

**UNIVERSITY OF CALIFORNIA, DAVIS
INTERNAL AUDIT SERVICES**

**University of California, Davis
Training Grants & Related Activities
Internal Audit Services Project #13-63**

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MANAGEMENT SUMMARY

BACKGROUND

The University California, Davis (UCD) manages over 170 training grants and related training activities across its respective entities with combined grant expenditures of about \$35 million through May of fiscal year 2013. Purposes of the training grants range from supporting students with training in a particular discipline; training in a particular approach to research, support for conferences, and support for a structured program of curricular and other activities for the general population.

PURPOSE AND SCOPE

A supplemental audit of the UCD training grants and related activities was requested for fiscal year 2013. The purpose of this review was to determine the operating effectiveness of processes and controls in managing training grants and related activities for compliance with award agreements and University policy as well as identify opportunities for internal control and process improvements.

To conduct our review, we performed a quantitative risk assessment of training grants and related activities and selected six grants and one activity from four entities (UC Davis Extension, School of Veterinary Medicine, College of Agriculture & Environmental Sciences, and School of Medicine) for detail testing. We interviewed respective grant personnel to understand the expense and reporting processes. We performed analytical procedures to test the completeness of indirect costs charged to respective grants, and to evaluate reimbursement for meals and air travel. We used a risk based approach to focus our review and examine expense items from accounts payable and travel records on a test basis for the period July 2011 through May 2013.

CONCLUSION

We concluded overall for the entities examined that sufficient separation of duties exists and adequate internal controls are implemented over budgeting, purchase requisition, and required grant reporting to provide reasonable assurance that expenses are incurred and reports submitted in accordance with award agreements and University policy. We also concluded that expenses for meals, air travel, and indirect cost rates were appropriately calculated and properly charged to the training grants and activity reviewed. We also identified opportunities for improvement in the disbursement processes at one of the entities.

Our observations and recommendations are presented within the body of this report along with corresponding corrective actions management has agreed to implement.

OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT CORRECTIVE ACTIONS**1. Disbursement Processes**

Disbursement procedures for processing vendor payments, meals and entertainment expenses, and management oversight of contract training expenses could be improved.

We identified duplicate payments that were made out to vendors on two separate occasions under a University Extension (UCDE) state training grant during 2013. We also found insufficient documentation to support a payment for meals in connection with a UCDE training program. Finally, we concluded that the segregation of duties and management oversight of contract training program expenses for a county program at UCDE are insufficient.

We determined that a vendor had detected the duplicate hotel payment and notified UCDE staff before cashing the check. We also determined that a duplicate payment to a contracting instructor was cashed without detection on another occasion. The duplicate payments were reportedly attributable to staff error and confusion. UCDE is currently working with the instructor to recoup the overpayment.

Regarding meals and entertainment expenses, we identified a catering invoice that referred only to an attached participant list and did not include the quantity of meals received. The invoice covered training on four separate occasions, but did not enumerate the number of meals or the number of people served for each occasion.

Finally, program directors have delegated responsibilities for review and approval of invoices for payment to the program representatives, who are also responsible for negotiating with the vendors and initiating the payments. Program directors rely on the program representatives to notify them of any unexpected occurrence and do not review periodic financial or operational reports for the contracts.

Federal flow-through grants are subject to OMB Circular A-21, which states that allowable costs must be reasonable, allocable to the sponsored agreements and treated consistently with accounting standards. UCD Policy and Procedure Manual (PPM), Section 330-80, requires an attendee list and itemized receipts for expenses over \$75. University of California Office of the President (UCOP) Accounting Manual, Section D-371-36, establishes that invoices should be reviewed to verify that item descriptions, unit prices, quantities received, F.O.B. points, discount terms, applicable taxes, and any other terms of the purchase order or other type of procurement authorization. In addition, the reviewer should verify that the vendor name and remit-to address are correct. UC Davis Administrative Responsibilities Handbook states that accountability to ensure monitoring procedures for financial transactions are in place and being applied accordingly is a major responsibility that cannot be delegated. PPM Section 330-11, states departmental financial administrative duties shall be separated so that one person's work routinely serves as a complementary check on another's work, and no one person has complete control of a financial transaction.

Failure to establish proper disbursement controls increases the risk of improper payments. The absence of sufficient invoice details, adequate separation of duties, and appropriate review increases the risk that errors and/or fraudulent transactions will go undetected. Failure to monitor the financial condition of the training programs also increases the risk of unexpected shortfalls.

Recommendation

UCDE Financial Services should strengthen its invoice review and approval process to ensure that all payments are appropriate and that all required payment documentation is included before payment. UCDE should also implement procedures for reviewing and approving invoices to ensure there is an appropriate separation of duties, and provide program directors regular reports reflecting the financial condition of each contract training program.

Management Corrective Action (Suggested)

UCDE Financial Services will strengthen its invoice review and approval process to ensure that all payments are appropriate and meet applicable guidelines and that all required payment documentation is included before payment by December 31, 2013.

UCDE will also implement procedures for reviewing and approving invoices to ensure there is an appropriate separation of duties and will also provide program directors regular reports reflecting the financial condition of each contract training program by March 31, 2014.
