	✓
	Competitive bidding or sole-source justification for purchases over \$99,999.	✓
FlexCard	Prior approval was obtained for the purchase.	P
	Goods and/or services were properly reviewed and received appropriately.	P
	Restricted commodity processes followed, as required.	✓
	Appropriate and reasonable for the business operation.	✓

Source: Auditor analysis

✓ = criteria met

x = criteria not met

P = criteria partially satisfied

B. Travel Reimbursement Documentation

Our review of travel reimbursement activity found that processes are overall in compliance with University policies and procedures. However, we identified opportunities for formalizing department practices and enhancing processes to improve travel documentation for staff and visitors. Table 4 summarizes our travel reimbursement audit findings. We found the following:

- For one long-term visitor, we found:
 - Rental car reimbursement claims were submitted based on payment date in April/May 2016 instead of dates incurred, January-March 2016. The travel reimbursement form submitted indicated that the actual expenses being claimed were for the period April/May 2016.
 - His spouse, with a different surname and address, had submitted charges for reimbursement. However, this was also not clarified in the documentation.
- One staff travel voucher to attend several conferences did not include an agenda in the original reimbursement packet and needed to be additionally requested. Depending upon the nature of the trip, an agenda should be provided as part of the substantiation documentation, as is required by UC Policy G-28.
- One staff travel voucher did not include documentation of the route taken to substantiate mileage as part of the original reimbursement packet. We independently reviewed the distance between the origin and destination claimed and determined the mileage submitted to be appropriate. Substantiation of the route taken is required by UC Policy G-28.

We recommend that:

- The department review best practices and campus policy and procedures to enhance department travel processes, including formalizing procedures and strengthening support documentation.
- The department provide periodic reminders to appropriate travelers and all personnel regarding travel policy requirements or changes to policy.

Table 4	Travel Reimbursement	
Criteria	Compliant	
Travel purpose was clear and appropriately approved.	P	
Required transportation substantiation included.	P	
Receipts for meals were included and appropriately claimed.	✓	
Receipts for lodging were included and reasonable.	✓	

Source: Auditor analysis
 ✓ = criteria met
 ✗ = criteria not met
 P = criteria partially satisfied

Management Corrective Actions

KITP will:

- Review best practices and campus policy and procedures to enhance department travel processes, including formalizing procedures and strengthening support documentation.
- Send periodic reminders to appropriate travelers and all personnel regarding travel policy requirements or changes to policy.

Audit and Advisory Services will follow up on the status of this management action plan by March 31, 2017.

C. Sponsored Awards

Our review of KITP sponsored projects administration practices and conflict of interest disclosures found that the practices are overall appropriate with key federal requirements and University policies. This section of our work therefore includes no findings. We determined the following:

- Sponsored project costs were overall allowable, allocable, and reasonable for respective awards, based on the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).
- Effort reporting was submitted to the UC System-wide Effort Reporting System, certified timely by direct supervisors, and correctly calculated as appropriate, based on the Uniform Guidance and UCSB policies.
- Conflict of interest disclosures were submitted in accordance with University, state, and federal policies.