

**Promoting Ethics and Accountability
in Research Administration**
Audit and Advisory Services
Office of the VC Administrative Services

**Sponsored Projects Training for
Administrators in Research – STAR**

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STAR Program Logistics

- STAR Certificate consists of 11 courses. To obtain a certificate, you must complete all 11 courses within two (2) years.
- During this pandemic, the two year period has been extended. Please reach out to training@research.ucsb.edu for any exceptions
- For any STAR Program questions: contact Hilda Vasquez and/or Clarissa Cabrera at training@research.ucsb.edu
- Zoom Classes will not be recorded for this 2021 series.
- Reminder to complete the STAR Evaluation. Emailed to registered participants via UCLC.

UC Santa Barbara Audit & Advisory Services

Antonio Mañas-Meléndez
Associate Director

What We Will Discuss Today

- Organization
- Type of Audits
- What Do Internal Auditors Look For?
- Where Things Go Wrong With Sponsored Projects

Organization

Audit & Advisory Services

Ashley Andersen, Audit Director

Antonio Mañas-Meléndez, Associate Director

Irene Camargo, Senior Auditor

Gifty Mensah, Senior Auditor

Anne-Sophie Gatellier, Senior Auditor

Types of Audits Conducted at UCSB

Internal Audits

- Performed by UCSB Audit & Advisory Services

Annual Financial Audit

- Currently performed by PWC, the CPA firm engaged by the UC Regents

Types of Audits Conducted at UCSB

Federal audits are mostly by sponsoring agencies (e.g. DOD, NIH, NSF) and include:

- Campus-wide audits
- Contract proposal audits (specific award)
- Contract close-out audits (specific award)

State audits are performed by:

- California State Auditor
- State Department of Finance
- State Board of Equalization

External Audit Coordination

- It is UCSB's policy to fully comply with all administrative, financial, and audit requirements that arise from its role as a recipient of public and other extramural funds, and to cooperate fully with external auditors.
- Notices of external audits received by UCSB personnel should be referred to Audit & Advisory Services, which is responsible for the coordination of external audit activities.
- Audit & Advisory Services will coordinate with department personnel to ensure the external auditors receive all required assistance and information.

External Audit Coordination

If your department is contacted by an external agency, please contact the Director of Audit and Advisory Services or the External Audit Coordinator listed on the contacts section of our web page: www.audit.ucsb.edu/contacts

Please also see a list of frequently asked questions on our web page: www.audit.ucsb.edu/our-services/external-audit-coordination

WHAT DO INTERNAL AUDITORS LOOK FOR?

Types of Internal Audits

Audit and Advisory Services conducts:

- **Operational Audits** - Focus on efficiency and effectiveness, the adequacy of processes and controls, and other areas.
- **Compliance Audits** - Assess compliance with regulations, policies, procedures, contracts, grants, etc.

Sponsored projects audits can be either type, or a combination of both.

Office of Management and Budget (OMB) Uniform Guidance

On December 26, 2013, the White House Office of Management and Budget (OMB) issued final guidance entitled Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The Uniform Guidance went into effect on December 26, 2014. Located at 2 CFR 200, this guidance supersedes and streamlines the following OMB Circulars:

- A-21 Cost Principles for Educational Institutions(link is external)
- A-87 Cost Principles for State, Local and Indian Tribal Governments(link is external)
- A-122 Cost Principles for Non-Profit Organizations(link is external)
- A-110 Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations(link is external)
- A-102 Grants and Cooperative Agreements With State and Local Governments(link is external)
- A-133 Audits of States, Local Governments and Non-Profit Organizations(link is external)
- A-50 Audit Followup(link is external)
- A-89 Catalog of Federal Domestic Assistance

Office of Management and Budget (OMB) Uniform Guidance

The Uniform Guidance contains administrative management standards for research grants. A partial list of areas covered includes:

- Financial and budgetary control systems
- Financial reporting requirements
- Procurement
- Property management standards
- Cost sharing/monitoring/reporting
- Program performance
- Close-out

Uniform Guidance - Campus Resources

UC Guidance

Notices to campus regarding how UCSB policies, procedures, and systems will change will be posted here.

RPAC has published a new OMB Uniform Guidance webpage.

<http://www.ucop.edu/research-policy-analysis-coordination/research-sponsors-agreements/federal-government/uniform-guidance/index.html>(link is external)

RPAC Memo 14-09, providing guidance on the “Implementation of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,” has been issued at <http://researchmemos.ucop.edu/php-app/index.php/site/document?memo=UIBBQy0xNC0wOQ==&doc=187>(link is external).

UCOP Uniform Guidance Workgroup Assessment Report:

http://www.ucop.edu/research-policy-analysis-coordination/_files/uc-ug-report.pdf(link is external)

Uniform Guidance Quick Guide

<https://www.bfs.ucsb.edu/files/docs/omb/Uniform%20Guidance%20Quick%20Guide.pdf>

Uniform Guidance - Campus Resources

- Uniform Guidance Agency Implementation Chart
- Dept. of Ed.— Implementing the Uniform Guidance
- NASA Grant and Cooperative Agreement Manual (May 2017)(link is external)
- NEA General Terms and Conditions for Grants and Cooperative Agreements (FY 2015 and Later)(link is external)
- NIH Grants Policy Statement(link is external) - Effective for all NIH grants and cooperative agreements with budget periods beginning on or after October 1, 2016.
- NSF Proposal & Award Policies and Procedures Guide(link is external) (January 2017)
- Grants and Cooperative Agreements to Non-Governmental Organizations (April 2017)(link is external)
- NIFA General Terms and Conditions Grants and Cooperative Agreements (October 2016)

<https://www.bfs.ucsb.edu/omb/guidance/agency-specific-guidance>

WHERE THINGS GO WRONG

With Sponsored Projects

Audit Red Flags

- Cost overruns & cost transfers
- Inadequate documentation of costs
- Recharge activities with financial surpluses
- Costs incurred outside of funding period
- Recharge rates not approved or not applied consistently to all users
- Object coding errors
- Unallowable costs charged to a project
- Effort Reporting not properly certified or filed timely
- Technical reports not filed on time

Adverse Audit Findings – Questioned Costs

Questioned costs are likely to be the major financial issue resulting from an audit, and generally relate to the following:

- ***Unallowable Costs*** are costs specifically not allowed under the general and specific requirements or conditions of the award.
- ***Undocumented Costs*** are costs charged to an award for which detailed documentation does not exist.
- ***Unapproved Costs*** are costs for which the award requires approval and no evidence of approval can be found, and the costs are not included in the award budget.

Cost Allowability

Most common costs of doing business are allowable charges to sponsored projects.

- Salaries & benefits
- Laboratory supplies
- Toll calls
- Travel
- Scientific equipment

Cost Allowability

The following are expressly **unallowable** charges to Federally sponsored projects:

- Entertainment, social, & alumni activity expenses
- Alcoholic beverages
- Memberships in civic, community, or social organizations
- Donations/contributions & fines/penalties
- Airfare costs in excess of lowest available airfare
- Fundraising & commencement expenses
- Lobbying or other expenses related to political activities
- Travel related to unallowable activities (e.g., social/ fundraising)
- Advertising, public relations, & interest expenses (certain types of these costs are allowable)

Cost Allowability

Costs that may require sponsor approval:

- Costs incurred before the agreement effective date
- Office furniture and general purpose equipment
- Research & scientific equipment
- Equipment purchased within 120 days of the award end date may be questioned in the event of an audit

Cost Transfers

Most cost transfers occur when goods or services originally paid for under one account/fund are subsequently transferred to another account/fund.

RED FLAG - They are highly suspect during an audit.

Cost transfers involving federal funds should be avoided altogether or kept to a minimum. Expenses should be charged directly to the accounts and funds to which they pertain whenever possible.

Federal regulations prohibit transfers of costs to federal awards in order to eliminate overdrafts, to expend unexpended award balances, or without regard to benefit.

Cost Transfers

Cost transfers must be fully explained, justified and approved. Supporting documents such as:

- Vendor invoices
- Recharge statements
- Employee time worked records
- Effort Reporting information should be on file with the transfer forms.

Cost transfers must be approved by the principal investigator, department chair, or other academic administrator. Cost transfer certification responsibilities cannot be delegated to staff employees.

Cost transfers must be processed within 120 days of the date of the original charge. Exceptions require an additional explanation and approval for the delay.

Adverse Audit Findings

Errors in financial transactions found in a federal audit may result in a disallowance of the costs involved. Such disallowances are subject to reimbursement to the federal agency from *departmental fund sources*.

A relatively small number of errors found in an audit sample of financial entries of a particular type may be *projected* over the total population of similar entries to develop an audit finding which may translate into a very large cost disallowance.

Adverse Audit Findings

Federal auditors have started to use data mining and analytical tools to examine financial data.

This means that there is potential for every transaction to receive at least some level of scrutiny during an audit.

Avoiding Audit Problems

- Documents supporting all financial activity should be complete, properly approved, & retained for at least three years following project completion. Retention period also has to comply UC retention policy.
- Financial activity should be actively monitored & compared to project budgets to avoid cost overruns. PIs should be kept informed of the financial status of their projects on a regular basis.
- Charges to a contract/grant must (1) represent costs incurred to benefit the specific project, (2) be reasonable costs of performing the award work, (3) be consistent with the project budget, and (4) be allowable under federal costing guidelines.

Avoiding Audit Problems

- Cost transfers should be avoided. When absolutely necessary to transfer costs between projects, transfer policy requirements should be strictly followed.
- Required reports should be filed on a timely basis.

When in doubt, seek assistance.

- Refer to policies, procedures, and other references, including on-line information sources.
- Contact Extramural Funds staff in Business & Financial Services or the Office of Research.

Travel Reimbursements

Verify that adequate supporting documentation exists. Specifically, test for the following:

- Purpose of the trip, supporting records, and other information demonstrate that the travel is for University purposes. (An agenda, itemized receipt, or other supporting documentation for all registration fees.)
- Reasonable transportation charges.
 - Air travel - coach class air travel
 - Automobile - the most economical route was used documented using mapquest
 - Bus, train fares, parking fees
 - Mileage reimbursement at the adequate amount per mile
- If the traveler mingled personal and business activities, an adequate explanation and records exist to demonstrate the University only paid for expenses directly associated with University business.

Travel Reimbursements

Verify that adequate supporting documentation exists. Specifically, test for the following:

- Meals are within prescribed policy limits
- Reasonable lodging expenses (CONUS/OCONUS/ Foreign)
- Travel advance cleared with expense voucher
- Verify that an adequate review for appropriate authorization was performed

Travel Reimbursements

Verify that adequate supporting documentation exists. Specifically, test for the following:

- The travel expense claim must be submitted to the disbursements/travel accounting office within a reasonable amount of time not to exceed 45 days after the end of a trip.
- Review documentation to include:
 - Receipts for all airline expenses. (airline ticket, baggage fees, etc.)
 - Receipts for all lodging expenses incurred for domestic travel, except where per diems are authorized for lodging expenses.
 - Receipts that support the reimbursement claim for long-term foreign 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.
 - Receipts for all rental car expenses.

UC Santa Barbara Whistleblower System

Darrel Paskett
Campus Compliance Investigator

What is a whistleblower?

- A person or entity making a protected disclosure is commonly referred to as a whistleblower.
- Whistleblowers may be University employees (academic or staff), applicants for employment, students, patients, vendors, contractors or the general public.
- The whistleblower's role is as a reporting party.
- They are not investigators or finders of fact, nor do they determine the appropriate corrective or remedial action that may be warranted.

California Government Act § 8547 Whistleblower Protection Act

...state employees should be free to report waste, fraud, abuse of authority, violation of law, or threat to public health without fear of retribution.

University of California Whistleblower System

- **Whistleblower Policy** - Employees and others are encouraged to use guidance provided by this policy for reporting all allegations of suspected improper governmental activities.
- **Whistleblower Protection Policy** - describes the complaint resolution process that is available to employees and applicants for employment who believe they have been subjected to retaliation as a result of having made a Protected Disclosure or refused to obey an Illegal Order.

Whistleblower Policy Definitions

Improper Governmental Activity

Improper governmental activity (per CA Gov 8547.2): an activity by a state agency or by an employee that is undertaken in the performance of the employee's duties, undertaken inside a state office, or, if undertaken outside a state office by the employee, directly relates to state government, whether or not that activity is within the scope of his or her employment, and that –

Whistleblower Policy Definitions

Improper Governmental Activity

- (1) is in violation of any state or federal law or regulation, including, but not limited to, corruption, malfeasance, bribery, theft of government property, fraudulent claims, fraud, coercion, conversion, malicious prosecution, misuse of government property, or willful omission to perform duty, or
- (2) is in violation of an Executive order of the Governor, a California Rule of Court, or any policy or procedure mandated by the State Administrative Manual or State Contracting Manual, or
- (3) is economically wasteful, involves gross misconduct, incompetency, or inefficiency.

Whistleblower Policy Definitions

Protected Disclosure: a good faith communication, including a communication based on, or when carrying out, job duties, that discloses or demonstrates an intention to disclose information that may evidence

- (1) an improper governmental activity or,
- (2) a condition that may significantly threaten the health or safety of employees or the public if the disclosure or intention to disclose was made for the purpose of remedying that condition.

Whistleblower Policy Definitions

Whistleblower: A person or entity making a protected disclosure is commonly referred to as a whistleblower.

The whistleblower's role **is as a reporting party.**

They are not investigators or finders of fact, nor do they determine the appropriate corrective or remedial action that may be warranted.

Locally Designated Official (LDO): The person designated by each campus ... to receive reports of allegations of suspected improper governmental activities.

Whistleblower Policy Definitions

University Resources

- Cash and other assets;
- Real or personal property;
- Receivables and other rights or claims against third parties;
- Intellectual property rights;
- Effort of University personnel and of any non-University entity billing the University for its effort;
- Facilities and the rights to use of University facilities;
- The University's name; and
- University records, including student and patient records.

Reporting Improper Governmental Activity

- Any person may report allegations of suspected improper governmental activities.
- Allegations of suspected improper governmental activities may be reported anonymously.
- Normally, a report by a University employee of allegations of a suspected improper governmental activity should be made to the reporting employee's immediate supervisor or other appropriate administrator or supervisor within the operating unit (such as the unit head), or to the LDO.

Reporting Improper Governmental Activity

Reports may be made to another University official whom the reporting employee may reasonably expect to have either responsibility over the affected area or the authority to review the alleged improper governmental activity on behalf of the University –

- In the interest of confidentiality
- Or when there is a potential conflict of interest

Complaints about the Chancellor or the LDO should be made to the System-wide LDO

Reporting Responsibilities

- Managers, administrators and employees in supervisory roles who receive a report alleging suspected improper governmental activities shall ensure that the matter is promptly reported to their supervisor, an appropriate University manager and/or the LDO.
- Such employees are charged with exercising appropriate judgement in determining which matters can be reviewed under their authority and which matters must be referred to a higher level of management or the LDO.

Reporting Responsibilities

- Consulting with supervisors, the LDO or other appropriate University management is encouraged and the exercise of judgement should err on the side of upward reporting.
- Oral reports should normally be documented by the supervisor by a written transcription of the oral report, and internal communications regarding allegations of improper governmental activities should normally be in writing.

Supervisors Must Report to the LDO When The Matter –

- is the result of a significant internal control or policy deficiency that is likely to exist at other units within the institution or across the University system;
- is likely to receive media or other public attention;
- involves the misuse of University resources or creates exposure to a liability in potentially significant amounts;
- involves allegations or events that have a significant possibility of being the result of a criminal act (e.g., disappearance of cash);
- involves a significant threat to the health and safety of employees and/or the public; or
- is judged to be significant or sensitive for other reasons.

When to Investigate

- Investigations should be launched only after preliminary consideration that establishes that:
 - a. The allegation, if true, constitutes an improper governmental activity,¹
and either:
 - b. The allegation is accompanied by information specific enough to be investigated, or
 - c. The allegation has or directly points to corroborating evidence that can be pursued. Such evidence may be testimonial or documentary.

¹Matters that do not meet this standard may be worthy of management review, but should not be undertaken as an investigation of an improper governmental activity.

Who Investigates?

- The LDO, assisted by the Investigations Work Group, has responsibility for ensuring that independent, unbiased and competent investigative resources are used to conduct investigations of suspected improper governmental activity.
 - Campus Compliance Investigator
 - Title IX Office
 - Office of Research Integrity
 - Office of Equal Opportunity and Discrimination Prevention
- In cases involving principally criminal concerns, the UC Police should be the lead investigators and others with an investigative interest should work in support of the police investigation.

Participants in an Investigation

- University employees who are interviewed, asked to provide information or otherwise participate in an investigation have a duty to fully cooperate with University-authorized investigators.
- Participants should refrain from discussing or disclosing the investigation or their testimony with anyone not connected to the investigation. **In no case should the participant discuss with the investigation subject the nature of evidence requested or provided or testimony given to investigators unless agreed to by the investigator.**
- Requests for confidentiality by participants will be honored to the extent possible within the legitimate needs of law and the investigation.
- Participants are entitled to protection from retaliation for having participated in an investigation.

Subjects of an Investigation

- The decision to conduct an investigation is not an accusation; it is to be treated as a neutral fact finding process. The outcome of the investigation may or may not support a conclusion that an improper governmental act was committed and, if so, by whom.
- The identity of a subject should be maintained in confidence to the extent possible given the legitimate needs of law and the investigation.
- Subjects should normally be informed of the allegations at the outset of a formal investigation and have opportunities for input during the investigation.

Subjects of an Investigation

- Subjects have a duty to cooperate with investigators to the extent that their cooperation will not compromise self-incrimination protections under state or federal law.
- Subjects have a right to consult with a person or persons of their choice. This may involve representation, including legal representation.
- Unless there are compelling reasons to the contrary, subjects should be given the opportunity to respond to material points of evidence contained in an investigation report.

Subjects of an Investigation

- No allegation of wrongdoing against a subject shall be considered sustained unless at a minimum, a preponderance of the evidence supports the allegation.
- Subjects have a right to be informed of the outcome of the investigation.
- Any disciplinary or corrective action initiated against the subject as a result of an investigation pursuant to this policy shall adhere to the applicable academic personnel or staff conduct and disciplinary procedures.

Other Reporting Requirements

- If an investigation leads University officials to conclude that a crime has probably been committed, the results of the investigation shall be reported to the District Attorney or other appropriate law enforcement agency.
- If ... a faculty member has engaged in conduct that may be a violation of the Faculty Code of Conduct, the results of the investigation shall be reported to appropriate academic personnel governing bodies in accordance with the applicable procedures for faculty conduct

RESOURCES

Whistleblower Resources

Finance & Resource Management

<https://farm.ucsb.edu/>

Vice Chancellor Administrative Services

<http://www.vcadmin.ucsb.edu>

Audit and Advisory Services

<http://www.audit.ucsb.edu>

Whistleblower

<http://www.vcadmin.ucsb.edu/whistleblower>

Whistleblower Hotline

<http://www.universityofcalifornia.edu/hotline>

Whistleblower Hotline Phone

800-403-4744

Contacts

- Ashley Andersen, Director, Audit and Advisory Services – Ext. 4080
- Darrell Paskett, Senior Investigator – Ext. 4335
- Jim Corkill, Controller and Director, Business and Financial Services – Ext. 5882
- Lisa Romero, Human Resources Interim Director – Ext. 8137
- Cindy Doherty, Academic Personnel Director – Ext. 8332
- Joe Incandela, Vice Chancellor for Research – Ext. 8270
- David McHale, Director, Environmental Health and Safety – Ext. 2040
- Ricardo Alcaíno, Director, Equal Opportunity and Sexual Discrimination Prevention - Ext. 4504
- Ariana Alvarez, Director and Title IX Officer, Title IX and Sexual Harassment Policy Compliance Office - Ext. 2546
- Alex Yao, Chief of Police, UCSB Police Department – Ext. 4151
- Nancy Hamill, Chief Campus Counsel – Ext. 2232

Policies

- Statement of Ethical Values
- UC Standards of Ethical Conduct
- Faculty Code of Conduct
- UC Whistleblower Policy
- UC Whistleblower Protection Policy
- Conflict of Interest
 - Standards of Ethical Conduct – 6. Conflicts of Interest or Commitment
 - UC Personnel Policies for Staff Members 82 – Conflict of Interest
 - UC Business and Finance Bulletin G-39 – Conflict of Interest Policy
 - UC Business and Finance Bulletin 43 – Materiel Management
- Use of University Resources
 - Standards of Ethical Conduct – 10. Use of University Resources
 - Personnel Policies for Staff Members 31, 32, 33
 - Electronic Communications Policy and Local Implementing Procedures
 - Policies Applying to Campus Activities, Organizations and Students 40.00 – Policy on Use of University Properties
 - Business and Finance Bulletin 29 - Management and Control of University Equipment, Section XIII – Personal Use of Property
 - Business and Finance Bulletin 65 – Guidelines for University Mail Services
- Exercising Official Duties
 - Business and Finance Bulletin 43 – Materiel Management