**UC** **RIVERSIDE: AUDIT & ADVISORY SERVICES**

Date: August 28, 2020

To: Dr. Rodolfo H. Torres

Vice Chancellor for Research and Economic Development

Subject: Audit of Research and Economic Development (RED) Operations

Ref: R2020-11

We have completed our audit of RED Operations in accordance with the UC Riverside Audit Plan. Our report is attached for your review.

We appreciate the cooperation and assistance provided by you and your staff. Should you have any questions concerning the report, please do not hesitate to contact me.

Gregory Moore

 Director

xc: Ethics & Compliance Risk and Audit Controls (ECRAC) Committee

 Laura Manor, Chief Financial and Administrative Officer (CFAO)

UNIVERSITY OF CALIFORNIA AT RIVERSIDE

AUDIT & ADVISORY SERVICES

INTERNAL AUDIT REPORT R2020-11

RESEARCH AND ECONOMIC DEVELOPMENT OPERATIONS

August 2020

Approved by:

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Gregory Moore

Director

**UC RIVERSIDE**

**RESEARCH AND ECONOMIC DEVELOPMENT (RED) OPERATIONS**

**INTERNAL AUDIT REPORT R2020-11**

**AUGUST 2020**

1. **MANAGEMENT SUMMARY**

Based upon the results of work performed within the scope of the audit, it is our opinion that the system of internal controls over the RED operations, with the exception of the issues noted in the Observations (Section III), is satisfactory and generally in compliance with applicable University policies and procedures.

However, we observed some areas noted below that need enhancements to strengthen internal controls and/or effect compliance with University Policy:

1. Carry Forward Deficit Balances (Observation III.A)
2. Travel Expenditures (Observation III.B)

These items are discussed below. Minor items that were not of a magnitude to warrant inclusion in the report were discussed verbally with management.

1. **INTRODUCTION**
	1. **PURPOSE**

UC Riverside Audit & Advisory Services (A&AS), as part of its Audit Plan, performed a limited review of RED operations to evaluate the adequacy and effectiveness of its system of internal controls and compliance with applicable University policies and procedures.

Included in the review were consideration and evaluation of significant processes and practices, specifically addressing the following components:

1. Management philosophy, operating style, and risk assessment practices;
2. Organizational structure, and delegations of authority and responsibility;
3. Positions of accountability for financial and programmatic results;
4. Process strengths (best practices), weaknesses, and mitigating or compensating controls; and
5. Information and communications systems, applications, databases, and electronic interfaces.
	1. **BACKGROUND**

California's investment in UC's research mission attracts federal funds, launches companies, and trains the next generation of scientists and scholars. UCR's increasing research funding stimulates every facet of the campus mission to educate, discover new knowledge, and disseminate findings to benefit the public.

The Office of Research and Economic Development works with the faculty, departments and schools on the following goals:

* Increase federal funding for research, education, outreach, and infrastructure.
* Launch research collaboration across schools and departments.
* Stimulate commercialization, entrepreneurship, and new company formation at UCR.
* Negotiate multi-faceted R&D partnerships with established companies.
* Grow a regional innovation ecosystem with the commercial sector and federal, state, county and city governments.
* Promote highest standards of research excellence and ensure compliance with federal and state regulations.
	1. **SCOPE**

We reviewed supporting documentation for transactions during FY 2018-2019.

The review included evaluating the adequacy and effectiveness of internal controls over expenditures, non-payroll federal and non-federal cost transfers, payroll cost transfers, and deficit balance.

However, due to Covid19 and our limited access to resources, the audit scope was limited and did not include some areas for testing such as procurement card and capital/non-capital equipment inventory.

The review was principally limited to the following areas:

1. **Preliminary Assessment –** Our preliminary assessment included an overview of the following areas:
* General Overview and Risk Assessment
* General Control Environment
* Business Processes
* Information and Communication Systems.
1. **Analytic Review –** Performed an analytic review of expenditures by account, description lines, department, budget category, and fund type during FY 2018-2019.
2. **Overall Analysis**
3. **Internal Controls**

We reviewed and evaluated RED’s control environment, processes and procedures through interviews of appropriate personnel as well as our independent observations.

1. **Payroll Analysis**

We conducted an analysis of overtime for payroll charges during FY 2018-19, identified any significant and unusual variances and asked for explanations and proper justifications.

1. **Non-Payroll Expenditures Analysis**

We generated expenditure transaction reports from UCRFS Totals for FY 2018-19 and performed high level trend analysis to investigate any unusual changes, trends or irregularities.

1. **Cost Transfers**

We performed high level analysis on non-payroll federal and non-federal cost transfers during FY 2018-19 to investigate any unusual changes, trends and irregularities.

1. **Restricted Gift Funds**

We obtained compared budget versus actual for all of the restricted gift funds during FY 2018-2019 to identify any significant variances.

* 1. **INTERNAL CONTROLS AND COMPLIANCE**

As part of the review, internal controls were examined within the scope of the audit.

Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

* Effectiveness and efficiency of operations
* Reliability of financial reporting
* Compliance with applicable laws and regulations.

Substantive audit procedures were performed during the months of February through June of 2020. Accordingly, this evaluation of internal controls is based on our knowledge as of that time and should be read with that understanding.

1. **OBSERVATIONS, COMMENTS, AND CORRECTIVE ACTION PLANS**
	1. **Carry Forward Deficit Balance**

OBSERVATIONS

We performed a carry forward analysis for FY 2018-19 and noted a total carry forward deficit balance on temporary budgets of approximately $652,801 as of July 2019 (see Table 1 below).

**Table 1**

|  |  |  |
| --- | --- | --- |
| **Fund** | **Fund Description** | **Total** |
| 61039 | CAMPUS VIVARIA | $312,168 |
| 66259 | OFFICE OF TECH COMM |  221,280 |
| 69989 | ACCTG USE ONLY-C&G YE ODs |  28,508 |
| 69997 | CHANCELLORS DISCRETIONARY FD |  62,337 |
| 86968 | CSUF S-6683-UCR OCHOA 12/18 |  28,508 |
|   | Total | $652,801 |

**Management Action Plans**

* **61039** - The deficit for this fund to carry forward into FY2021 is expected to be approximately $200,000, which is a significant reduction from FY2019.

The Provost subsidy is provided each year for a total of five years (FY18-FY22) at $227,512/per year. The intention of the annual subsidy is to eventually eliminate the debt by FY22. At the same time, we are also adjusting/increasing rates over the five years to generate more revenue.

Increased revenue + annual subsidy over a five year period is expected to eliminate any structural deficit.

* **66259** – Deficit from FY19 was completely eliminated during FY20.
* **69989 –** This fund was set up temporarily by Central Accounting to offset pre-awards and has been eliminated.
* **69997 –** Deficit from FY19 was completely eliminated during FY20. This deficit was cleared in two ways: 1) Allowable expenses were moved to another FAU with available funds and 2) Funds were provided from the Chancellor’s office to clear any remaining expenses that could not be transferred to another fund source.
* **86968** – This was an extramural fund. The deficit was attributed to payroll errors. This fund is now closed.

**Expected Implementation Date**

The Management Action Plan stated above has been implemented and adequately addresses our audit observation, therefore this audit observation is now closed.

* 1. **Travel Expenditures**

OBSERVATIONS

Based on the results of this audit, we determined that travel-related transactions reviewed were generally in compliance with the UC Travel Policy G-28. However, internal controls needed improvements in some areas. Specifically, we reviewed a judgmental sample of ten travel vouchers totaling $9,709 for FY 2018-2019 and observed the following:

* Three (Trip ID #s: T235653, T235902 and T237222) of ten travel vouchers were not processed timely (within 45 days in accordance with the policy G-28).
* Lack of supporting documentation (i.e. meeting agenda) for three (Trip ID#s: T235653, T235290 and T235902) of ten travel vouchers were noted.

**Management Action Plans**

RED has instituted a department travel reimbursement form which clearly notes the timeline for travelers to submit receipts. RED encourages all travelers to frequently review travel policies and procedures and frequently send updates and communication on any revisions or updates to campus and departmental policies and procedures. RED also encourage travelers to initiate the travel reimbursement prior to actual travel.

**Expected Implementation Date**

The Management Action Plan stated above has been implemented and adequately addresses our audit observation, therefore this audit observation is now closed.