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

Date: July 12, 2017

To: Bobbi McCracken, Associate Vice Chancellor-Business & Financial Services

Charles Greer, Jr., Associate Vice Chancellor-Research

Subject: Audit of Contracts & Grants Administration Process

Ref: R2016-05

We have completed our audit of Contracts & Grants Administration Process in accordance with the UC Riverside Audit Plan. Our report is attached for your review.

We will perform audit follow-up procedures in the future to review the status of management action. This follow-up may take the form of a discussion or perhaps a limited review. Audit R2016-05 will remain open until we have evaluated the actions taken.

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

Gregory Moore

Director

xc: Audit Committee Members

Patrick Hartney, Assistant Dean, Finance and Administration

Jennifer Farias, Chief Financial and Administrative Officer (CFAO)

Louise Anne Borda, Associate Dean and CFAO

Cindy Williams, Assistant Dean and CFAO

Cynthia J Wells, Assistant Vice Chancellor for Sponsored Programs

UNIVERSITY OF CALIFORNIA AT RIVERSIDE

AUDIT & ADVISORY SERVICES

INTERNAL AUDIT REPORT R2016-05

CONTRACTS & GRANTS ADMINISTRATION PROCESS

July 2017

Approved by:

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Director

**UC RIVERSIDE**

**CONTRACTS & GRANTS ADMINISTRATION**

**INTERNAL AUDIT REPORT R2016-05**

**JULY 2017**

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 Contracts & Grants Administration Process, with the exception of the issues noted in the Observations (Section III), is satisfactory and generally in compliance with sponsoring agency requirements and applicable University policies and procedures.

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

1. Award Closeout Process (Observation III. A)
2. Equipment Inventory (Observation III. B)
3. Cost Transfers (Observation III. C)
4. Monthly Expenditure Review (Observation III. D).

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 selected contracts and grants (C&G) to evaluate compliance with the sponsoring agencies’ requirements and certain 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 interface.
   1. **BACKGROUND**

Sponsored Programs Administration (SPA) supports and advises campus researchers and their staff with a variety of extramural endeavors and funding transactions. Dedicated staff in SPA serve as UCR's institutional officials responsible for the review and submission of proposals to extramural sponsors for research, training, instructional and other activities. SPA is also responsible for award negotiation and acceptance on behalf of the Regents for projects funded by federal and state agencies, foundations, corporations, and other public and private sources.

The federal, state, local and private contract and grant (C&G) direct cost expenditures at the University of California Riverside (UCR) have increased from $76,501,599 to $82,284,857 (8%) between fiscal year 2013-2014 and fiscal year 2014-2015.

* 1. **SCOPE**

We reviewed supporting documentation for transactions of selected departments’ funds from FY 2013-2014 through FY 2014-2015.

The review included evaluating whether close-out procedures for the selected contracts and grants, payroll and non-payroll cost transfers and equipment inventory comply with applicable University policies and procedures, contract and grant terms and conditions, and good business practice. 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 C&G expenditures by department, budget category, and fund type for FY 2013- 2014 and FY 2014-2015.
2. **Audit Follow-up Procedures –** Evaluated management action and resolution of previous internal and external audit observations.
3. **Overall Analysis**
4. **Active Awards with Past due Expiration Dates -** Performed an analysis of C&G active awards noted below:
   * + Obtained an Active Award List provided by the Office of Research SPA to determine the respective expiration dates.
     + Inquired with the SPA management on awards included in the Active Award List that have expired.
5. **Overdrafts** **–** Performed an analysis of C&G overdrafts as follows:

* Evaluated overdrafts on federal, state and local governments’

C&G as of April 30, 2016 to determine the age of the overdrafts and any unusual trends.

* Inquired with individual departments any unresolved overdrafts.

1. **Cost Transfers –** Obtained information on payroll and non-payroll federal, state and local cost transfers **(**FCTs) by department. Selected three sets of FCTs per department sampled and obtained departmental explanations and supporting documentation as needed to support the propriety of FYs 2014 and 2015 transfers.
2. **Transactions After Award End Date –** Reviewed all C&G transactions after their respective award end dates and determined if transactions are allowable.
   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 from February through June 2016. 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. **Award Closeout Process**

The federal, state and local government award closeout process begins once UCR has complied with the terms of the award and the period of performance has expired. Before closing an award file, respective officials within SPA/Department/Accounting must determine that it has met all of its contractual obligations, including timely submission of all deliverables and reporting requirements. Documents required at the close of a project such as financial, invention, property, technical, and other reports as required by the terms and conditions differ by sponsor and type of project. An important part of the closeout process is determining whether unspent funds remain on the award that should be returned back to the sponsoring agency.

During the audit field work, we requested access to PAMIS (Proposal & Award Management Information System)/PAMIS Portal Links to obtain documentation such as a Notice of Award (NOA) to review the terms and conditions and obtain an understanding of all the requirements and contractual obligations for each federal and state agency. The PAMIS Portal provides quick and easy access to all of the sponsored programs related systems for which a user has authorization.

Generally, closeout documents must be submitted no later than 90 calendar days after the end date of the period of performance as required by the award terms and conditions. However, such due date may vary by report type and sponsoring agency (e.g., final financial report is due to NIH within 120 calendar days from the expiration of the award).

OBSERVATIONS

We selected a judgmental sample of 17 awards and performed testing to determine if all the documents required at the respective close out dates were timely and appropriately submitted. We noted the following exceptions:

* Of the 17 awards selected, final technical reports for two awards (12%) associated with CE-CERT (# 58300) and the Plant Pathology & Microbiology (# 22550) funds could not be located. This exception may have been due to a lack of communication between Principal Investigators (PIs) and Analysts or an inadequate tracking system in the departments.
* Final technical reports for 6 of 17 (35%) awards were not submitted timely. These awards were from the following departments: Psychology, Entomology, Cell Biology and Neurosciences, Biomedical Sciences and Plant Pathology & Microbiology. This exception may have been due to lack of tracking in departments to ensure technical reports are submitted timely by PIs.

Untimely reporting may increase the risk of receiving penalties, fines, and suspensions or delays in receiving new awards from federal or state agencies.

**Corrective Action Plans**

**SPA and Accounting**

SPA and Accounting Services worked with Computing and Communications to modify the language on the expiration notices to enhance the guidance to the PI on their reporting responsibilities.

**Expected Implementation Date**

Implemented.

**SPA**

To improve the award closeout process, SPA is working to standardize the award closeout process by implementing internal SPA written procedures, including the development of a collaborative award closeout portal or checklist identifying items that have been completed and/or are required to be completed, by the PI (and/or PI’s department), Equipment Management, Extramural Fund Accounting, and/or SPA (as applicable), to facilitate timely closeout of awards.  In addition, SPA reviews each award in need of closeout and facilitates the submission of any outstanding deliverables to the agencies, as needed.

**Contact**

Assistant Vice Chancellor for Sponsored Programs

**Expected Implementation Date**

October 2, 2017

**Departments**

The department management and/or analyst (responsible party) will communicate with the PI consistently to ensure all reports (technical and progress) are submitted to the sponsor agencies timely by the PI.

**Contacts**

CNAS Chief Financial and Administrative Officer (CFAO)

CHASS Assistant Dean and CFAO

BCOE Assistant Dean and CFAO

**Expected Implementation Date**

October 2, 2017

* 1. **Equipment Inventory**

We evaluated the processes over equipment purchases using federal, state and local government C&G funds in judgmentally selected departments and the Equipment Management Office to determine the adequacy and effectiveness of the controls.

Every two years, various departments’ staff conduct a physical inventory and verify that the inventory items exist in the inventory records obtained from the Equipment Management System (EMS). Departments’ staff also update the inventory listing by adding new purchases and deleting obsolete items. These records are submitted to the Equipment Manager for EMS system updates.

Furthermore, the Equipment Manager runs General Ledger (GL) queries daily from the UCR Financial System (UCRFS) to identify new inventorial account charges and maintains a listing of all these charges and equipment records. The Equipment Manager compares listings from the EMS to the GL utilizing the Purchase Order (PO) number and determines if any variances exist. The Equipment Manager then contacts the respective departments with these variances to perform reconciliation procedures.

During our review, we noted some opportunities for control enhancements as explained below.

OBSERVATIONS

We judgmentally selected 12 departments to determine if annual equipment inventory certifications were submitted timely (by June 30) for FYs 2014, 2015 and 2016. Based on the results of the review, 2 of the 12 departments (CE-CERT and Psychology) in 2016 did not submit their annual certifications timely. In addition, we selected 28 items on the inventory records of three departments and determined that 4 of 28 items did not have inventory tags. One item at the Chemistry department was not tagged properly because affixing the tag was difficult due to the size of the equipment. The selected samples were located at the following departments:

* Biomedical Sciences
* Chemistry
* Psychology

We were not able to locate one item on the Cell Biology & Neurosciences department’s inventory list. However, we reviewed the related authorization form and verified that the item was transferred to UC San Diego where the PI currently works. This transfer was done appropriately.

**Corrective Action Plans**

The recording, maintenance and tracking of University assets are a critical function of the departmental financial staff. It is incumbent upon the Colleges to train financial staff about the importance of properly affixed asset tags and the process to replace them when needed.

In addition to training, it is critical that the campus investigate alternative methods for labeling assets in cases where tags impact the operation or, because of size, cannot be affixed to the item. Some universities have a policy clause indicating when a tag can be foregone (and outlines alternate treatment) and others have adopted more sophisticated methods of identifying assets, such as laser inscription, that address special needs in terms of asset identification.

Furthermore, Business & Financial Services in collaboration with Computing & Communication is developing a web-based tool to replace the aging IBM EMS as an interim measure to improve the assignment of user access via EACS and accessibility of equipment inventory; this action should positively impact the timeliness of the department annual review process. The Equipment Management and the Asset Management System was deployed on June 16, 2017.

**Contacts**

Associate Vice Chancellor-Business & Financial Services

CNAS Chief Financial and Administrative Officer (CFAO)

CHASS Assistant Dean and CFAO

SOM Associate Dean and CFAO

**Expected Implementation Date**

October 2, 2017

* 1. **Cost Transfers**

A cost transfer is an after-the-fact reallocation of payroll or non-payroll costs. Cost transfers move expenses and occur when goods or services originally paid from one University Full Accounting Unit (FAU) are subsequently transferred to another FAU. UC policy states that once an expense entry has been recorded in a GL account, it is appropriate to make expenditure adjustments only in the following situations:

1. To correct an erroneous recording.
2. To record a change in the decision made originally as to the use of goods or services.
3. To redistribute certain high numerical but small individual and/or minor charges which are billed to departmental account(s)/fund(s), but a portion of which may apply to other accounts under the jurisdiction of the department.
4. To redistribute payroll costs based on the after-the-fact verification of effort reported through the campus effort reporting system used to certify individual effort on federal contracts and grants. (Note: UCR uses the annual payroll certification process to confirm salaries charged to federal funds.)

When the adjustment is to transfer a cost to a restricted fund provided by an external agency (extramural funding) for a specific purpose, additional tests must be met. If an expense is being transferred to a federal or federal flow through fund, it must be recorded in the GL within 120 days from the close of the month in which the original charge posted to the ledger. If because of unavoidable circumstances an adjustment has to be made beyond the 120-day period, a full explanation, including a well-documented account of all the events leading to the late adjustment, must be provided. Based on the audit results, controls and procedures over non-payroll cost transfers in departments appear to be adequate. However, there were some payroll cost transfers that did not meet the requirements.

OBSERVATIONS

We selected a random sample of 45 payroll cost transfer transactions that exceeded 120 days to/from federal grant funds. We performed a detailed analysis and observed that 20 of these transfers relate to federal grant funds. We requested and reviewed justifications for the cost transfers to federal grant funds and observed that the justifications were not adequately documented. Even though the percentage is not that significant in comparison to the total, internal controls over the cost transfer process need to be improved to be aligned with applicable Policy. The departments associated with this observation include CE-CERT, Electrical and Computer Engineering, Cell Biology and Neurosciences and Biomedical Sciences. Direct Costing Procedures, Policy BFB A-47 regarding cost transfers states that “it must be fully explained, justified and approved by the unit administrator(s) involved in the transaction. Explanations which merely state that the adjustment being made is “to correct an error,” “to transfer to correct project,” or “expenditure inadvertently charged to incorrect account/fund” are not sufficient.” Due to a failure of PPS support of preventive business rules, these late payroll cost transfers were processed. Late cost transfers could raise a concern to external auditors and sponsoring agencies regarding the University’s ability to properly administer awards.

**Corrective Action Plans**

**Accounting**

Business & Financial Services (BFS) reminded users of cost transfer requirements at the PPS User Group Meeting on August 23, 2016 and the Contract & Grant User Group Meeting on September 12, 2016. The Controller communicated similar information to the organizational CFAOs at the July 21, 2016 Financial and Human Resource Officer Group (FHROG) meeting. In addition, BFS modified procedures to request supporting documentation on payroll cost transfers to federal funds and exceeding 120 days. In the future state under UCPath, business rules will prevent cost transfers to federal funds that are over 120 days.

**Expected Implementation Date**

Implemented

**Departments**

Department personnel will ensure that cost transfers justifications are documented properly and adequately before the transaction is entered into PPS.

**Contacts**

Financial and Administrative Officers for CE-CERT, Electrical and Computer Engineering, Cell Biology and Neurosciences and Biomedical Sciences

**Expected Implementation Date**

October 2, 2017

* 1. **Monthly Expenditure Review**

UCR Policy & Procedure 200-97 states, “Financial Transaction Detail Reports (FTD) must be reconciled by the end of the subsequent month and certified by the 15th of the following month or by the applicable year-end closing schedule, and the review and certification must be evidenced with a signature and date that may be electronic.” In addition, it also states that “all transactions over $5K must be validated against supporting matter such as outside source documents, system queries and any other relevant documentation. Also, all salary transactions must be reviewed against the Distribution of Payroll Expenses (DOPE).”

OBSERVATIONS

Based on our testing, we observed that ledger reconciliations and certifications were performed for selected sample departments listed below (Table A). There were some minor opportunities for improvements needed which were communicated verbally to these departments. A department with significant opportunities for improvement is Biomedical Sciences within the School of Medicine (SOM). The department is aware of this issue, and management is in the process of implementing enhancements to their processes to ensure ledger reconciliations and certification are adequately documented.

Table A

|  |  |  |
| --- | --- | --- |
| **Department** | **Org** | **Months Selected for Testing** |
| Psychology | CHASS | Aug-13 |
|  |  | Jul-13 |
|  |  | Jul-13 |
|  |  | Jun-13 |
| Botany and Plant Sciences | CNAS | Aug-13 |
|  |  | Jul-13 |
| Plant Pathology & Microbiology | CNAS | Mar-14 |
|  |  | Feb-14 |
|  |  | Feb-14 |
|  |  | Jan-14 |
| Chemistry | CNAS | Feb-14 |
|  |  | Jan-14 |
| Cell Biology & Neuroscience | CNAS | Aug-13 |
|  |  | Jul-13 |
| Electrical & Computer Eng | BCOE | Dec-13 |
|  |  | Nov-13 |
| Biomedical Sciences | SOM | Dec-13 |
|  |  | Nov-13 |
|  |  | Apr-14 |
|  |  | Mar-14 |
| Entomology | CNAS | Mar-15 |
|  |  | Feb-15 |
|  |  | Sep-14 |
|  |  | Aug-14 |
| CE-CERT | BCOE | Sep-13 |
|  |  | Aug-13 |
| Computer Science & Engineering | BCOE | May-14 |
|  |  | Apr-14 |
| Graduate School of Education | SOE | Jun-14 |
|  |  | May-14 |
| Biochemistry | CNAS | Apr-14 |

**Corrective Action Plans**

**Departments**

The SOM is in process of implementing enhancements to their ledger reconciliations and certification process to ensure adequate documentation is readily available.

**Contact**

SOM Associate Dean and CFAO

**Expected Implementation Date**

October 2, 2017