

# Ask the Auditor

Audit and Advisory Services Staff  
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# Ask the Auditor

## Disclaimer

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## Question:

# Subrecipient Risk Management

Many of our research awards have a higher level of audit risk. As we increase generation of sponsored research, particularly multidisciplinary work, we increase the use of subcontractors.

- What is the risk we need to consider when we utilize subcontractors and subawards?
- Are we liable for their behavior or financial practices if their award is audited?
- What can we do to ensure financial repercussions of our partners do not affect Berkeley?

Answer:

Is Berkeley liable for the behavior or financial practices of subrecipients if their award is audited?

A. Yes

B. No

C. It depends

# Answer: What risks should we consider when using subcontractors and subawards?



## Potential Indicators of High Risk

- A qualified audit report, or failure to have a current audit report
- Inadequate response to a financial questionnaire
- History of non-compliance
- History of non-performance or failure to use funds for their authorized purposes
- New subrecipient (or new to this type of project)
- New personnel or systems
- Large subaward/large percentage pass-through
- Award size relative to subrecipient's sponsored research portfolio
- Criticality to overall success of Berkeley's project
- Subrecipient in a remote location
- Debarred or suspended subrecipient
- Significant cost share
- Relationship between the subrecipient and Berkeley project team members

## Potential Responses to High Risk

- Corrective action plan
- Special monitoring - extra contact between PIs, more frequent technical reporting
- More detailed or frequent invoicing,
- Itemized expenditure reports (detailed expense backup)
- Payments tied to receipt of technical reports
- On-site monitoring
- More stringent termination or stop-work language for failure to meet requirements
- Evidence cost sharing is directly attributable to project
- Formal appraisal for donations

## Answer (cont'd):

# Our Responsibility as a Pass-through Entity



Monitor the subrecipient to:

- Ensure that federal awards are used for authorized purposes in compliance with laws, regulations and provisions of the prime
- Ensure that performance goals are achieved
- Ensure that subrecipients expending \$500K or more annually have met the audit requirements for that fiscal year
- Issue a management decision on audit findings within 6 months of receipt of the subrecipient's audit report
- Ensure that the subrecipient takes appropriate and timely corrective action
- Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records
- Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary as necessary

## Answer (cont'd):

# Our Responsibility as a Pass-through Entity



Select the right agreement form and subrecipient:

- Ensure proper classification between subawards and vendor agreements
- Select the right subrecipient, based on the ability to perform consider: past performance, technical and financial resources, previous audit findings and resolution, etc.

Inform subrecipient of:

- Requirements imposed on the subrecipient by Federal laws and regulations
- Requirements imposed on the subrecipient by the provisions of grant and contract agreements
- Requirements imposed on the subrecipient by any supplemental requirements imposed by Berkeley

## Answer (cont'd):

# Project and Department Controls



- Ensure invoices are submitted in accordance with subaward requirements
  - Correct level of detail and including any required cost sharing
  - Frequency/schedule
  - Backup materials adequate
- Ensure that duplicate costs or invoices have not been submitted
- Ensure invoices only contain expenses that are
  - Allowable (are there any prior approvals required?)
  - Allocable
  - Reasonable
- Verify costs are incurred within the period of performance
- Ensure expenses are aligned with technical progress and are within project scope
- Verify cost sharing is appropriately reflected if required
- Ensure timely receipt of the final invoice
- Ensure proper disposition of government property
- Settle any disputed or disallowed cost
- Compare actual to budget

## Question:

If we receive payments in excess of the amount due, are we obligated to process a refund even if the excess amount is small?

A. Yes

B. No

C. It depends

## Question:

### Overpayment Scenario 1

We receive \$80 check payments for a \$78 citation.

We now owe the customer \$2 back.

What is our obligation to process a \$2 refund?

## Answer:

# How can we handle this situation?

### Options

1. Return the check asking the payee to remit a check for the appropriate amount.
2. Cash the check and process the refund.
3. Ask the payee's permission to retain the \$2. If yes, treat as a donation. (A documented telephone conversation or email may be acceptable given the amount.)
4. Cash the check and address the matter upon receipt of a complaint.
5. Change the citation language to indicate payment in the incorrect amount will not be returned. Accrued late fees associated (or other consequence) with the delay in payment will not be waived.

## Follow-up Question: Overpayment Scenario 2

Our parking machines do not give change back. The sign says "exact change" or credit card payments. Customers still overpay (\$5 paid for \$3 parking) and come to our office for the \$2 refund.

Do we owe the customer for the excess?

# Follow-up Answer:

## Overpayment Scenario 2



- In short, we owe the customer \$2 unless the sign also says no change will be returned.
- Potentially, there is an issue of “he said, she said” if machine does not produce a receipt for the amount paid.
- Another option is to not allow the parking machine to accept excess payment.
- May pose other issues (e.g. less parking revenue, more citations).

# Question:

## CalTime

“Why does the campus see fit to mess with my paycheck before the start of the holidays?”

# Answer: CalTime



- Alternative dates were carefully considered to ensure campus readiness, with an emphasis on minimizing the disruption to our non-exempt employees.
- Only a handful of dates were possible, due to the alignment of payroll cycles and benefit deductions.
- Among other factors, the campus needed to select a date that fell close to or on the first of the month, based on lessons learned from other UC campuses that had selected a mid-month date and had problems as a result when they transitioned.
- The Nov. 1 date was also selected because it ensures that employees could receive a full monthly or semi-monthly paycheck just prior to the transition period.
- In addition, a longer delay would run the risk of jeopardizing the significant investment of time and money that the campus has made in implementing this absolutely critical change.
- <http://caltime.berkeley.edu/faq-page#top>

# Question:

## Pay Inequities

What is the campus doing to manage pay inequities?

# Answer:

## Pay Inequities



### EQUITY INCREASES

- An equity increase may be granted under unusual circumstances and is typically based on a serious salary inequity which cannot be corrected through the merit review cycle.
- A salary inequity exists when an employee's salary is significantly below that of those in the same title code with similar performance, experience, skills, knowledge, and assignments.  
Examples of situations which may indicate a salary inequity include:
  - The salary of a long-term employee is low relative to a new hire whose salary is highly market-driven.
  - There is significant salary compression between a supervisor and his/her employees.
  - An employee changes from a limited-term to a career position in the same class.
  - Market factors influencing recruitment and retention.
- If the Chancellor determines that staff salaries are not competitive with the labor market such that staff recruitment and retention may be affected, the Chancellor also may grant an across the board market increase by organizational unit, job field, job level and/or title code to address those market lag concerns.
- An equity increase may be considered for an employee who has assumed a substantial increase in scope of ongoing responsibilities that he/she is currently performing, but not enough for a reclassification or promotion to a higher level. For example, an employee may be asked to run additional programs at the same complexity level as current programs run by the employee.
- Upon a lateral move, normally there will be no change in salary. In exceptional cases, an employee may be considered for an equity increase.
- The department head will submit the request through appropriate channels to the control unit head, except as redelegated. The vice chancellor will review and may consult with HR before making a final decision.

HR Procedure 30: Salary

**Answer:**

Can we pay non-UC recipients of honoraria without setting the individual up as a vendor.

A. Yes

**B. No**

C. It depends

# Answer:

## Honoraria

IRS regulations govern Berkeley's requirements for the treatment of honoraria:

- for non-UC employees a 1099 may be required,
- for UC faculty is processed as additional compensation,
- for foreign individuals there are other tax reporting requirements (e.g. residency status and tax treaty eligibility), and
- non-academic staff are not eligible.

Other payment methods would not assure that Berkeley complies with federal requirements.

**Answer:**

**Are cost transfers a red flag on federal awards?**

**A. Yes**

B. No

C. It depends

# Question:

## Cost Transfers

What is a cost transfer and why does the campus place so much emphasis on how a cost transfer to or from a sponsored project is managed and recorded?

# Answer:

## Cost Transfers

- A cost transfer is a journal entry that transfers an expense onto a federally-funded sponsored award that was previously recorded elsewhere on university's general ledger and requires institutional approval before it can be posted to the general ledger.
- In accordance with the federal Office of Management & Budget (OMB) Circular A-21, it is necessary to explain and justify transfers of charges onto federally-funded sponsored awards, where the original charge was previously recorded elsewhere on university's general ledger. Timeliness and completeness of the explanation of the transfer are important factors in supporting allowability and allocability in accordance with OMB Circular A-21.
- (Note: Effective December 26, 2014 Uniform Guidance will replace OMB Circular A-21)
- Great emphasis is placed on how these transfers are handled because UC Berkeley receives approximately \$370 million in federally sponsored awards for research for FY2013.

Answer:

Does the Chancellor have the authority to approve all withdrawals from a fund functioning as an endowment?

A. Yes

**B. No**

C. It depends

**Question:**

## Funds Functioning as Endowments

What are the approval thresholds for withdrawing from a fund functioning as an endowment (FFE)?

## Answer:

# Funds Functioning as Endowments

- If the beneficiary wishes to draw upon the corpus of an FFE, the Chancellor may delegate authority for such withdrawal up to a market value of \$1,000,000.
- The Chancellor may approve withdrawals from an FFE with a market value of \$5,000,000 when no more than five percent of the market value of a fund is to be withdrawn in a single year, over and above the annual payout.
- However, the President must approve withdrawals from a fund with a market value over \$5,000,000 when more than five percent of the market value of the fund is to be withdrawn in a single year.

Question:

## Electronic Signature Systems

My department is thinking of implementing an electronic signature system to facilitate document routing and approval.

What do I need to know?

Answer:

# Electronic Signature Systems

Related to the overall project:

- What need does the planned implementation address, and is it something that existing system approval functionalities (e.g., within BearBuy or BFS) can be used to address instead? If this is a shadow system, it will create the need to ensure proper linkage with the system(s) of record from a transaction and supporting documentation standpoint, and may create a duplication of effort.
- If the need cannot currently be met within existing systems, what are the measures/efforts required to address these limitations? If the limitations can be addressed, utilizing system of record capabilities is preferred.
- If the need cannot be met within existing systems, how does this project align with other campus initiatives around electronic signature, including within CSS or campus-wide? Is there the opportunity to coordinate with other units to identify a common solution that will address long-term needs?

**REMINDER:** Email does not meet the current standard for electronic signature.

# Answer:

## Electronic Signature Systems

Related to the tool:

- Procedures and controls to ensure proper user authentication and data security must comply with UC and campus policy. Software vendors must accept Appendix DS and our indemnification language in the contract. In addition, there are specific campus policy requirements including:
  - the Minimum Security Standards for Networked Devices (<https://security.berkeley.edu/MinStds/netdevices.html>),
  - the Data Classification Standard (<https://security.berkeley.edu/node/280>),
  - and the Minimum Security Standards for Electronic Information (<https://security.berkeley.edu/node/363>)
- If the routed documents contain any sensitive data, cyber security and privacy liability conditions must also be met <http://www.ucop.edu/risk-services/risk-financing-claims/cyber-risk/cyber-security-privacy-liability.html>)
- Proper user training must be provided
- UCOP delegation of authority policy compliance issues must be addressed, including proper documentation/sign-off of delegations programmed into the system
- Routine reviews of delegations programmed into the system to ensure their ongoing appropriateness should be performed

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# Other Resources

Visit or mail us at:

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Visit our website at <http://audit.berkeley.edu>

Submit future questions to:

[audit@berkeley.edu](mailto:audit@berkeley.edu) or

<http://audit.berkeley.edu/services/ask-auditor/submit-your-question>