



# AUDIT AND ADVISORY SERVICES

## Participant Support and Payments to Human Subjects Audit Project No. 15-658

March 8, 2016

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March 8, 2016

Paul Alivisatos  
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We have completed our audit of participant support and payments to human subjects as per our annual service plan in accordance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and the University of California Internal Audit Charter.

Our observations with management action plans are presented in the accompanying report. Please destroy all copies of draft reports and related documents. Thank you to the staff of the Sponsored Projects Office, Contracts and Grants Accounting, Campus Shared Services Research Administration, and the individual units for their cooperative efforts throughout the audit process. Please do not hesitate to call on Audit and Advisory Services if we can be of further assistance in this or other matters.

Respectfully reported,

Wanda Lynn Riley  
Chief Audit Executive

cc: Executive Vice Chancellor and Provost Claude Steele  
Associate Vice Chancellor Rosemarie Rae  
Assistant Vice Chancellor Patrick Schlesinger  
Chief Operating Officer Peggy Huston  
Director Pamela Miller  
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**University of California, Berkeley**  
**Audit and Advisory Services**  
**Participant Support and Payments to Human Subjects**

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# OVERVIEW

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## Executive Summary

The purpose of our audit was to assess management's internal controls, processes, and practices for administering participant support payments and payments to human subjects in accordance with regulatory guidance, sponsor requirements, and campus and systemwide policies. Based upon a review of fiscal year 2014 expense activity, we selected for testing the four accounts with the greatest activity: 56710 (Payments to Human Subjects), 56711 (Participant Support – Other), 56712 (Participant Support – Stipends), and 56714 (Participant Support – Travel Non-Air). We then selected a sample of ten contracts and awards from which individual transactions were selected for testing.

Based upon our testing, we identified two opportunities to improve internal controls to better assure consistency with campus policies, sponsor requirements, and regulatory guidance. The first relates to the risk of misappropriation associated with the purchase and use of physical and electronic gift cards for payments to human subjects. The second relates to misclassification of expenses charged to the payment to human subjects and participant support expense accounts.

With respect to the first observation, gift cards are normally purchased based on identified and current need. During our review, we observed that the number and amount of gift cards purchased were not always based on accurate and current estimated need, but rather were based on the original program plan which was outdated. Purchasing gift cards that are not needed in the short run creates an opportunity for potential misappropriation and in the long run creates administrative burden at the end of the award to account for the unused cards and return their equivalent value to the sponsor if they are non-refundable. We also observed the risk of misappropriation of gift cards (physical or electronic) because of a lack of segregation between purchase, safekeeping, distribution and reconciliation duties.

With respect to the second observation, we observed instances where amounts charged to participant support or payments to human subject expense accounts were misclassified. There is non-trivial risk that program sponsors may interpret such misclassifications, if not corrected, as re-budgeting of approved expense line items. In addition, direct costs that are misclassified as participant support or payments to human subjects would not have an indirect cost recovery rate applied as may be allowed by the sponsor.

### **Source and Purpose of the Audit**

The purpose of our audit was to assess management's internal controls, processes, and practices for administering participant support payments and payments to human subjects in accordance with regulatory guidance, sponsor requirements, and campus and systemwide policies.

### **Scope and Methodology of the Audit**

The audit scope included testing of payments for participant support and payments to human subjects for fiscal year 2014 as well as review of the related contracts and awards. Payments to human subjects are recorded in general ledger expense account 56710 and participant support payments are recorded in accounts 56711-56715 depending on the nature of the expense.

Based upon a review of fiscal year 2014 expense activity in these general ledger accounts, we selected for testing the four accounts with the greatest activity: 56710 (Payments to Human Subjects), 56711 (Participant Support – Other), 56712 (Participant Support – Stipends), and 56714 (Participant Support – Travel Non-Air). We then selected a sample of ten contracts and awards from which individual transactions were selected for testing.

The contracts and awards were from a variety of departments, including, College of Engineering, College of Letters and Sciences – Division of Social Sciences and Division of Mathematical and Physical Sciences, Haas School of Business, Lawrence Hall of Science, School of Public Health, and School of Optometry. The corresponding sponsors primarily included the National Science Foundation (NSF), National Institutes of Health (NIH), the Environmental Protection Agency (EPA), and the Intelligence Advanced Research Projects Activity (IARPA).

In reviewing a sample of transactions for each of the ten contracts and awards, we considered whether the payments were properly initiated and approved, adequately supported, appropriately charged (to an account) and consistent with the award, and payments were allowable within regulatory guidance, sponsor requirements, and campus and systemwide policies. When reviewing the associated internal controls, processes, and practices, we considered the end-to-end process for initiating, approving, processing, and distributing the payment (including gift cards). We concluded our fieldwork testing in June 2015.

Our sampling approach relies on the accuracy and completeness of payments to human subjects and participant support transactions being recorded in general ledger accounts 56710 through 56715. Our audit procedures were not designed to detect payments to human subjects and participant support transactions that were erroneously recorded in other expense accounts. We note that management has been working to correct the classification of certain participant support payments that were erroneously classified as student support payments (574XX expense account series) or staff wages (51XXX expense account series) and separately identified by management outside of our audit procedures.

In addition, we note that there have been recent campus investigations into allegations of misappropriation of campus assets through the submission of fraudulent requests for payments to individuals for participant support. We considered the risk of such fraud when conducting our process walkthroughs during testing.

## **Background Information**

Participant support costs are direct costs for items such as participant allowances, supplies, per diem, travel expenses, or registration fees paid to or on behalf of a participant in connection with a meeting, workshop, conference, symposium or training project conducted under the award. For federal awards, participant support costs are defined in the U.S. Federal Register Volume 70, No.186 – Section 33. Participant support costs. Amounts must be reasonable, based on type and duration of the activity, and outlined in the program solicitation.

Payments to human subjects are amounts paid to persons participating in and who are the subject of research activity covered under a sponsored award. A human subject is defined in the US Code of Federal Regulations (CFR) at 45 CFR 46.102(f) as referenced in the campus' Human Research Protection Program documentation, as "a living individual about whom an investigator (whether professional or student) conducting research obtains (1) data through intervention or interaction with the individual, or (2) obtains identifiable private information". Payments to human subjects contained in awards must meet certain criteria and obtain approval of the campus' Institutional Review Board (IRB) before the study can be initiated.

For the fiscal year 2014 period in our testing scope, *OMB Circular A-21* (Cost Principles for Educational Institutions) established rules and regulations for reimbursement of costs related to a federal grant or agreement.<sup>1</sup> Sponsors of awards may maintain unique or supplemental guidance for the reimbursement of costs applicable to their awards. The Controller's Office provides *Guidelines for Processing and Recording Participant Support Costs* for sponsored projects.

## **Summary Conclusion**

Based upon our sample of contracts and awards and fiscal year 2014 transaction activity related to human subjects and participant support payments, we identified two opportunities to improve internal controls to better assure consistency with regulatory guidance, sponsor requirements, and campus and systemwide policies. These two observations which are derived from specific practices of the units in our sample are also likely applicable to the larger campus research community. The first relates to the risk of misappropriation associated with the purchase and use of physical and electronic gift cards for payments to human subjects. The second relates to the misclassification of expenses charged to the payment to human subjects and participant support expense accounts.

With respect to the first observation, gift cards are normally purchased based on identified and current need. During our review, we observed that the number and amount of gift cards purchased were not always based on accurate and current estimated need, but rather were purchased based upon the original program plan which was outdated. Purchasing gift cards that are not needed in the short run creates an opportunity for potential misappropriation and in the long run creates administrative burden at the end of the award to account for the unused cards and return their equivalent value to sponsor if they are non-refundable. We also observed the risk of misappropriation of gift cards (physical or electronic) because of a lack of segregation between purchase, safekeeping, distribution and reconciliation duties.

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<sup>1</sup> OMB A-21 was superseded by *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (2 CFR §200) effective December 2014

With respect to the second observation, we observed instances where amounts charged to participant support or payments to human subject expense accounts were misclassified. There is non-trivial risk that program sponsors may interpret such misclassifications, if not corrected, as re-budgeting of approved expense line items. In addition, direct costs that are misclassified as participant support or payments to human subjects would not have an indirect cost recovery rate applied as may be allowed by the sponsor.

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## SUMMARY OF OBSERVATIONS & MANAGEMENT RESPONSE AND ACTION PLAN

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### Use of Gift Cards for Payments to Human Subjects and Sponsored Participants

#### **Observation**

Gift cards are an option for issuing payments to human subjects. Sometimes the gift cards are purchased and issued electronically (electronic gift cards) while in other cases gift cards are purchased and distributed either by mail or in person (physical gift cards).

#### *Purchase of Gift Cards*

For one award in our sample, the request for approval of gift card purchases was made twice each year and was based primarily on a program plan that had not been updated since the inception of the program and was out of date. Purchased gift cards are held by the program's operations director until needed. The actual distribution of gift cards is based on the work that is expected to happen in the field office. The field office coordinator works with the operations director to determine the actual number and denominations of gift cards anticipated to be distributed over the next several weeks. Purchasing gift cards that are not needed in the short run creates an opportunity for potential misappropriation and in the long run creates administrative burden at the end of the award to account for the unused cards and return their equivalent value to sponsor if they are non-refundable.

#### *Administration and Physical Security of Physical Gift Cards*

For one award in our sample, we noted deficiencies in the handling of physical gift cards. Gift cards were locked in drawers to which multiple people had access. Batches of gift cards were issued to field researchers who could misappropriate cards by forging human subject signatures. Also there is inadequate segregation of duties in that the operations director has responsibility for purchase requests, inventory management, and periodic reconciliation of the physical gift card inventory.

#### *Administration and Distribution of Electronic Gift Cards*

For another award in our sample, we noted potential misappropriation risk for electronic gift cards in which the gift card vendor issues a redemption code. The program administrator initially identifies and approves eligible participants and also determines how many gift cards to purchase. There is risk that this person could add false participants, create false supporting documentation, and assign the false participants to receive gift cards. The program administrator's assistant assigns the gift card codes. Once gift cards are issued, participants may not use the gift card, may not want it, or may drop from the program altogether. Follow-up on gift cards is assigned to the same person that assigns the actual gift card numbers. As a result, it is possible for the assistant to record the gift card as if the participant used it, but instead, use it themselves. This may not be readily detected in the short term.

When administering gift cards, it is important that the number of gift cards purchased is only what is anticipated to be used within a reasonable timeframe. It is also important that internal controls be in place to reduce the risk of misappropriation by limiting access to physical gift cards; maintaining adequate segregation of duties related to purchasing, safeguarding, distributing and reconciling gift cards; and independently monitoring the participants eligibility.

### **Management Response and Action Plan**

The Sponsored Projects Office, Research Administration and Compliance, Contracts and Grants Accounting, Campus Shared Services Research Administration jointly acknowledge the report's observations about the potential misappropriation risk associated with the cards.

The Cash Handling and Banking Services department in the Controller's Office has developed a Human Subject Prepaid Cards (HSPC) program for human subjects compensation which offers strong internal controls, including the loading of card value by authorized personnel and channels used to distribute information about campus human subject policies and procedures. Effective July 1, 2016, use of the HSPC program will be required and expanded to include participant support (formerly gift card) payments.

Contracts and Grants Accounting will work with Campus Shared Services and the Sponsored Projects Office to develop a business process for budgeting and utilizing gift cards on contracts and grant funds and will direct the campus departments to follow best practices for accounting for them. Target completion date: July 1, 2016.

### **Misclassification of Expense**

#### **Observation**

We noted several instances in our test sample where amounts charged to participant support or payment to human subjects expense accounts were misclassified.

- In the first instance, \$60,000 in consultant costs was listed as "Consultant Services" under the "Other Direct Costs" category in the award proposal. The payments were intended for services to advise the principal investigator (PI) and the research team at board meetings, prepare reports and data, consult on research study data analysis and data collection procedures. Actual payments were incorrectly charged to "Participant Support Other" general ledger expense account 56711. Per the Controller's Office's *Guidelines for Processing and Recording Participant Support Costs*, participant support costs are restricted to direct costs that are paid to or on behalf of participants in support of training, conferences, meetings, etc. conducted under the award.
- In the second instance, \$12,000 in lecture fee stipends were charged to "Participant Support – Travel Non-Air" account 56714. Additional small amounts for poster boards and food items were also charged to this account.
- In the third instance, airfare and small registration fees were incorrectly charged to "Participant Support – Travel Non-Air" account 56714.
- In the fourth instance, researchers were provided an incentive payment in the form of a virtual gift card for sharing their forecast and prediction results on various topics. These

payments were classified on the award budget as “Direct Cost – Other Expense”, but charged to the “Payments to Human Subjects” account 56710.

- In three instances, housing stipends were charged to “Participant Support Other” account 56711 but should have been charged to “Participant Support Stipend” account 56712.
- Lastly, grants to student groups from a gift fund were charged to “Participant Support – Other” account 56711.

Continued training and periodic review of charges by the research team should promote and reinforce accuracy in expense classification. Routine attention to and review of account coding is needed to ensure accurate recording of costs. There is non-trivial risk that program sponsors may interpret such misclassifications, if not corrected, as re-budgeting of approved expense line items. In addition, direct costs that are misclassified as participant support or payments to human subjects would not have an indirect cost recovery rate applied as may be allowed by the sponsor. We noted that in some instances, the research teams had earlier taken the initiative to identify, and in some cases correct, the general types of account misclassifications identified during our testing.

### **Management Response and Action Plan**

Contracts and Grants Accounting has reviewed the Non-Employee Payments accounts in the UC Berkeley chart of accounts and has determined that it is sufficient to retitle the account group to *Human Subjects and Participant Support Payments* in order to reflect the different types of payments under the “Non-Employee Payments” header (participant support expense accounts and patient and human subjects expense accounts). This change was implemented November 2015.