

University of California, Santa Barbara
Contracts and Grants Liaison Meeting
Audit and Advisory Services Update for Research Administration

October 25, 2007

Annual Plan for Fiscal Year 2008

Contracts and Grants Pre-Award Audit

- Budget Costs – Allowable and Allocable
- Budget Costs – Campus Salaries
- Small Business Subcontracting Plan
- Principal Investigator Orientation

Conflict of Commitment Audit

- Lack of Compliance with APM-025
- Student Involvement in Faculty's Outside Professional Activities

Contracts and Grants Post-Award Audit

Statement of Auditing Standards (SAS) 112 Audit

Compliance Survey

Risk Assessment

External Audit Coordination

- Contribution reports for cost sharing and matching
- Technical reports
- Substantiation of time and effort reports
- Support for proposal budgets

Investigations

- Conflicts of interest
- Valid invoices
- Time and effort
- Principal investigator involvement in award financial administration

University of California, Santa Barbara
Audit and Advisory Services
Annual Plan for Fiscal Year 2008

Planned Carry Forward Audits

Contract and Grants – Post-award (Core)

Evaluate the accuracy and integrity of financial reporting with an emphasis on meeting sponsoring agencies' requirements, as well as, monitoring of contract and grant expenditures versus approved budget. Evaluate compliance with UC Contract and Grant Manual; award or contract requirements; patent and copyright policy; conflict of interest; other University policies and procedures; and regulatory (FDP or sponsoring agency) requirements. Evaluate control processes, specifically addressing: post-award expenditures capturing and reporting; monitoring of expenditures versus approved budget; accuracy of supporting detail; financial status reports regularly provided to principal investigators; financial reporting requirements of sponsoring agencies; and closeout processes. Evaluate information and communications systems, applications, databases, system interfaces, and records practices, specifically addressing electronic or manual interfaces with intra-University systems, applications, and/or databases; electronic or manual interfaces with between University and third party systems, applications, and/or databases; and records management.

Student and Third Party Billing

Evaluate key student and third party billing activities and related controls: establishment/levy, assessment and billing, fee adjustments or allowances, collection and write-off, and distribution. Evaluate financial processes including: initiating, reviewing, approving, and reconciling transactions, as well as management reporting and monitoring. Evaluate relevant information systems, applications, databases, and interfaces (manual or electronic) with other systems. Evaluate controls to safeguard university assets.

Student Counseling

Evaluate the significant processes and practices employed in addressing the counseling needs of our student population including but not limited to management philosophy, operating style, and risk assessment practices, compliance with applicable laws, regulations and policies, efficiency and effectiveness of operations, organizational structure, and delegations of authority and responsibility, and accountability for financial and programmatic results.

Network Management

Evaluate the management and administration of the voice and data networks, including; physical wiring, addressing, routing and monitoring of the core network (backbone), building networks, departmental networks, remote networks, virtual subnets, virtual private networks (VPNs) and non-UC networks managed by UC personnel.

Planned New Audits

Application Development

Evaluate the acquisition, development, and maintenance of application software including in-house developed, purchased, and third party maintained software for mission critical enterprise systems. The review will include: project management and oversight, needs assessment, development process, change management, testing, training and documentation, implementation, and post implementation.

Organized Research Unit

Evaluate the accuracy and integrity of financial reporting with an emphasis on meeting sponsoring agencies' requirements. Evaluate management structure, policies, and procedures associated with business processes. Complete inventory of compliance requirements and related controls to assure compliance. Assess the information systems environment.

Executive Compensation/Ethics

To be determined by the University Auditor.

Transportation and Parking Services

Evaluate the adequacy of internal controls, compliance with University and external policies and procedures, prudent business practices, and economy and efficiency of operations.

Gift Processing

Determine if gifts to the University are processed on a timely basis, properly classified and taxed, booked into the general ledger accurately and whether financial conflicts of interest are managed according to University policies and guidelines.

Key Financial Reporting Controls (SAS 112)

Evaluate the effectiveness of key financial reporting controls identified by Accounting Services and Control particularly where responsibility has been delegated to departmental business officers. Due to decentralization, inconsistency of skills, resources, and continuity, and perception of importance, hence priority; may vary significant, hindering the capacity of campus to rely on these controls.

Student Financial Aid

Evaluate the effectiveness of campus controls governing the student financial aid program following the UC core audit program. Specifically, this audit will encompass consideration of financial aid for undergraduate and graduate students, including: financial aid eligibility and

verification, awarding of financial aid, disbursing of financial aid, program compliance, cash management (e.g. reconciliation, drawdown and cash controls), and business continuity planning. This audit will not cover the area of loan conversion and collections.

Business Contracts

Evaluate the effectiveness of controls governing business contracts including: functional and organizational structure related to contracts, contract formation, approval, post-award monitoring and closeout, delegation of purchasing authority and signature authority for contracts, coordination between general counsel and procurement, information systems, applications, databases and electronic interfaces, management reporting of contract data, trends and performance metrics. Evaluate compliance with the following requirements: purchasing policy, standard practices and procedures, contractual requirements, regulatory requirements, and conflict of interest. Evaluate the contract process, specifically addressing the following areas: turnaround time from initiation of contract to issuance of contract, supplier/contractor performance, customer satisfaction, and best practices.

Laboratory Safety - Hazardous Materials Handling

Evaluate procedures for hazardous materials safety and control, including hazardous chemicals, biohazards, radioactive materials, and their associated waste products. Such procedures include hazardous materials and waste training, laboratory and work area inspections, hazardous materials and waste inventory, incident and emergency response, regulatory compliance. Evaluate readiness to accept proposed select agents.

Daily Nexus – Internal Control Review

Evaluate the adequacy of internal controls, compliance with University and external policies and procedures, prudent business practices, and economy and efficiency of operations based on management's assertions. Confirm the level of risk associated with the unit through our annual risk assessment process.

Major Construction

Evaluate the accuracy and integrity of financial reporting, specifically addressing: department and capital project budget processes; monitoring of budget variances; classification of direct versus overhead charges; recharge center operations and overhead rate calculations; and capital project costing practices. Evaluate compliance with the UCOP Facilities Manual, e.g., delegations and limitations of authority; state laws and regulations; project quality management program requirements; planning requirements; design requirements; construction contracting; and bidding and construction administration. Evaluate project management control processes, specifically addressing the following areas: personnel management; contract pre-qualification, bid, and award; contractor invoicing and University review and payment processes; University change order review and approval processes; project management, inspection, and closeout processes; internal cost capture and recording; and transition of responsibilities to maintenance

after warranty period. Evaluate the information systems supporting design and construction activities.

Purchasing Card Program

Evaluate whether internal controls over the issuance and use of purchasing cards are adequate; and, whether purchases made with the use of purchasing cards are in compliance with the Comptroller's purchasing card policies and procedures.

Planned Advisory Services

Long Range Development Committee

Emergency Response/Business Continuity Planning Committee

Kronos (Time Reporting) Implementation Team

Serve as an advisor on campus-wide committees addressing high risk issues.

Development of Self Assessment Tools

Assist departments in improving the effectiveness of internal controls, and hence, the achievement of departmental goals and objectives, management of risks.

UCSB Audit and Advisory Services
Project 07-425, Post-Award Activities
Audit Status

Audit Objective: Review of policies, procedures, and practices supporting management of Contract and Grants, Post-Award Activities, as a part of our risk-based annual audit plan approved by the local audit committee, the chancellor, and the Board of Regents. In general, administrative activities related to sponsored projects were identified as a high risk area for the campus through our annual risk assessment process. Additionally, the sponsored projects area was identified as a vital element of the University of California's research program and, as such, is included as a core audit across the system with a common audit program to be performed by the local campuses every three to five years.

Audit Phase (Application): Current through February 2008

Planned Audit Focus Areas:

- Billing process accuracy and GL reconciliation (Revenue Accts)
- Direct-charge of "Typically F&A" or "Unallowable" expenditures
- A-21 compliance test (stratified sample size=60) review for expenditure accounting, allowability, propriety tests.
- Effort reporting (select aspects)
- Controls over non-financial reporting/deliverables to sponsors (technical reports, final reports, etc.)
- Award close-out (includes follow-up on overspent accounts)
- TOE review, test (includes recharge processing)
- Re-budgeting decisions (authority and overhead allocation)
- Cost share and cost match process
- IT issues and worksheet controls (Central Accounting)
- Equipment purchasing and reporting (LAW Award terms)

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Observations in Higher Education

Yale University

OIG audit findings (Aug. 2004) Yale improperly billed \$193,779 in subaward costs under a U. of Mass Med School grant from NIH

- The majority of the improper costs involved cost transfers for researcher labor and salaries
- OIG found evidence that cost transfers were used to “spend down the subgrant funds” to cover a shortfall
- PI failed to provide the 25% level of effort proposed in the subaward grant application and Yale did not obtain prior approval from UMMS for “the significant reduction in effort”

Mayo Foundation \$6.5 M settlement May 2005

Allegations

- Improper cost transfers from overspent grants and internal cost centers to underspent grants
- Inappropriately charged grant for costs unrelated to research sponsored by the grant
- “Mayo had an accounting system unable to monitor and manage charges made to federal grant awards in the manner required by federal law”

University of Alabama at Birmingham \$3.39 M settlement April 2005

Allegations

- Overstated percentage of effort devoted to the grants
- Falsely reported T/E of employees who did not work on the grants
- Falsely billed Medicare for researcher’s time spent on patient care when no patients had been seen
- Falsely billed Medicare for clinical research trials that were also billed to the sponsor of the research grants

East Carolina University OIG Audit August 2004

- Interim audit of costs claimed for reimbursement over a 4-year period under a National Library of Medicine (NLM) contract
- Of the \$4 M claimed by ECU, only \$1.7 M found allowable
 - \$565,820 recommended for financial adjustment
 - \$1.8 M set aside for adjudication by NLM due to inadequate documentation by ECU
- Inappropriate charges included:
 - Salaries, wages, and fringe benefits for:
 - Employees who had been instructed to falsely certify that they were devoting effort to the NLM grant even though they were not working on the project
 - Clerical and administrative personnel whose duties did not apply directly to the project
 - Equipment that was not used for the project
 - Payments to firms with business relationships with former Co-PI even though services were not rendered or were unrelated to the project

Dartmouth College OIG audit September 2005

Findings

- Overcharged \$37,780 for PI’s salary for effort unrelated to the NIH grant
- Lacked adequate procedures for identifying
 - Actual activities
 - Adjusting for changes to planned activities
 - Accurately computing labor distribution percentages