



UCSB Audit and Advisory Services

Internal Audit Report

**Fund Balances**

October 23, 2013

**Performed by:**  
Raphaëlla Nau, Staff Auditor

**Approved by:**  
Robert Tarsia, Director

Report No. 08-13-0022

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AUDIT AND ADVISORY SERVICES  
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October 23, 2013

To: Jim Corkill, Controller and Director  
Business and Financial Services

Re: **Fund Balances**  
**Audit Report No. 08-13-0022**

As part of the 2012-13 annual audit plan, Audit and Advisory Services conducted an audit of Fund Balances. Enclosed is the audit report detailing the results of our review.

The primary purpose of this audit was to perform an overview of fund balances in certain categories and assess whether there is appropriate oversight and management of those balances.

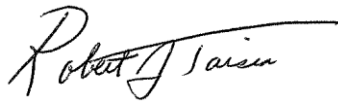
The scope of the review included account balances for fiscal years 2009-10 through 2012-13 in the following areas:

- Overdrafts
- Closed Fixed Price Sponsored Project Contracts
- Closed Award Balances
- Nominal Credit and Debit Balances

The audit found that there has generally been adequate oversight and management of certain account balances, and we identified no critical weaknesses in the areas included in the scope of our review. Our work did identify opportunities for improvement in some campus practices, including better documentation of procedures, development and communication of additional best practices for managing and resolving overdrafts, and better processes for clearing award overdrafts and certain nominal fund balances.

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 that positive measures have been taken or planned to implement the management corrective actions. The cooperation and assistance provided during the review by personnel in Business and Financial Services and the Office of Budget and Planning was greatly appreciated. If you have any questions, please feel free to contact me.

Respectfully submitted,

A handwritten signature in black ink that reads "Robert Tarsia". The signature is written in a cursive style with a long horizontal flourish extending to the right.

Robert Tarsia  
Director  
Audit and Advisory Services

Enclosure

cc: Chancellor Henry Yang  
Assistant Chancellor Todd Lee  
Acting Associate Vice Chancellor Pam Lombardo  
UCSB Audit Committee  
Senior Vice President and Chief Compliance and Audit Officer Sheryl Vacca  
Leslie Griffin, Associate Director, Business & Financial Services  
Arlene Shelor, Assistant Director, Budget & Planning  
Linda Sessler, Manager, Extramural Funds, Business and Financial Services  
Butch Phillips, Manager, General Accounting, Business and Financial Services

## **PURPOSE**

The primary purpose of this audit was to perform an overview of University of California, Santa Barbara (UCSB) fund balances in certain categories and assess whether there is appropriate oversight and management of those balances. This audit was part of UCSB's 2012-13 annual audit plan.

## **SCOPE, OBJECTIVES AND METHODOLOGY**

The scope of the review included fund balances for fiscal years 2009-10 through 2012-13 in the following areas:

- Overdrafts
- Closed Fixed Price Sponsored Project Contracts
- Closed Award Balances
- Nominal Credit and Debit Balances

The audit objectives, which are outlined in detail in Table 1, included determining whether:

- There are any large or persistent overdrafts requiring management attention, and providing management with recommendations on appropriate handling and disposition, when required.
- Closed fixed price sponsored project contract funds have been spent appropriately, in accordance with the University of California (UC) Accounting Manual and other applicable policies and procedures.
- Closed award balances are returned to the sponsor as required, and in a timely manner.
- There are any nominal balances that could be expended or cleared, and providing management with recommendations on appropriate handling and disposition, when required.

To accomplish our objectives, we:

- Gained an understanding of relevant policies and procedures by reviewing the UC Accounting Manual, UC Contract and Grant Manual, UCSB award closeout procedures, and other guidance.
- Gained an understanding of campus processes through interviews and follow-up with the Budget Office unit of the Office of Budget and Planning, Business and Financial Services, and select departments.
- Reviewed and analyzed general ledger fund balance data for the types of funds in the scope of our review. The general ledger dates reviewed varied in number and timeframe based on the types of funds analyzed and the types of analyses needed to meet our audit objectives. For example, data from multiple ledger dates was needed to perform aging analyses of overdrafts.

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- Performed detailed testing in selected areas. For example, to determine if funds available from closed fixed price contracts have been spent appropriately, we tested payments made to individuals and expenses for travel, freight, and other categories.

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

Table 1		Audit Objectives
Review Area	Objectives	
<b>Overdrafts</b>	Determine whether there are any large or persistent overdrafts requiring attention by: <ul style="list-style-type: none"> <li>• Assessing the amount and age of all campus overdrafts through detailed aging analyses.</li> <li>• Identifying the fund group for all account-funds identified to be in overdraft, and the department and division to which each account-fund belongs.</li> <li>• Evaluating which overdrafts are persistent overdrafts requiring management attention (vs. budgetary provisions that are provided for in management plans or elsewhere on the general ledger) by reviewing the results with the Budget Office and Business and Financial Services.</li> </ul>	
<b>Close Fixed Price Contracts</b>	Determine whether: <ul style="list-style-type: none"> <li>• The accounts have been on the general ledger for unreasonably long periods, and determining the level of activity and whether funds should could be liquidated or used for other department needs.</li> <li>• Expenditures of funds from these accounts have been made in accordance with the UC Accounting Manual and other applicable policies and procedures.</li> </ul>	
<b>Closed Award Balances</b>	Determine whether: <ul style="list-style-type: none"> <li>• Closed award balances are being returned to the sponsor, as required, and in a timely manner.</li> <li>• Departments have processed transfers to clear overdrafts, if any.</li> </ul>	
<b>Nominal Balances (Credits and Debits)</b>	Determine whether there are any nominal balances that could be expended or cleared by: <ul style="list-style-type: none"> <li>• Identifying the amount and age of nominal balances, and the division and department to which the account-funds belong.</li> <li>• Assessing the level of activity of each account-fund.</li> </ul>	

Source: Auditor Analysis

## BACKGROUND

### *Organization*

The mission of UCSB Business and Financial Services is to provide accurate and timely financial data and quality service to the campus community, UC Office of the President, and external entities in order to support the mission of the University of California. The department is comprised of units, such as General Accounting and Extramural Funds Accounting, that provide specialized support and oversight for all campus departments.

- The Extramural Funds Accounting unit oversees the financial management of all external funding received by UCSB, including federal, state, local, and other government funding; private contracts and grants; endowments; and gifts. The unit advises on matters of financial compliance and proper cost accounting. It also provides support in the areas of financial reporting, cash management, accounts receivable, gift processing, and effort reporting, among others.
- General Accounting is responsible for general ledger operations, including review, research, analysis, reconciliations, and information processing; fiscal close coordination and control; financial reporting; and systems development and maintenance, among other functions.

The scope of this audit includes account-funds that fall under the purview of General Accounting and Extramural Funds Accounting.

The Budget Office is one of five units of the Office of Budget and Planning. Its mission is to serve the campus by providing accurate, timely, and meaningful budget and financial information to support decision-making. The budget data we reviewed to complete this audit falls under the purview of the Budget Office.

The Office of Research helps the university secure support for research, and works with academic units to promote research throughout the university, ensure the integrity of UCSB research, and provide assurance to governmental and private funding agencies and to the public that research is conducted in accordance with the highest ethical standards. ORBiT (Office of Research Bit of Information) is the Office of Research's contract and grant electronic database. All proposals submitted by the campus and all awards accepted by the campus are tracked in this system. ORBiT was used to obtain detailed information regarding fixed price contracts and other awards reviewed during this audit.<sup>1</sup>

### *UC's Chart of Accounts*

UC's chart of accounts uses a numbering scheme that includes account designations from a series based on a chart of functions (e.g. organized research, general administration) and fund numbers from a series based on sources of funding (contracts and grants, state general funds). Most of the analyses performed in the scope of this audit were performed for account-fund combinations.

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<sup>1</sup> Information regarding the missions and roles of campus departments was adapted from material available on the departments' websites.

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*Fund Balances Audit*

Audit and Advisory Services develops an annual audit plan based on a risk assessment and ranking methodology utilized across the UC system. This audit was included in the fiscal year 2012-13 audit plan as a result of a risk assessment-planning meeting with Business and Financial Services that included discussion of fund-related concerns, including funds in overdraft, the balances of funds remaining on the general ledger from completed fixed price contracts and closed awards, and nominal fund balances that could potentially be resolved (e.g. consolidated or written off) in preparation for the conversion of UCSB financial data for the implementation of a new financial system.

*Regulations and Policies*

A number of federal regulations and UC policies and procedures are applicable to the areas included in the scope of this review, including:

- Federal Office of Management and Budget (OMB) Circulars, including OMB Circular A-21, *Cost Principles for Educational Institutions*. Circular A-21 establishes principles for determining costs applicable to federal grants, contracts, and other agreements with educational institutions.
- The UC Accounting Manual, UC Contract and Grant Manual, UCSB award closeout procedures, and other guidance, including UC Business and Finance Bulletin A-47, *University Direct Costing Procedures*.

**SUMMARY OPINION**

The audit found that there has generally been adequate oversight and management of certain account balances, and we identified no critical weaknesses in the areas included in the scope of our review. Our work did identify opportunities for improvement in some campus practices, including better documentation of procedures, development and communication of additional best practices for managing and resolving overdrafts, and better processes for clearing award overdrafts and certain nominal fund balances.



**DETAILED OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS**

**A. Review of Overdrafts and the Opportunity to Promote Best Practices**

Our work in this area included a preliminary review of all account-fund overdraft balances reflected on UCSB's general ledger. However, because of the complexity of this area and the need for additional written guidance, we could not completely meet our audit objective.

1. Overdrafts

We identified a variety of overdraft balances at June 30, 2012, some of which were "real" overdrafts (i.e. deficit situations) requiring additional corrective action and monitoring, and some of which are the intentional result of budgetary procedures and other processes. Overall, the results of our work suggest an opportunity for better written procedures and guidance in this area, as well as the opportunity for Business and Financial Services and the Office of Budget and Planning to identify and promote additional best practices to manage and resolve overdrafts.

Our efforts to complete our analyses involved substantial resources and several iterations. When we reviewed our conclusions each time with Business and Financial Services and/or the Office of Budget and Planning, we learned that the data we had used, or our approach to the analyses, had yielded incomplete and/or misleading results. This resulted from the need to distinguish between "real" overdrafts and overdrafts that are the intentional result of budgetary procedures, special provisions, timing differences (e.g. overdrafts that are cleared at the end of the fiscal year), and similar processes. In addition, we learned that account-funds may appear to be in overdraft in some cases in which there are credit balances in different accounts or account-funds that offset the overdrafts.

One of the primary observations from our efforts was that a meaningful analysis of overdrafts required substantial verbal guidance from the Office of Budget and Planning, which suggests that written procedures and documentation covering these areas could be improved. In addition, our results and follow-up discussions with Business and Financial Services and the Office of Budget and Planning identified opportunities for both units to collaborate on best practices to be communicated to campus departments as guidance for managing and resolving overdrafts.

Audit and Advisory Services has included an assessment of campus policies and procedures in our fiscal year 2013-14 Services Plan; the scope of that assessment can include the written procedures and documentation in this and other budget-related areas, if considered necessary. In addition to this assessment, we recommend that Business and Financial Services and the Office of Budget and Planning collaborate on documenting and communicating best practices to assist departments in managing and resolving overdrafts. This guidance could be issued to departments with other instructions provided annually for the fiscal year-end close. It may also be possible to include features in the new financial system (currently being implemented by the campus) that would facilitate identifying and monitoring problematic overdraft balances.

### Management Corrective Actions

We concur. Business and Financial Services and the Office of Budget and Planning will collaborate on recommended best practices to assist departments in managing and resolving overdrafts. This guidance will be completed and issued to departments in time for the fiscal year 2013-14 year-end close. We will also assess possible features in the new financial system that would facilitate identifying and monitoring problematic overdraft balances.

Audit and Advisory Services will follow up on the status of this issue by May 31, 2014.

#### **B. Balances on Closed Fixed Price Sponsored Project Contracts**

The results of our work in this area did not identify serious concerns in the administration or use of these funds. However, inactivity in some of the funds suggests that there may be some opportunities for more effective use of these resources.

Balances on closed fixed price sponsored project contracts are funds remaining at the completion of a fixed price contract, when the funded project was completed for less than the contract price (i.e. profit). Under current UC policies, these balances are treated as unrestricted University funds and can be spent at the discretion of the administering department.

In reviewing these funds, we:

- Identified 37 closed fixed price contracts with remaining balances totaling approximately \$311 thousand at February 28, 2013.
- Evaluated whether these funds were being accessed and used (vs. sitting unused), by analyzing recent activity through a comparison of fund balances at three general ledger dates during a one-year period.
- Determined if the funds have been spent appropriately by performing a reasonableness review of a sample of 20 transactions from three closed contracts with a fund balance equal to or greater than 25% of the original contract price. The transactions we reviewed included payments made to individuals and expenses for travel, freight, and other categories.

##### 1. Fund Inactivity

We found that:

- Four account-funds totaling \$72 thousand have experienced no activity since August 2012.
- Fourteen additional account-funds totaling \$107 thousand experienced no activity since February 2012.
- One contract was awarded in 1998 and closed in 2000; 13 years following its completion, a \$102 balance still remains in the account.

We contacted three administering departments to obtain explanations for the inactivity in their account-funds. Conversations with department managers and contracts and grants coordinators indicated that closed fixed price contracts balances are used by the

principal investigators (PIs) for research purposes such as bridge funding for other research projects, to pay costs that may not necessarily be funded by some awards (e.g., foreign travel), or as funding to support a long-term project for which funding was not renewed.

Although the current amounts involved are not large, it may be prudent to implement a campus policy encouraging the use of balances on closed fixed price sponsored project contracts within a reasonable period of time, such as one year. One of the recommended uses could be to clear department overdrafts resulting from other sponsored projects or research-related expenditures.

### Management Corrective Actions

The Extramural Funds Accounting unit of Business and Financial Services will document its guidance and recommendations in this area and issue it to departments in time for the fiscal year 2013-14 year-end close. This guidance will include options for department business officers and PIs on the use of balances on closed fixed price sponsored project contracts within a reasonable period of time.

Audit and Advisory Services will follow up on the status of this issue by May 31, 2014.

#### C. Closed Award Balances

Closed award balances are funds remaining following the completion of a sponsored project. The results of our work for closed award balances also did not identify serious concerns, but we did find areas for possible improvement.

Following the closeout of awards, all remaining funds must normally be returned to the sponsor. Our work in this area included an analysis of closed sponsored project account balances, including overdrafts; the primary objective was determining whether remaining funds were returned to the sponsor in a timely manner.

##### 1. Overdrafts

Our analyses identified 39 closed awards with overdrafts, including 19 contracts, 17 grants, and three cooperative agreements. Since fixed price contracts were reviewed separately, our detailed work in this area was limited to the 20 grants and cooperative agreements. We found the following:

- There were six instances in which transfers had not been processed in a timely manner to clear overdrafts, as required:
  - One award with an end date in 2010 had a \$9,500 overdraft that had not been cleared as of June 30, 2013. The overdraft was not caused by expenditures, but by an outstanding lien of the same amount.
  - Five awards with end dates in 2011 had overdrafts totaling approximately \$143 thousand that had not been cleared as of June 30, 2013. Three of the overdrafts were caused by outstanding liens. Three overdrafts totaling \$139 thousand were not cleared by June 30, 2013.

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- The remaining 14 awards, with end dates in 2012, had overdrafts totaling approximately \$87 thousand that had not been cleared at February 28, 2013. At June 30, 2013, three awards still reflected overdrafts totaling approximately \$63 thousand.

UCSB award closeout procedures require that transfers be processed during the award closeout process for all contracts and grants in overdraft, and that the transfers be documented by submitting copies of transfers with award close memos. These overdraft balances suggest that that transfers were not processed during the award closeout process. Also, since some of these account-funds have been in overdraft for over three years, transfers of expense cannot be processed without violating the 120-day period within which transfers are still permitted under current policies.

Business and Financial Services should inform the Office of Research of all overdrafts remaining on closed award accounts to ensure that they are aware, and to ensure that the relevant department is developing an appropriate plan to clear the overdraft within a reasonable period of time. For departments with account-funds with overdrafts caused by outstanding liens, Business and Financial Services should work with the departments on determining the appropriate course of action to clear the lien.

### Management Corrective Actions

Although the audit identified some issues in this area, Business and Financial Services has adequate overall procedures in this area. We will work with the departments (and the Office of Research, if necessary) to clear the remaining overdrafts.

Audit and Advisory Services will follow up on the status of this issue by May 31, 2014.

#### **D. Nominal Credit and Debit Balances**

Our work in this area included an analysis of credit and debit balances between -\$1,000 (credit) and \$1,000 (debit). One of the objectives was to determine how persistent the balances have been and whether the account-fund has experienced any expenditure activity during the period reviewed. We reviewed balances at three ledger periods during a 12-month period during fiscal years 2011-12 and 2012-13; all balances included encumbrances. Table 2 includes the count and financial amount for various account balance groupings at February 28, 2013.

##### 1. Credit Balances

We found that there was a total of 2,253 account-funds with credit balances between -\$0.01 and -\$1,000, totaling approximately -\$893 thousand at February 28, 2013. The review also indicated that there were 486 account-funds totaling approximately \$232 thousand with more persistent balances throughout the three ledger periods reviewed; these account-fund balances showed no change during two of the three ledger periods reviewed. This group includes account-funds with balances as low as one cent. Account-funds with these nominal balances are normally carried forward yearly unless a department requests that the balance be cleared.

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We recommend that nominal credit balances be cleared or expended within a reasonable period of time. One of the uses could be to clear department overdrafts (debit balances). Should the fund source be restricted to a specific use, departments should work with the appropriate campus departments to determine the best course of action.

2. Debit Balances

Our review of debit balances found that there were a total of 1,806 accounts with debit (overdraft) balances between \$0.01 and \$1,000, totaling approximately \$636 thousand at February 28, 2013. The review also indicated that there were 66 account-funds totaling approximately \$9 thousand with more persistent balances throughout the three

<b>Table 2</b>	<b>Nominal Balances Including Encumbrances At February 28, 2013</b>	
<b>Credits</b>	<b>Count</b>	<b>Amount</b>
Accounts less than -\$100	1232	\$(25,240.11)
Accounts less than -\$500	1804	\$(298,217)
Accounts less than -\$1000	2253	\$(893,013.47)
Persistent accounts	486	\$ (232,298.25)
<b>Debits (Overdrafts)</b>		
Accounts less than \$100	731	\$ 26,546.75
Accounts less than \$500	1426	\$251,434.51
Accounts less than \$1000	1806	\$635,976.45
Persistent accounts	66	\$8,573.93

ledger dates reviewed. This group includes account-funds with balances as low as two cents. These nominal balances, similar to the credit balances noted above, would also normally be carried forward into a new fiscal year, unless the department processes a transfer, when possible, or requests that the balance be cleared at the central level.

We recommend, for departments not expecting future funding that could be used to cover the debit balances, that the Office of Budget and Planning clear the accounts at the central level (Office of Budget and Planning through divisions) or use stale credit balances such as those discussed in the previous section.

**Management Corrective Actions**

The Office of Budget and Planning will consult with campus control points on recommended approaches for minimizing the number of nominal balances in their accounts. Guidance will be completed and issued to departments in time for the fiscal year 2013-14 year-end close.

Audit and Advisory Services will follow up on the status of this issue by May 31, 2014.