

The logo for UC Irvine, featuring the letters "UCIRVINE" in a large, black, serif font. The letters are closely spaced, with "UC" and "IRVINE" being the most prominent parts. The logo is set against a light yellow background that is part of a horizontal bar.

UCIRVINE

The logo for Internal Audit Services, featuring the words "INTERNAL" and "AUDIT SERVICES" in a black, serif font, stacked vertically. The logo is set against a light yellow background that is part of a horizontal bar.

INTERNAL
AUDIT SERVICES

Contracts and Grants
Accounting

Internal Audit Report No. I2018-107

June 29, 2018

Prepared By

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Approved By

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INTERNAL AUDIT SERVICES
IRVINE, CALIFORNIA 92697-3625

June 29, 2018

**BEATA I. NAJMAN
DIRECTOR, EXTRAMURAL FUNDS ACCOUNTING
ACCOUNTING AND FISCAL SERVICES**

**Re: Contracts and Grants Accounting Audit
Audit No. I2018-107**

Internal Audit Services has completed the audit of Contracts and Grants Accounting and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.

Mike Bathke

Mike Bathke
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2017-2018 audit plan, Internal Audit Services (IAS) reviewed Contracts and Grants Accounting (C&GA) processes for billing and payments, accounts receivable (A/R) management, and key reports for C&GA operations. Opportunities exist to make processes and systems more efficient, to strengthen internal controls, and to ensure compliance with University policies and federal guidelines. The following opportunities were noted.

Billing Processes – Billing delays and double-billing were noted. Billing delays resulted from staffing changes/vacancies, and other causes. The double-billing resulted from a system error. This observation is discussed in section V.1;

Accounts Receivable – November 2017 A/R balances included thirteen awards with balances outstanding 360+ days, with a cumulative A/R amount of \$226,000. Additionally, December 2017 A/R balances included nine awards with negative balances of \$6,000 or more. This observation is discussed in section V.2;

Accounts Receivable Follow-up – The November 2017 A/R Follow-up report indicated that 42 percent of the listed awards did not have follow-up notes. C&GA expressed concern that available resources may be insufficient to ensure timely A/R follow-up. This observation is discussed in section V.3.

Key Reports for C&GA Operations – Many key reports involve spreadsheets that require significant resources to prepare and maintain on a monthly basis. Information necessary to manage operations may not always be timely. This observation is discussed in section V.4.

II. BACKGROUND

C&GA is one of seven departments within Accounting and Fiscal Services and is responsible for post-award administration of federal and federal flow-through awards, state and local government awards, and private awards. The primary goal of post-award administration is efficient and effective award management in a manner consistent with underlying agreements, program objectives, and award terms and conditions.

C&GA works closely with Principal Investigators (PIs), UC Irvine campus and UC Irvine School of Medicine (SOM) departments, Office of Sponsored Research, and sponsors to ensure that post-award administration of campus and SOM awards is accurate and leaves no cause for audit scrutiny. PIs and departments are responsible for monitoring award operations and supported activities to ensure compliance with applicable requirements and performance standards.

C&GA is led by the Director, Extramural Fund Accounting who reports to the Interim Assistant Vice Chancellor/Controller, Accounting and Fiscal Services. The Director is supported by two Accounting Managers, an Accounting and Operations Manager, and a Compliance Officer. One Accounting Manager is supported by three Accountants; the other Accounting Manager is supported by two Accountants. The Accounting and Operations Manager is also supported by two Accountants, and the Compliance Officer is supported by one Compliance Analyst.

III. PURPOSE, SCOPE AND OBJECTIVES

The purpose of the audit was to review C&GA processes for billing and payments, A/R management, and key reporting for C&GA operations. The audit scope included calendar year (CY) 2017 and 2018 operations. The following audit objectives were included in the review.

1. Billing and Payments - Verify that billing for contracts and grants is timely and accurate, and that received payments are recorded timely and accurately.
2. Accounts Receivable - Verify that A/R aging reports are prepared monthly and A/R balances agree with the General Ledger. Verify that A/R balances are collected/written-off in a timely manner and there are not any long-term outstanding balances or unusual items.
3. Accounts Receivable Follow-Up – Verify that A/R follow-up reports are prepared monthly and follow-ups are completed and documented in a timely manner for all A/R balances.
4. C&GA Key Reports – Verify that key reports utilized by C&GA to manage operations are efficient and effective, and adequately support billing, payment, A/R, and A/R follow-up processes.

IV. CONCLUSION

Opportunities exist to make C&GA processes more efficient and effective, to strengthen internal controls, and to ensure compliance with University policies and federal guidelines.

Observation details were discussed with management, who formulated action plans to address the issues. These details are presented below.

V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Billing Processes

Observation

IAS reviewed twenty awards from calendar years CY 2017 and CY-to-date 2018 for timely and accurate billing. The review disclosed the following results.

Billing Delays:

Employee Turnover: A high level of employee turnover occurred in CY 2017. Eleven awards (55 percent) had billing delays due to staffing changes and vacancies. For many of these awards, the terms and conditions required monthly billing. However, actual billing practices included several months with little to no billing activity, followed by one month in which one to five invoices were issued for previous unbilled months.

Document Delay: Two awards had billing delays due to C&GA waiting for documents from other departments.

Account Overdraft: One award had a billing delay due to C&GA's inability to bill due to an account overdraft.

Year-end Closing: One award had a billing delay due to time constraints on C&GA resulting from year-end closing.

New Employee Training: One award had a billing delay due to training.

Double Billing:

One award had a billing error in which \$45,405.87 was billed twice. The double billing was caused by a system error in the Contract and Grant Billing System. Programming was completed to correct the error.

Untimely and/or inaccurate billing may adversely affect current and future awards.

Management Action Plan

A high level of employee turnover in C&GA was due to retirement of four employees within a period of one year, and a prolonged leave and later retirement of one other employee. Consequently, three accountants were promoted, one desk covered by a temporary employee, and three desks were covered by the managers as their additional workload. Currently, all five open positions have been filled and C&GA is fully staffed. Furthermore, all employees are being trained by their supervisors and during regularly scheduled monthly meetings. Two employees attended the National Council of University Research Administrators (NCURA) training, and the C&G Compliance Officer is scheduled to attend NCURA in August. C&GA management provides proper training, including: clear guidelines on how to communicate with departments; when to start proper reviews; and how to plan invoicing and other monthly activities. Due to these changes, untimely and inaccurate billing is expected to be reduced to a minimum. In addition, by December 31, 2018, the Kuali Financial System (KFS) Team plans to make an attempt to implement KFS C&G Billing, with preliminary system reviews.

2. Accounts Receivable**Observation**

Prior to FY 2018, C&GA did not write-off outstanding A/R balances. In FY 2018, C&GA began to review and write-off A/R balances on a quarterly basis. A review of the November and December 2017 A/R reports disclosed the following results.

1. Long-term Outstanding A/R Balances

- In the November report, thirteen funds had A/R outstanding balances of 360+ days; the cumulative A/R balance for the funds totaled \$226,000.
- A/R balances outstanding 360+ days were listed as 121-360 days.

Subsequent to the review, C&GA reported that nine of the A/R balances had since been paid, with others in progress. However, other long-term outstanding A/R balances remained on the March 2018 A/R report.

2. Outstanding A/R with Negative Balances

The December 2017 A/R report disclosed nine funds with negative A/R balances over \$6,000. Five of the negative balances existed for at least four months. Subsequent to the review, C&GA reported that five of the negative balances had been corrected. However, other A/R negative balances were noted on the March 2018 A/R report.

3. Policies and Procedures for A/R Write-offs

The current policy for A/R write-offs is not a separate policy; it is part of a process description and flowchart of the A/R process. In addition, the policy narrative does not discuss key topics such as criteria for A/R write-offs and signature approval levels needed for write-offs.

Management Action Plan

1. Long-term Outstanding A/R Balances

- C&GA provides outstanding A/R follow-up to the extent possible considering current workload, staffing, and systems. The A/R report is prepared manually and updates take time, therefore, it is received by accountants with a significant delay. In addition, C&GA has many deadline driven priorities and obligations, and acknowledges that monthly follow-ups are not always possible. Accountants have been trained on the importance of following up on their A/R balances and all C&G Managers have been instructed to review A/R follow-ups with accountants during their meetings.

- C&GA prepares monthly the A/R report and the follow-up report in Excel and the error in a formula for the A/R balances outstanding for 360+ days has not been noticed until now. C&GA Accountant responsible for this report is working on a correction.

C&GA includes notes on the follow-up report and communicates unresolved issues with departments and in some cases with Sponsored Projects Administration. Most long-term outstanding A/R has detailed backup clarifying why no action has been taken by C&GA. Write-offs are completed on a quarterly basis.

2. Outstanding A/R with Negative Balances

- By June 30, 2018, all outstanding A/R with negative balances will be corrected. Most of the negative A/R was in the desk managed by a temporary employee and a newly hired C&G Manager. To ensure timely corrections in the future, C&GA employees have been informed about this audit finding and they are aware that the corrections to the negative A/R are to be processed without delays.

3. Policies and Procedures for A/R Write-offs

- C&GA is not authorized to decide how disallowed contracts and grants claims should be funded, and is not authorized to impose a policy to resolve them. The C&GA process was prepared after a lack of policy was discussed during several Grants Management Group meetings. The decision was made during these meetings that since there is no central funding available to cover disallowed claims and there isn't any UCI write-off policy in place, C&GA Director together with a C&GA Manager, should review the outstanding A/R at least quarterly and determine which funds should be written-off to departments. The current C&GA internal procedure requires write-offs to be processed when, after several trials and requests and more than six months after the fund end date, the sponsor refuses to pay; or when expenses were disallowed by the sponsor on a closed budget year. Any write-off is to be reversed when funds are received by C&GA.

3. Accounts Receivable Follow-up

Observation

A/R follow-up reports are prepared monthly. The reports list funds with A/R balances outstanding 90+ days. An analysis of follow-up notes from the November 2017 follow-up report disclosed the following.

- The analysis disclosed that 45 of 106 listed funds (42 percent) did not have any follow-up notes or indication of follow-up.
- C&GA management indicated that with existing resources, follow-up on A/R balances can only be performed every 2-3 months instead of every month. It is difficult for C&GA to complete timely A/R follow-up.
- Policies and procedures for A/R follow-up have not been developed.

Timely follow-up efforts can increase collections on outstanding A/R balances.

Management Action Plan

Effective immediately, C&G Accountants have been instructed to include notes in the A/R follow-up spreadsheet in addition to the e-mails that they keep in each file. C&GA plans to continue outstanding A/R follow-ups to the extent possible, but no less often than every three months. C&GA is not authorized to impose policies to the campus. However, C&GA will finalize and update all internal procedures by December 31, 2018.

4. Key Reports for C&GA Operations

Observation

Key reports are necessary for C&GA to manage operations. A review of C&GA reporting disclosed some opportunities for improvement.

- **Billing Timeliness** - It is difficult for C&GA to determine if billing is timely. There is not any system reporting to indicate which invoices are going out late. Each accountant's tracking spreadsheet must be reviewed to determine billing timeliness.

- **Payment Timeliness** - It is also difficult for C&GA to obtain timely information on payments received from billing efforts. C&GA must wait for payments to be posted in KFS and in the A/R Aging Report, which may occur many days after the payments have been received.
- **Accounts Receivable** – Currently, there is not any system reporting for A/R; A/R reports consist of monthly spreadsheets. Billings and payments are posted by accountants in the A/R reports, and in KFS.
- **Accounts Receivable Follow-up** – It is hard for C&GA to complete A/R follow-ups. There is not any system reporting to support A/R follow-up. A/R Follow-up reports consist of monthly spreadsheets that must be manually updated.

Operational reports utilized by C&GA consist of manually-prepared spreadsheets that require significant resources to prepare and update on a monthly basis. Automated system reports that facilitate detailed analysis may provide a better solution for managing C&GA operations.

Management Action Plan

Timely billing has been emphasized during the C&GA monthly meetings, and C&GA Managers have been advised to review billing during their individual meetings with accountants. All C&GA procedures are being reviewed, and if any additional streamlining of the billing process is noticed, it will be implemented to an extent allowed by the current resources. C&GA Director participates in weekly KFS meetings and other system implementation related meetings. The C&G Billing system is included on the KFS road map, and the implementation details and timeline are currently being specified.