COLLEGE OF LETTERS AND SCIENCE

DIVISION OF PHYSICAL SCIENCES

UCLA PHYSICS & ASTRONOMY

AUDIT REPORT #18-5001

Audit & Advisory Services

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# Background

In accordance with the Campus fiscal year 2017-18 audit plan, Audit & Advisory Services (A&AS) conducted an audit of the UCLA Physics & Astronomy department.

UCLA Physics & Astronomy is a department within the Division of Physical Sciences and part of the UCLA College of Letters & Science. The Department of Physics & Astronomy offers a choice of four undergraduate majors, which include a Bachelor of Science (B.S.) degree program in Astrophysics, B.S. degree program in Biophysics, B.S. degree program in Physics, and a Bachelor of Arts (B.A.) degree program in Physics. Each course taken to fulfill any of the requirements for the majors must be taken for a letter grade. Also, Physics & Astronomy offers the Master of Arts in Teaching (MAT) degree in Astronomy, Master of Science (MS) and Doctor of Philosophy (PhD) degrees in Astronomy, Master of Arts in Teaching (MAT) degree in Physics, MS and PhD degrees in Physics. For academic year 2016-17, there were 12,980 undergraduates and 1,782 graduate students enrolled in the department.

As of April 2018, the department has a new Chief Administrative Officer (CAO). The CAO reports to the Department Chair, and oversees the areas of accounting and finance, computing support, academic administration, administrative support, staff personnel and payroll, and the mechanical and electrical shops. There are 77 staff and 68 faculty. Total revenues from all sources for fiscal year 2016-17 were $53,168,206, and total expenditures were $53,995,033. The overall deficit balance was $826,827. During fiscal year 2016-17, the department was funded primarily by contracts and grants ($25,053,095) and General Funds ($20,866,957), and the largest expenditure was compensation ($40,246,314).

Purpose and Scope

The purpose of the audit was to determine whether there are adequate internal controls over key departmental administrative and financial processes. Compliance with University policies and procedures was also evaluated where applicable. The scope of the audit focused on controls surrounding the following activities:

* Conflict of Interest/Commitment
* Financial Management
* Scholarship/Fellowships
* Information Technology
* Sponsored Projects
* Equipment
* Fabricated Equipment
* Purchasing
* Sales and Service Funds

The review was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* and included interviews, tests, and other procedures considered necessary to achieve the objective.

# Summary Opinion

Based on the results of the work performed within the scope of the audit, Physics & Astronomy has established effective systems of internal controls and business practices to ensure that the financial and administrative objectives of the department are met. The department’s financial and administrative staff appear to be experienced and knowledgeable of the University’s policies and procedures. However, the review did find areas where internal controls could be further strengthened.

*Conflict of Interest Form/Commitment*

* Management should provide training and notifications by the Chair’s office to faculty for the proper and timely completion of Conflict of Commitment forms. Management should also establish periodic reviews with Academic Administration to ensure Conflict of Commitment forms are confirmed as being submitted and properly completed.

*Financial Management*

* Management should evaluate its current Full Accounting Unit (FAU) accountability structure attributes assigned to mandatory reviewers and update as necessary to reduce redundancy. The department’s accountability structure should be periodically reviewed to ensure it is accurate, reflective of current operations, and in compliance with the UCLA Financial Policy.
* Management should monitor accountability delegations by reviewing Distributed Administrative Computing Security System (DACSS) reports on a regular basis to ensure that the accountability structure reflects access that is consistent and appropriate with the department’s organizational structure and assigned job responsibilities.
* Management should review Post Authorization Notification (PAN) audit logs on a periodic basis to help identify those reviewers who are not reading their PANs in an appropriate timeframe. These individuals should be reminded to read their PANs in a timely manner, as this is a control point with regard to financial transactions, and a delay in reading PANs dilutes the control activity of monitoring transactions to ensure that they are proper and appropriate.
* Management should follow-up with faculty and staff who do not complete the mandatory Cybersecurity Awareness and Sexual Violence/Sexual Harassment Prevention training by established due dates.

*Scholarships/Fellowships*

* Management should collaborate with the UCLA Foundation and their development officer to link identified unlinked scholarships funds to Campus fund numbers. Thereafter, management should ensure that these funds are included in the award process.
* Management should establish an awards committee to facilitate the selection process of scholarship awardees. The committee should be comprised of a cross-section of individuals to include women and minorities, and consider the perspective of all committee members.
* Management should ensure gift fund awards are properly supported and documented including the dated fulfillment of each attribute in the expressed wishes of the donor. The supporting documentation should provide adequate descriptions, explanations, and back-up documentation sufficient to support any post-authorization review and any internal or external audit.

*Information Technology*

* Management should prepare a detailed inventory listing of all systems connected to the network and the network devices themselves. The inventory should include every system that has an Internet protocol (IP) address on the network. Devices, including portable devices that store or process data should be identified regardless of whether they are attached to the network. The inventory list will assist management in maintaining proper oversight of the devices such as software updates, proper configuration, etc.

*Sponsored Projects*

* Management should ensure that all Close-out certifications are properly completed in their entirety, and include the “Date Submitted to EFM” and principal investigator signature as required. A Close-out certification is an official document attesting to the status of the close-out process at a specific point in time. Ensuring the proper and accurate recording of the departmental submission date validates the timeliness of the submission. The principal investigator’s signature attests to the accuracy of, and accountability for expenditures in the close-out packet. Management should also ensure that when Extramural Fund Management (EFM) revises final expenses to the fund sponsor, revised close-out packets and principal investigator re-certifications are submitted as necessary.

*Equipment*

* Management should ensure that inventorial equipment purchases are properly identified and recorded into the Asset Management System (AMS) system on a timely basis. Additional control activities should include strengthening tracking processes over inventorial equipment purchases, and working collaboratively with Campus Purchasing and Equipment Management to ensure proper recording.
* Management should investigate, locate, and observe the Electron Spin Microscope and/or its cannibalized parts. If the microscope’s parts have been cannibalized, they should be properly accounted for with consultation from Campus Equipment Management. If there are any funding source restrictions and/or conditions, or if the equipment is considered government property based on an award, screening should be performed against the conditions in order to relieve the University of any liability, obtain direction or authorization from the awarding agency, and ensure such equipment items are removed from the agency’s inventory.

*Fabricated Equipment*

* Management should prepare and submit to Campus Equipment Management UCLA Fabrication Justification forms that are certified by the applicable principal investigator for fabrication numbers 1100069 and 0900045. Doing so will ensure there is support for the principal investigator’s acknowledgement of conditions for the fabrication requests, and completeness of supporting documentation.
* On a go-forward basis, management should track fabrication costs and report those costs to Campus Equipment Management on a periodic basis. The reporting should be in proper form and format using the assigned fabrication number. For efficiency and effectiveness, equipment fabrication costs should be appropriately identified and tracked throughout the fabrication cycle.
* Management should ensure assigned fabrication numbers are recorded on purchase orders that are posted to object codes 9600 or 9610. Recording the fabrication number on purchase orders and other supporting documentation will strengthen the audit trail, support completeness and accuracy of accounting records, and assist staff in carrying out their responsibilities.

*Purchasing*

* Management should ensure that Policy G-28, “Travel Regulations” (Policy G-28), is reviewed and reinforced with all staff that process and approve travel expenses and/or reimbursements, or are responsible for stewardship roles in maintaining compliance with the policy. A preparer should understand all relevant policies, procedures and requirements in order to properly prepare travel expense reports or process reimbursements. A reviewer should ensure that the preparer properly fulfilled their responsibilities.
* Management should ensure that expense reimbursement approvals for non-University travelers are obtained in advance of the travel date. The approval should contain adequate descriptions, explanations, and back-up documentation. Due to the expected future collaborations with non-University, visiting scholars, researchers, etc., management should consider creating a form template that can be utilized to maintain consistency and completeness of required information.

Management should also review and reinforce understanding of UCLA Policy 740, “Purchasing Goods and Services” (Policy 740), with applicable staff to strengthen adherence to management policies and procedures regarding “after-the-fact” purchases, which are made without delegated purchasing authority. Management should consider communicating to staff their stewardship role within the department’s internal control system.

* Management should use established vendor agreements to ensure goods and services purchased by the University are at the best overall value and include the appropriate terms and conditions. Management should consider providing training through the UC Learning Center for existing and new BruinBuy preparers and reviewers.

*Sales and Service Funds*

* Management should consider tracking and reporting all student mechanical shop hours similar to the other department shops. When student mechanical shop engineers perform work on projects associated with a principal investigator, management should consider recharging those hours to the project.

The audit results and recommendations are detailed in the following section of this report.

Audit Results and Recommendations

| **#** | **FINDING and****CRITERIA, where applicable** | **RECOMMENDATION** | **MANAGEMENT’S RESPONSE** |
| --- | --- | --- | --- |
| **CONFLICT OF INTEREST/COMMITMENT** |
| Audit work included the following:* Review of 15 sampled faculty “Report of Category I and II Outside Activities and Additional Teaching Activities” forms for the fiscal year ended June 30, 2017.
* Verification of proper completion, timely submission of the forms, and implementation of corrective action, if needed.
* Assessment of potential conflicts of interest for fiscal year ended June 30, 2017.

Issues noted are summarized below. |
| 1. | Conflict of Commitment Forms:Faculty are not always completing their Annual Report of Category I and II Outside Activities and Additional Teaching Activities” form by November 1st, in accordance with University policy. Fifteen Physics & Astronomy faculty annual reporting forms for fiscal year 2016-17 were reviewed, and the following were noted:* In 11 instances, faculty members did not complete the form by November 1, 2017. The forms were overdue from four to 48 calendar days.
* In one instance, a form reviewed did not indicate which day in November 2017 the form was certified and timeliness of faculty submission could not be determined.

Non-compliance with this policy may subject faculty members to discipline, corrective action, or administrative remedies. \_\_\_\_\_\_\_\_\_\_\_\_\_Criteria:The UCLA CALL, Appendix 19: Conflict of Commitment and Outside Professional Activities, 20, "Annual reports on Outside Professional Activities are due to the Department Chairs by November 1st." | Since Annual Report of Category I and II Outside Activities and Additional Teaching Activities forms are not always properly completed by November 1st of each reporting year, management should establish the following: * Additional training/notification by the Chair’s office to faculty emphasizing the importance of proper completion and timely submission of the forms.
* Periodic form status reviews by their Academic Administration unit to ensure that forms are being submitted and properly completed.
 | Faculty are notified via e-mail by the departmental academic personnel office and by the Vice Chancellor of Academic Personnel. Additional reminders will be sent by the department, and additionally to those faculty who submitted the form in previous years, as those are the faculty who are most likely to re-submit.The departmental academic personnel unit will review forms to ensure proper dating and certification.  |
| **FINANCIAL MANAGEMENT** |
| Audit work included the following:* Review of the Campus Data Warehouse “Reviewers for a Specific Unit” and Warehouse “Users With Access To A Specific Unit” reports as of April 16, 2018. The report data was used to identify: reviewers with redundancies of assigned attributes including simultaneous use of “wild card” attributes; and to ascertain if preparers have the proper appointment and SAR dept., any suspension flags, etc., for function code AP730 (purchasing).
* Evaluation of PAN mandatory reviewer logs from July 1, 2017, to April 16, 2018, for unread PANs with a range from six to 365 calendar days.
* Analysis of Document Direct PAN aging reports for mandatory reviewers (active, separated and unread) as of April 14, 2018.
* Review of UCLA Learning Management System (LMS) required compliance training data as of April 11, 2018. This testing included verifying if current staff have completed assigned Cybersecurity Awareness and Sexual Violence/Sexual Harassment Prevention training on a timely basis.
* Assessing the current departmental budget preparation and monitoring practices. This testing includes determining if allocated budgetary amounts are based on proper analysis and supportable projections, and if appropriate investigation and explanation of significant variances are documented. Based on test work performed, the budget and planning processes used by the former CAO (who left the department in February 2018) for prior fiscal years was unable to be determined or provided by the department. The new CAO for the department (who started in April 2018) has indicated that management is in the process of implementing generally accepted budget preparation and monitoring processes, and related business practices as necessary. Since departmental business practices are changing with regard to budget preparation and monitoring, and since the new CAO just started, no further work was performed by A&AS staff in this area.

Issues noted are summarized below. |
| 2. | Accountability Structure:The accountability structure and PANs testing covered the time period that was the responsibility of the former CAO. The new CAO is currently assessing the existing accountability structure, and will be updating it as needed to reflect current operations. However, the following issues were noted:Four mandatory reviewers have both global and specific FAU accountability structure attributes assigned. This condition creates redundancy, and results in reviewers being assigned to FAUs with no related business purpose. \_\_\_\_\_\_\_\_\_\_\_\_\_Criteria:UCLA Financial Policy, Principles of Financial Accountability, Section I, “The head of each unit will normally delegate the overall financial management responsibility to the Chief Administrative Officer (CAO). The CAO is responsible for developing an appropriate structure for handling the unit's financial resources.” | Management should evaluate its current FAU accountability structure attributes assigned to mandatory reviewers and update as necessary to reduce redundancy. In order to maintain effectiveness, the department’s accountability structure should be periodically reviewed to ensure that it is accurate, reflective of current operations, and in compliance with the UCLA Financial Policy. | The department’s accountability structure has been reviewed and strengthened by eliminating PAN mandatory reviewer redundancies. Specific FAU attributes have been removed from the four mandatory reviewers identified by the auditors, with their global status retained. Staff who do not need mandatory review status have been changed to non-mandatory status. |
| 3. | Accountability Structure – Preparers:Six of seven preparers tested within the department’s DACSS accountability structure have Appointment and/or System Access Request (SAR) department codes other than department 1000, Physics & Astronomy. Of the seven preparers tested, one preparer’s logon is suspended, and one has separated from the department. Staff that are trained as purchasing preparers are responsible for entering purchasing transaction data into the purchasing system in a manner consistent with Campus policy.\_\_\_\_\_\_\_\_\_\_\_\_\_Criteria:UCLA Policy 360, Internal Control Guidelines for Campus Departments, privileges shall be promptly cancelled when an employee separates or has a change in responsibilities.  | Management should monitor accountability delegations by reviewing DACSS reports on a regular basis to ensure that the accountability structure reflects access that is consistent and appropriate with the department’s organizational structure and assigned job responsibilities.  | The department has put a system in place through which the CAO and the DSA will perform semi-annual reviews of DACSS reports to ensure accuracy.  |
| 4. | Post Authorization Notifications (PANs):Mandatory reviewers are not always reading their PANs in accordance with the UCLA Financial Policy.  For the period tested from July 1, 2017, to April 16, 2018, four mandatory reviewers did not read their PANs in a timely manner (a total of 438 PANs were read from six to 52 calendar days).Additionally, two Document Direct "PAN Aging By Days” reports for active and separated mandatory reviewers that were generated on April 14, 2018,  indicated that three active mandatory reviewers and one separated mandatory reviewer, the former CAO, had a total of 820 and 1,610 unread PANs in their inboxes, respectively.  These unread PANs ranged from 14 to 61 calendar days. \_\_\_\_\_\_\_\_\_\_\_\_\_Criteria:UCLA Financial Policy, Principles of Financial Accountability, Section III.2, "A reviewer must review all transactions within two working days of receipt." | Management should review PAN audit logs on a periodic basis to help identify those reviewers who are not reading their PANs in an appropriate timeframe. These individuals should be reminded to read their PANs in a timely manner, as this is a control point with regard to financial transactions, and a delay in reading PANs dilutes the control activity of monitoring transactions to ensure that they are proper and appropriate. | The CAO has established a procedure whereby all supervisors of staff who are mandatory reviewers will check their audit log on a monthly basis to ensure that their staff are reading their PANs in a timely fashion.  |
| 5. | Required Compliance Training:Required compliance training completion rates pertaining to Cybersecurity Awareness and Sexual Violence/Sexual Harassment Prevention training for faculty and staff as of April 11, 2018, is approximately 62% and 67%, respectively.  Currently, the Staff Personnel Manager, Office of the Deans, College of Letters and Sciences, notifies the CAO of staff that do not complete their required training on a timely basis.\_\_\_\_\_\_\_\_\_\_\_\_\_Criteria:UC President Napolitano Letter dated December 21, 2016: Mandated training includes Sexual Harassment Prevention training and Cybersecurity Awareness training. | Management should continue to follow-up with faculty and staff who do not complete the mandatory Cybersecurity Awareness and Sexual Violence/Sexual Harassment Prevention training by established due dates. | The CAO has been working to gain departmental access in order to view training status for all department members. Once that has been put in place, the CAO will perform a semi-annual review and will proactively follow up with faculty and staff who have not completed the required trainings by the due dates. |
| **Scholarship/Fellowships** |
| Audit work included the following:* Review of the June 2017 Consolidated Gift Fund Report to identify funds related to scholarships and fellowships. A judgmental sample of 10 gift funds were selected including seven linked and three unlinked funds. For the seven selected linked funds, eight expenditures were judgmentally selected from fiscal year 2016-17.
* Evaluation of the criteria used to select the pool of potential awardees, the awardee to ensure conformance with donor restrictions, terms and conditions.
* Assessing the award selection process and supporting documentation, including the individual(s) and their title(s) that participated in the selection process.
* Verifying such funds are known to management, adequately tracked and monitored, and drawn upon when available on a timely basis.

Issues noted are summarized below. |
| 6. | Unlinked Foundation Funds:Three Physics & Astronomy gift funds with available balances are unlinked to Campus funds. The three gift funds are as follows:* Prof. Charles A. Whitten, Jr. Memorial Fund (Fund 31090O)
* Robert A. Rasmussen Endowment (Fund 82139E)
* Dr. Waldo Lyon Scholarship Fund (Fund 90570E)

By not ensuring gift funds are linked to a Campus fund, disbursements from those funds to awardees cannot be facilitated based on donor wishes. | Management should collaborate with the UCLA Foundation and their development officer to link the referenced funds to Campus fund numbers. Once these funds are linked, management should ensure that these funds are included in the award process on an ongoing basis. | The Director of Student Affairs and Graduate Student Affairs Officer were provided with information regarding existing gifts (about which they previously had not known); the funds were linked; and they have been appropriately awarded. The Department Chair and CAO have gone through each foundation and regental award and been working with the College Development Office to create and maintain a system that accurately tracks all departmental gifts and endowments.  |
| 7. | Scholarship Selection Process:Management’s process for selecting gift fund scholarship and fellowship awardees is inconsistent. Three of the seven awards tested were selected by one person. An effective award selection process promotes equity, diversity and inclusion, and is based on multiple perspectives, shared values and our institutional culture. \_\_\_\_\_\_\_\_\_\_\_\_\_Criteria:Per the UCLA Foundation website, the Foundation disburses donor contributions according to the expressed wishes of the donor. | Management should establish an awards committee to facilitate the selection process of scholarship awardees, while abiding by any fund conditions or restrictions. The committee should be comprised of a cross-section of individuals to include women and minorities, and consider the perspective of all committee members. This consistent approach will promote equal opportunity, improve decision making, and assist in a shared consensus.  | The department has established a selection process through which the vice chairs receive information from the student affairs officers about available awards and eligible awardees. The vice chairs then review and select scholarship awardees. Information about fund conditions and restrictions is provided to the vice chairs during the review process.  |
| 8. | Scholarship Awards – Supporting Documentation:Awards from donor gift funds are not being properly documented to evidence that each disbursement is made based on the terms and conditions of the award, including donor restrictions. The UCLA Foundation requires that disbursements from donor contributions be made according to the expressed wishes of the donor. Testing found that two of seven items (29%) do not have adequate supporting documentation for the following award restrictions:* In one instance, the award selection includes a requirement for consultation with the Dean of the Division of Physical Sciences (Enrichetta Scholarship, Fund 81889E/51192).
* In one instance, the award selection includes the review of the award candidate’s “application” (Binder Post-Doc Fellowship, Fund 62045O/55860).

Management was unable to provide complete supporting documentation in both cases.  | Management should ensure that gift fund awards are properly supported, documented, and dated. The supporting documentation should provide adequate descriptions, explanations, and back-up documentation sufficient to support any post-authorization review and any internal or external audit. | The department established procedures with the two Student Affairs staff who process awards that will ensure appropriate documentation. Each staff member has been reminded that the terms of the award must be reviewed with the faculty; that the award recipient must meet those terms; and that supporting documentation will be maintained. Additional oversight for the awards process has been established and will contribute to the improving of the process.The post-doc selection was made by a three person committee, comprised of faculty and senior researchers who reviewed the applicants CV, publications, as well as the interview answers and jointly agreed upon a candidate. Going forward, supporting documentation for awards will include the committee roster, listing of candidates, candidate applications, attributes considered in the selection process, notes from the interview(s) with each candidate, and notes or minutes from the selection committee’s collaborative selection process.. |
| **INFORMATION TECHNOLOGY** |
| Audit work included the following:* Inspection of eight selected server rooms/areas to determine the adequacy of physical security including but not limited to fire suppression systems, ventilation and cooling systems, seismic safety, and other potential hazards.
* Verification that physical access to the server rooms/areas is restricted to authorized individuals and appropriate safeguards are in place.
* Interviews with the departmental Information Technology (IT) manager to determine whether a listing has been prepared of departmental owned and controlled devices that connect to the Campus network, and whether they are physically located on Campus property.

Issues noted are summarized below.  |
| 9.  | Devices Connected to the Campus Network:Management has not identified and prepared a list of all departmental owned and controlled electronic devices that connect to the Campus network. A list will serve as a management tool for making more prudent and timely operational decisions in managing the devices and help reduce the ability of hackers to find and exploit unauthorized and unprotected systems. | Management should prepare a detailed inventory listing of all systems connected to the network and the network devices themselves. The inventory should include every system that has an Internet protocol (IP) address on the network, including desktops, laptops, servers, network equipment (routers, switches, firewalls, etc.), printers, and storage area networks. Devices such as mobile phones, tablets, laptops, and other portable devices that store or process data should be identified, regardless of whether they are attached to the network. The list will assist management in maintaining proper oversight of the devices. The list should include the following types of information:* Network addresses.
* Mechanical names.
* Purpose of each system and device.
* Owner responsible for each device.
* Location of each device.
* Data on whether the device is portable.
 | The department has formed an Information Technology (IT) committee, which will review these recommendations and develop a plan for implementing them. |
| **SPONSORED PROJECTS** |
| Audit work included the following:* Review of section 200.343, Close-out of the Uniform Administrative Requirements for Federal awards, and EFM’s published Federal Awards Closeout Packet information and procedures.
* Evaluation of ten recently closed sponsored projects and related supporting documentation. These projects were selected from the Campus financial system’s Budget to Actual fund data.
* Analysis of the departmental close-out certifications including project end-dates, timely submission to EFM, as well as determining expense variances.

Issues noted are summarized below. |
| 10. | Sponsored Project Close-out:Testing was performed on nine sponsored project close-out packets for funds that were closed during the period July 2016 to September 2017. The testing results indicate the following:* Three funds do not have the required “Date Submitted to EFM” recorded on the Close-out certification (Fund numbers 21426, 21160, and 21858).
* Two funds have EFM notifications of revised final expenses reported to the fund sponsor (Fund numbers 26311 and 21662). The variances from the EFM revisions are $1,886 and $1,092, respectively. However, management did not submit a required revised close-out packet and principal investigator re-certification.
* One fund does not have the required signature of the principal investigator on the Close-out certification (Fund number 21441).

\_\_\_\_\_\_\_\_\_\_\_\_\_Criteria:EFM Federal Awards Closeout Packet requirements include the following:* Proper completion of Close-out packets and certifications.
* Principal investigator signature on the Close-out certification.
* When revised final award expense variance is greater than $100, a revised Close-out packet is to be submitted.
* When revised final award expense variance is greater than $500, a revised Close-out packet and principal investigator re-certification are to be submitted.
 | Management should ensure that all Close-out certifications are properly completed in their entirety, and include the “Date Submitted to EFM” and principal investigator signature as required. A Close-out certification is an official document attesting to the status of the close-out process at a specific point in time. The close-out packet is due to EFM based on specific EFM time periods in advance of the sponsor due date. Ensuring the proper and accurate recording of the departmental submission date validates the timeliness of the submission, which protects the department. The principal investigator’s signature attests to the accuracy of, and accountability for expenditures in the close-out packet. Management should also ensure that fund numbers 26311 – NASA and 21662 – FDP US Army, have revised close-out packets and principal investigator re-certifications submitted to EFM in order to maintain completeness of information and comply with EFM fund close-out procedures.  | Fund managers have been instructed in writing to ensure that all close-out certifications are properly and entirely completed, with the required signatures in place. The supervisor of that unit will perform a quarterly review to ensure that this process is occurring as it should. The CAO will provide additional oversight by reviewing on a regular basis and assisting with resolving outstanding issues. The referenced fund numbers will have revised close-out packets and PI re-certifications submitted to EFM by November 2, 2018. |
| **EQUIPMENT** |
| Audit work included the following:* Selection and analysis of ten sampled items from the General Ledger of equipment purchases made during fiscal year 2016-17.
* Review of related supporting documentation, comparison of approval and transaction dates, and purchase justification to ensure propriety.
* Performing data analytics on fiscal year 2016-17 General Ledger data to identify equipment purchases in conjunction with proper equipment object codes.
* Cross-referencing AMS equipment data to General Ledger purchase data, and evaluating results to verify purchased inventorial equipment was assigned an asset number.
* Observation of a ten item sample of equipment to verify the physical existence of the equipment.

Issues noted are summarized below.  |
| 11. | Inventorial Equipment – No Asset Number:Testing was performed on 28 equipment purchases selected from the General Ledger for fiscal year 2016-17. The testing results indicate one inventorial equipment purchase has not been entered into AMS. The equipment was purchased in October 2016 for $44,570 under BruinBuy number 1000PUB401.\_\_\_\_\_\_\_\_\_\_\_\_\_Criteria:University Policy BUS-29, Management and Control of University Equipment, requires inventorial equipment which is owned or in the custody of “The Regents”, be properly accounted for, assigned a property number, and safeguarded by the inventorial process. The head of the custodial department and the principal investigator have primary responsibility for the physical inventory, control and disposition of inventorial equipment and other, regardless of its title, under their jurisdiction.  | Management should ensure that all inventorial equipment purchases are properly identified and recorded into the AMS system on a timely basis. Additional control activities should include strengthening tracking processes over inventorial equipment purchases, and working collaboratively with Campus Purchasing and Equipment Management to ensure proper recording.  | The Department will ensure that this piece of inventorial equipment is assigned an asset number and is entered into the AMS system. On a go forward basis, the Department will establish a log to track and monitor inventorial equipment purchases. Inventorial equipment purchase requests will be tracked based on fund(s) and account number(s), and sub-object code. Once the equipment is verified as being received, the Department will work with equipment management to ensure asset numbers are assigned and inventory number stickers are obtained and properly affixed.  |
| 12. | Scrapped Equipment:Observations were performed on 10 equipment purchases selected from the current departmental AMS equipment listing. The testing results found that one piece of equipment was “cannibalized” for parts.A fabricated microscope with a recorded cost of $1.02 million is unable to be located. Asset number 034006708, Electron Spin Microscope, is fabricated equipment which management has indicated has been scrapped and “cannibalized” for parts. Additionally, the asset information in AMS has not been updated to reflect the equipment’s final disposition. \_\_\_\_\_\_\_\_\_\_\_\_\_Criteria:UC Policy BUS-29 requires consultation with the Campus equipment manager before equipment is destroyed or “cannibalized”. A request by the Department Head to the Equipment Manager will initiate the process to remove the item from equipment inventory and appropriately dispose of it. Title disposal or transfer of equipment acquired under awards with extramural sponsors are governed by the specific provisions of the applicable award(s).  | Management should investigate, locate, and observe the asset and/or its cannibalized parts. Management should continue to work with Campus Equipment Management to properly account for the cannibalized parts in AMS. If there are any funding source restrictions and/or conditions, or if the equipment is considered government property based on an award, screening should be performed against the conditions in order to relieve the University of any liability, obtain direction or authorization from the awarding agency, and ensure such equipment items are removed from the agency’s inventory, etc.  | The Principal Investigator (PI) for this fabrication, has been contacted and made aware of our efforts to locate and observe this asset and/or its cannibalized parts. The Department is currently working with him to access and view the equipment, which is reportedly held in a large safe in the Professor’s lab.  |
| **FABRICATED EQUIPMENT** |
| Audit work included the following:* Analysis of Asset Management System equipment reports as of April 11, 2018, to identify 47 fabricated equipment items.
* Performed data analytics on fiscal year 2016-17 General Ledger data to identify expenses coded as fabricated equipment.
* Review of UC Accounting manual, Fabricated Property, Section P-415-32.
* Assessed fabricated equipment supporting documentation including the UCLA Fabrication Request form (completed by the department administrator), UCLA Fabrication Justification form (completed by the principal investigator) invoices, departmental detail expenditure reports, etc.
* Evaluation of departmental controls for periodic reconciliation and reporting of fabrication progress costs.

Issues noted are summarized below. |
| 13. | Fabricated Equipment – UCLA Fabrication Justification Forms:UCLA Fabrication Justification forms for two in-progress equipment fabrications (fabrication numbers 1100069 and 0900045) are unable to be provided by management. The UCLA Fabrication Justification form is utilized by Campus Equipment Management to substantiate and support the principal investigator’s certification and understanding for conditions and accounting treatment of fabrications in accordance with the UC Accounting Manual, Fabricated Equipment, section P-415-32.\_\_\_\_\_\_\_\_\_\_\_\_\_Criteria:UCLA Fabrication Justification requires principal investigator to certify if any of the criteria contained in UC Accounting Manual, Fabricated Equipment, section P-415-32 are not meet, the item will no longer be considered a fabrication, and will be subject to Facilities and Administration (indirect) costs. | Management should prepare UCLA Fabrication Justification forms that are certified by the applicable principal investigators for fabrication numbers 1100069 and 0900045 and submit them to Campus Equipment Management. Doing so will assist management in ensuring that there is support for the principal investigator’s acknowledgement of conditions for fabrication requests, and in maintaining completeness of supporting documentation.  | Fabrication Justification forms for numbers 1100069 and 0900045 have been located; they were appropriately certified and submitted to Campus Equipment Management. |
| 14. | Fabricated Equipment – Recording Costs:Fabrication progress is not being recorded and reported to Campus Equipment Management based on discussions with departmental management and review of the campus general ledger and AMS.\_\_\_\_\_\_\_\_\_\_\_\_\_Criteria:UC Policy BUS-29, Management and Control of University Equipment, Section V.A.3.g, provides that fabrication progress should be recorded periodically, either as it occurs or on a pre-determined cycle of not less than once per year.  | On a go-forward basis, management should track fabrication costs and report those costs to Campus Equipment Management on a periodic basis in proper form and format using the assigned fabrication number. For efficiency and effectiveness, equipment fabrication costs should be appropriately identified and tracked throughout the fabrication cycle in accordance with UC Policy BUS-29, “Management and Control of University Equipment” (BUS-29). | The CAO and Director of Finance have agreed on a process through which all fabrications will be appropriately tracked and reviewed (most likely on a semi-annual basis), in order to ensure appropriate recording of costs.  A review of current fabrications is being conducted now so that progress on those fabrications can be properly recorded and reported.  |
| 15. | Fabricated Equipment – Purchase Order Fabrication Number:Fabrication numbers are not always being recorded on purchasing documentation and in the BruinBuy system during purchase processing. AMS fabricated equipment data was cross-referenced to General Ledger data for object codes 9600/9610, and principal investigator identification. This information was then reviewed to identify 270 out of 504 (54%) items without fabrication numbers. Interviews were conducted to determine departmental procedures for recording fabrication numbers during the departmental purchase process. \_\_\_\_\_\_\_\_\_\_\_\_\_Criteria:The UCLA Fabrication Request Form published on the Campus Purchasing Department’s website states that all purchase orders should reflect the fabrication numbers in the project field of the full accounting unit. | Management should ensure that the assigned fabrication number is recorded on each purchase order that is posted to object codes 9600 or 9610, as indicated by Campus Purchasing. Recording the fabrication number on purchase orders and other supporting documentation will strengthen the audit trail, support completeness and accuracy of accounting records, and assist staff in carrying out their responsibilities.  | The department has reinforced the policy of recording fabrication numbers on purchasing documentation and in BruinBuy. Purchase order requests with object codes 9600 or 9610 will not be processed without a fabrication number. |
| **PURCHASING** |
| Audit work included the following*:** Selection of 45 sample purchase transactions from the fiscal year 2016-17 General Ledger. Items selected include various travel and entertainment, foreign travel, P-Card, LVOs, purchase orders, and transactions utilizing local and systemwide agreements.
* Examination of supporting documentation to determine the purchase is appropriate, properly reviewed and approved, and payment is appropriately authorized.
* Reviewed controls over accurately recording purchases to the correct fund source.
* Evaluating the appropriateness of foreign travel and appropriate supporting documents.
* As applicable, verified compliance with Policy G-28, Policy 740, and 741, “Low-Value Purchases” (Policy 741).
* Analyzing BruinBuy and invoice dates to ensure that University terms and conditions govern goods and services provided.
* Assessing the adequacy of the separation of duties in the purchasing process.

Issues noted are summarized below*.* |
| 16. | Foreign Travel Reimbursements:Expense report number TR01013856 indicates that a University traveler stayed with colleagues without charge, and a foreign travel reimbursement was claimed as “Lodging – Foreign Per Diem.” The amount reimbursed for the “Lodging – Foreign Per Diem” was $1,878. No gifts were claimed or accounted for, and no “Meals & Incidental Expenses” (M&IE) were claimed.Additionally, receipts that support a reimbursement claim for long-term foreign lodging that was charged to a Federal fund source were unable to be provided. The foreign travel was for 51 days. The reimbursement amount claimed for long-term foreign lodging of $3,600 was paid from Campus fund 22063, U.S Department of Energy, a Federal grant. \_\_\_\_\_\_\_\_\_\_\_\_\_Criteria:Per Policy G-28, Travel Regulations, states the following:* When lodging is provided without charge, only the M&IE (meals & incidental expenses) portion of the per diem will be reimbursed.
* When lodging with a friend (colleague) or relative, on official University business, a non-cash gift, such as flowers, groceries, or a restaurant meal, may be provided to the host. The actual costs of such a gift may be reimbursed up to $75. Under IRS regulations, a receipt must be provided for gifts costing $25 or more. Only one gift per stay may be provided to a host”.
* Receipts that support the reimbursement claim for long-term ( 30 days or more) foreign travel lodging that is charged to a Federal Fund Source (whether reimbursed as a per diem or actual), should be kept on file within the department and retained for such periods as required by either the sponsor’s retention policy or UC retention policy.
 | Management should ensure that Policy G-28 is reviewed and reinforced with all staff that process and approve travel expenses and/or reimbursements, or are responsible for stewardship roles in maintaining compliance with University travel regulations. A preparer should understand all relevant policies, procedures and requirements to properly prepare travel expense reports or process reimbursements. A reviewer should ensure that the preparer properly fulfilled their responsibilities. This would include ensuring appropriate completion of travel expense claims, obtaining required documents per policy, and maintaining those documents as required by either the sponsor’s or UC retention policy. | All staff who process travel reimbursements have been reminded, in writing, that lodging reimbursement requests should not be submitted when the traveler has not paid for lodging. Also, all Travel Request forms must now be signed by the PI before processing. Supervisors have been reminded of these policies as well. Reviewers have been reminded in writing that appropriate receipts must always be provided and retained on file. Random audit checks will be performed quarterly.Processors, reviewers, and supervisors were all provided with the G-28 policy.  |
| 17. | Travel Purchases:Advanced approval is not always properly obtained for travel transactions.Two BruinBuy transactions for payments to non-University, visiting scholars, are not supported by evidence of advanced approval by the department. * BruinBuy transaction 1000TUD378, for $3,000, dated March 30, 2017, is for long term subsistence support for a visiting graduate Researcher from Utrecht University, Netherlands.
* BruinBuy transaction 1000TUD161, for $2,711, dated March 10, 2017, is travel reimbursement to a Professor from the École Polytechnique Fédérale de Lausanne (EPFL) research institute and University in Lausanne, Switzerland.

Although the travel expenses incurred by both non-University travelers are allowable, the department was not able to provide proper dated evidence that their travel was appropriately approved in advance.Also, University travel to Cuba for bona-fide business purposes did not receive appropriate approval prior to the purchase. As a result, an unauthorized purchase was executed requiring an “after-the-fact” justification. The travel was for a conference entitled, “Workshop on the Physics and Applications of High Brightness Beams” from March 28, 2016, to April 1, 2016, in Havana, Cuba. \_\_\_\_\_\_\_\_\_\_\_\_\_Criteria:UC Policy G-28, Travel Regulations states that travel expenses incurred by non-University travelers shall not be reimbursed from a University fund source unless the travel has been approved in advance by the inviting department. UCLA Policy 740, Purchasing Goods and Services, provides:* “After-the-fact” purchases are made without delegated purchasing authority. Such purchasing authority is limited to Procurement organization buyers and contract administrators to ensure compliance with federal and state law, University policy, and prudent business and financial practices.
* Departmental Administrators and principal investigators are responsible for, among other things, providing reasonable lead time for the purchase of requested items and/or services, and ensuring equipment screening practices have been completed.
 | Management should ensure that expense reimbursement approvals for non-University travelers are obtained in advance of the travel date. The approval should contain adequate descriptions, explanations, and back-up documentation to support an internal or external review. Due to expected future collaborations with non-University, visiting scholars, researchers, etc., management should consider creating a form template that can be easily utilized for convenience, and to maintain consistency and completeness of the required information. Management should review and reinforce understanding of Policy 740 with applicable staff in order to strengthen adherence to purchasing policies and procedures, and any regulatory requirements. Management should also reiterate to staff their stewardship role within the department’s internal control system.  | The transactions listed here were both wire transfers, which occur infrequently and only when (a) the traveler requests it (generally after the travel has occurred), or (b) a reimbursement check has been mailed but not received. Unfortunately, we are not generally able to anticipate when either of these will occur, making it challenging to obtain appropriate approvals before the travel occurs. We have identified countries that often will not cash UCLA checks so we can proactively identify travelers who may require wire transfers and obtain vendor approval in advance. Administrative staff who make travel arrangements have been reminded to review the policies and procedures regarding travel to restricted countries. It should be noted that this information is not easily accessible and should be provided more readily by UCLA Travel. |
| 18. | Strategic Sourcing Agreement:Low Value Orders are being used instead of an established strategic sourcing agreement for purchases from the vendor Air Gas USA. Audit review indicated that between September 26, 2016, and November 14, 2016, in seven instances, LVOs were used for Air Gas USA, for a total of $8,393. By not using the established agreement, the University may not receive the benefits of its negotiated terms and conditions.\_\_\_\_\_\_\_\_\_\_\_\_\_Criteria:Per UCLA Policy 741, LVOs should be used for the purchase of supplies or services that are not available from established agreements.  Strategic sourcing is a systematic process for reducing the total cost of purchased materials, products and services while maintaining or improving quality and service. Goods, services and repairs for which there is a repetitive requirement must be made against restricted (departmental) or Campuswide blanket orders, or from Campus or Systemwide strategic sourcing agreements. Departments then issue orders against those agreements in the BruinBuy system. | Management should use established vendor agreements to ensure that goods and services purchased by the University are at the best overall value and include the appropriate terms and conditions. Management should consider providing training through the UC Learning Center including the BruinBuy Update Workshop for existing preparers and reviewers, or the BruinBuy class for new BruinBuy preparers and reviewers.  | The department’s purchasing procedures have been reviewed, and the purchaser has been reminded to utilize established vendor agreements. A periodic review of the vendor list will be conducted, as new vendors are frequently added. The BruinBuy Update Workshop is not being offered at this time. The BruinBuy User Guide has been reviewed by the department purchaser.  |
| **SALES AND SERVICE FUNDS** |
| Audit work included the following:* Review of applications for funds 60062 (High Technology Group), 61813 (Mechanical Shop), and 61814 (Electrical Shop) to determine each fund’s intended purpose.
* Evaluation of the recharge rates for each fund, rate application based on customer type, adequacy of billing supporting documentation, and review and approval processes.
* Analysis of revenue and expenditures for each fund, propriety of fund and account utilization, and appropriate project identification.
* Assessment of shop time provided to faculty at no-charge, including allocation methodology, tracking, and reporting.
* Review of the student mechanical shop revenue and expenditures, fee structure, tracking and reporting of training and instruction provided to students, and the academic goal of the student mechanical shop.

Issues noted are summarized below. |
| 19. | Student Mechanical Shop – Project Hours and Tracking:The student mechanical shop is funded by the department. Student mechanical shop projects are most often associated with a principal investigator’s project, which are usually revenue generating via the departmental recharge process. Currently, the student mechanical shop service hours are not being tracked and reported. Tracking and reporting student mechanical shop hours is a tool to identify and measure the shop’s effort. | Management should quantify, track and report all student mechanical shop hours on a monthly basis similar to the other department shops. When student mechanical shop engineers perform work on projects associated with a principal investigator, management should consider recharging those hours to the project, accordingly. | Earlier this year, the department hired a new shop manager, who has implemented an effective tracking system for both the main shop and the student shop. All work that is performed in the student shop is now tracked by job number and Full Accounting Unit (FAU), and reported to the finance unit for recording recharges appropriately. |

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