

UC MERCED AUDIT AND ADVISORY SERVICES

July 21, 2014

To: Sam Traina, Vice Chancellor for Research

Subject: Audit of Grants including the Pre Award and Post Award processes

Ref: Report No. M14A006: Audit of Grants (including ARRA grants)

Internal Audit has completed an audit of grants. The scope of the audit included grants received under the American Recovery and Reinvestment Act of 2009 (ARRA). This audit was part of the Fiscal Year 2013 – 2014 audit plan. We will perform follow-up procedures in the future to review the status of management action.

We appreciate the help we received from Research Accounting Services and the Sponsored Projects Office during this audit. If you should have any questions, please feel free to contact me.



Todd Kucker
Internal Audit Director

Attachment

cc: SVP Vacca
Chancellor Leland
Director Salazar
Director Vicari

**UNIVERSITY OF CALIFORNIA, MERCED
AUDIT AND ADVISORY SERVICES**

**Audit of Grants (including ARRA grants)
Report No. M14A006**

July 21, 2014

Work Performed by:
Todd Kucker, Internal Audit Director

Purpose and Scope

Internal Audit has completed an audit of UC Merced's pre award and post award processes, which was part of the Fiscal Year 2013 – 2014 audit plan. The primary purpose of the audit was to evaluate controls over grant processing from the point that a proposal is prepared and submitted until final closeout of the award. The audit objectives were to:

- Determine whether awards are properly reviewed and approved before they are formally accepted by the University
- Determine whether financial information related to awards is properly set up and monitored
- Determine whether expenditures charged to grants are allowable
- Determine whether grant requirements and spending are properly monitored

The audit included awards where funds were currently open in the campus financial system or closed since June 30, 2012. We reviewed 11 awards from various federal, state, and private sponsors where the awards totaled \$5,375,601. During 2013, Internal Audit completed an audit which reviewed 29 federal, state, and private grants totaling \$9,729,160. A large portion of the grants reviewed during the prior year audit were managed by the Sierra Nevada Research Institute and the Center for Educational Partnerships. This current audit excluded awards managed by these groups and focused on awards managed in the three schools, the Health Sciences Research Institute (HSRI), and UC Solar.

The audit also included awards that were part of the American Recovery and Reinvestment Act of 2009 (ARRA). The motivation of ARRA awards was to create new jobs and spark economic growth so there were additional requirements related to the awards, such as quarterly reporting the number of jobs created by the awards and a "Buy American" provision.

To complete the audit objectives, we selected a sample of awards and completed the following testing:

- Reviewed the process of legally accepting the award
- Reviewed the set up of award information in the campus financial system in order to properly monitor spending
- Evaluated whether costs were allowable on awards in order to verify that expenditures are properly reviewed, approved, and monitored
- Reviewed the close out process to verify that all spending on the award is reviewed and all required reports were submitted

Background

Conducting research is a crucial part of the mission of UC Merced. As federal and state funding continues to be cut, competition for awards has become increasingly difficult. The following summary of revenue recognized from federal, state, and private sources is from the UC Merced annual financial report for the year ended June 30, 2013:

Grants and Contracts, net (in thousands of dollars):	2013
Federal government	\$ 14,700
State agencies	1,389
Private	<u>2,769</u>
Total grants and contracts, net	\$ 18,858
Percentage of total UC Merced operating revenues	20%

The Office of Research and Economic Development provides leadership, education, and oversight to support scholarly investigation at UC Merced. The division includes Research Development Services, the Sponsored Projects Office, Research Compliance and Integrity, Technology Transfer and Economic Development, and Research Accounting Services. This audit focused on the work of the Sponsored Projects Office (pre award) and Research Accounting Services (post award).

The Sponsored Projects Office reviews proposals before submittal and reviews and accepts awards on behalf of the University. Throughout the award, the office helps manage the relationship with the sponsor.

After an award has been accepted, Research Accounting Services sets up the award in the campus financial system and manages financial reporting to the sponsors, invoicing, and collecting receivables. The department works closely with research administrators in the schools and institutes who help Principal Investigators manage the administrative requirements of their awards.

During Fiscal Year 2014, there were significant changes in the Office of Research that affected how Principal Investigators put together grant proposals and manage awards.

- There was increased staffing in the Office of Research Development Services to help faculty identify potential funding sources and put together grant proposals.
- The former Contracts and Grants Accounting became Research Accounting Services. The former department moved from Business and Financial Services, which was part of Administration, to the Office of Research.
- Local research administrators in the schools and organized research units began reporting functionally to the Director of Research Accounting Services.
- The Office of Research began implementing an electronic research administration system, Cayuse. The system is designed to submit proposals to federal sponsors and will assist in the management of research grants once an award has been made.

In December 2013, the US Office of Management and Budget (OMB) issued comprehensive grant reform rules titled “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.” The new requirements consolidate what was previously eight separate OMB Circulars. The Office of Research is currently preparing for the changes related to these new guidelines. The requirements are scheduled to go into effect on December 26, 2014.

Conclusion

Based on the review, we concluded that the pre award and post award processes are effectively managed by the Sponsored Projects Office, Research Accounting Services, and the research administrators. The additional requirements related to the ARRA awards appear to have been properly complied with.

During the audit, we noted a few transactions, such as cost transfers, corrections after the expiration of the grant, and equipment purchases during the last months of the grant which raise red flags for auditors. Upon further review, we verified that there were adequate explanations and proper approvals for these transactions. We recommend that research employees do their best to avoid these types of transactions or be diligent to fully document the reasons for these transactions so they can be efficiently reviewed. While we noted effective controls related to spending on grants, having audit red flags present could cause an external auditor to increase the scope of an audit. Managing audit requests would create difficulties for Research Accounting Services as the department only consists of a few employees.

During the audit, we noted that the Office of Research could improve operations over time through the use of performance metrics.

Area for improvement

- To improve operations, data related to proposals and awards should be collected and analyzed

Observation and Management Action Plan

1. To improve operations, data related to proposals and awards should be collected and analyzed

During the audit, we noted that the Office of Research has not been able to collect operating information that could be useful in improving operations over time. For example, before the new grant management system, there was no way to track when faculty submit proposals to the Sponsored Projects Office for their review. Of the eleven grants reviewed, there were memos in three of the grant files explaining that the faculty member had submitted the proposal too late for review by the Sponsored Projects Office.

It has also been very difficult to put together useful data, such as the percentage of successful proposals, active awards by sponsor, the average time required for reviewing proposals, and the number of days after award expiration that the closeout process is completed.

We recommend that systems and processes be set up to begin gathering data which could be useful to improving operations over time.

Management Action Plan

The Office of Research will identify performance metrics that are used at other universities and determine the metrics that would be useful here at UC Merced. The Office will begin setting up processes and begin using the new Cayuse system to track data that could be useful in identifying areas for improvement. A plan for gathering this information will be established by June 30, 2015.