

THE UNIVERSITY OF IOWA

Internal Audit Department

Center for Biocatalysis and Bioprocessing

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Board of Regents Office, State of Iowa

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INTERNAL AUDIT REPORT
Center for Biocatalysis and Bioprocessing

BACKGROUND

The Biocatalysis Research Group was established in 1983 through a collaboration of faculty from five different departments (eight departments today). This group aggressively promoted biotechnology, and by 1990, had secured funding through a continuing special state appropriation. It was also during 1990 that they received official recognition as the Center for Biocatalysis and Bioprocessing from the Board of Regents. From 1993 to 1995 preparations were made to design, fund and built a state-of-the-art laboratory. By 1996 the construction, equipping and staffing of the new laboratory at Oakdale was complete. The lab is now used to support education, training and research at the University. It also serves as a technology transfer resource to the private sector by providing access to extensive biotechnology expertise and offering a wide variety of fermentation production services.

Funding for The Center for Biocatalysis and Bioprocessing comes from several sources. A summary for fiscal year 2003 is shown below.

<u>Description</u>	<u>Source</u>	<u>FY 2003 Revenue</u>	<u>Free Balance at 6-30-03</u>
Administrative	State Special Appropriation	\$ 931,420	\$ 0
Lab Operations	Private Sector	\$ 532,780	\$(62,090)
Grants	Government & Private Sector	\$ 221,650	\$ 72,690
Space Rental	Private Sector	\$ 250	\$ 85,140
Donations	Private Sector	\$ 10,650	\$230,820

PURPOSE AND SCOPE

The audit was a comprehensive review of the Center for Biocatalysis and Bioprocessing's (CBB) present system of internal control, which helps ensure:

- Reliability of data and information.
- Objectives/goals/expectations have been developed, established, and are adequately monitored.
- Compliance with University and internal policies and procedures.
- Efficient and economical use of resources.
- Safeguarding of assets.

Emphasis was given to the following systems/processes:

- Measuring success of economic development and entrepreneurial missions of lab.
- Financial contingency planning.
- Succession planning.

- Compliance with internal CBB lab administrative policy and the University's Health Protection Office policy.
- Donation fund activity.
- Space Rental fund activity.
- Contract approvals and amendments in lab operations fund.
- Purchasing/Expenditures.
- Payroll/Personnel.
- Cash Receipts, Revenue and Accounts Receivable.
- Capitalized Equipment.
- Grant and contract management.
- IT Security.

DISCUSSION AND CONTROL RECOMMENDATIONS

1. **Signature Delegation**- CBB lacks formal signature delegation from the University to sign contracts.

Discussion CBB routinely negotiates, prepares and administers service contracts with private companies for lab work. We found, in most cases, CBB will approve and sign their own contracts without further review by University officials. Our concern is that there is no formal delegation from the University which allows CBB signature authority. In addition, University policy covering contracting authority appears to restrict the University's ability to delegate signature authority further than the Division of Sponsored Programs.

Operation Manual, Chapter 6, Section 6.1, Contracting Authority, indicates who may sign contracts for the University. This policy allows the University President to delegate signature authority to others. The University President can delegate authority to the Director of the Division of Sponsored Programs for contracts like CBB administers. However, we do not believe the policy allows further delegation from the Division of Sponsored Programs to CBB.

CBB uses a standard, template contract. The standard contract has been reviewed in the past by the Division of Sponsored Programs. However, specific CBB contracts using the standard template have not been sent to the Division of Sponsored Programs. If CBB believes there are substantive changes to this standard contract, CBB procedure requires direct approval of the Division of Sponsored Programs.

Much of the motivation of CBB for signing contracts is efficiency. Many of the contracts are for \$10,000 or less, and lab operations could be delayed by a lengthy review process. Management attributes part of their success in obtaining these contracts on a streamlined contract process.

Control Recommendations CBB management should immediately take steps to clarify their contract signature authority with the University's Vice President of Research. If formal delegation is possible, CBB should obtain written acknowledgement from University officials. In the absence of written authority, CBB should discontinue signing lab service

contracts and work with University officials to determine the most effective method to process contract approvals.

Corrective Action by Management The operating procedure used by the CBB in establishing contractual agreements primarily with industry is the result of several deliberations with the Director of the Division of Sponsored Programs. It was our understanding that we were in compliance with University of Iowa policies. All contracts deviating from University of Iowa approved contracts are routinely sent to staff at Sponsored Programs to ensure compliance with University requirements.

We will gladly work with the Office of the Vice President for Research to establish proper procedures for contracting and for establishing the best means for both the CBB and the University of Iowa to function. This would include clarifying the issue of signature authority. Until a new operating practice is agreed upon, it would not be reasonable to change operating practices until a workable system is in place.

We propose to ask for a meeting with the Interim Vice President and any of his recommended associates to clarify this issue. I recommend that the CBB should be represented by the Director, Director of Operations, and Administrative Assistant. We will attempt to have this issue clarified by June 30, 2004.

Individual Responsible – Director *Target Date* - June 30, 2004

Auditor's Comment Agree with response. Internal Audit will follow-up in the first quarter of fiscal year 2005.

2. GLP Procedures- Some administrative laboratory procedures were not consistently followed.

Discussion CBB details their lab procedures in a document entitled the Good Laboratory Practices manual (GLP manual). Our review included testing compliance with those procedures which we believe held the most risk to the University if not followed. Although CBB's management and employees are conscientious about following the GLP manual, we found some areas where routine controls were overlooked.

- Procedure states all employees should sign a "GLP Statement of Understanding" form before working in the lab. The form acknowledges the employee has read and understands the manual. Of the 22 employees that should have had forms on file, we could only locate 8 of them at the time of the review. CBB has since updated the manual and has collected new forms for all the staff.
- Procedure requires the use of a key form in order to account for and approve the issuance of sensitive lab and building keys. Our review found that CBB has not been using this form consistently in the recent past. CBB has since decided that the form is obsolete and deleted it from future manuals. The form was intended to control keys of resident non-university employees. CBB no longer houses these residents.
- Employees should have access to several procedural manuals published by The University of Iowa's Health Protection Office. The two manuals we found in the lab

- were dated 1991 & 1992. Management explained to us that CBB employees are aware that the manuals are online, and the need for printed manuals no longer exists.
- The manual includes a list of lab equipment requiring logbooks and employee qualification. Once qualified, the employees should be added to the qualified user list placed in the back of the logbook. We choose a sample of 25 items from the equipment list to test. We found:
 - 2 of 25 equipment items were no longer at the lab.
 - 11 of 23 equipment items found lacked a logbook. Management explained that not all equipment on the list had or needed a logbook.
 - 4 of 12 items which had a logbook lacked a qualified user list. Most of the lists we found were 11 month old so some recently hired employees were not reflected on the lists.

Control Recommendations We recommend the following:

- Management should ensure employees complete the required statement of understanding forms. Management should clearly fix responsibility for ensuring continued compliance with these procedures.
- Management should either dispose of the old Health Protection Office manuals to avoid potential confusion or ensure updated, printed manuals are available to lab staff.
- Management should ensure the logbooks contain current qualified user lists and that ongoing updates be made as new employees qualify. Management should clearly fix responsibility for routine updating of the lists and logbooks.
- Management should indicate specifically in the manual which equipment items require the use of logbooks.

Corrective Action by Management Corrective actions for all items have been completed or will be on reissue of an already revised GLP Manual.

Individual Responsible – Director of Operations and Director

Auditor's Comment Agree with response. Update of the manual and implementation of our recommendations were later verified through a subsequent visit to the lab. This recommendation is closed.

3. Accounts Receivable- CBB billing activity not being reported to University Business Office.

Discussion CBB processes invoices and collects income from lab service contracts they negotiate with private companies. CBB has found it more efficient to process these transactions independently and does not use the University Business Office for either billing or collection efforts. In this situation, University policy requires departments to report, at least annually, accounts receivable balances to the University Business Office. We found that CBB does not report any activity to the University Business Office. The cause of this was that neither CBB nor the University Business Office were aware of the others activity. Consequently, CBB didn't realize it should report, and the University Business Office didn't ask for the information.

Our concern is that CBB's invoices are beginning to represent significant assets which are not recorded in the university's financial system. This results in incomplete financial information that has the potential to mislead university officials and goes against good business practice.

Control Recommendations Through consultation with the University Business Office, determine the most efficient method to accomplish the periodic recording of receivables in the University financial system.

Corrective Action by Management We have already contacted the University of Iowa Business Office, and we received the "Accounts Receivable Worksheet." This has been completed this year to date. We are now on their mailing list, and we are expecting a letter from that office in June. We feel that this problem has been satisfactorily addressed.

Individuals Responsible – Administrative Assistant and Director
Target Date - June 30, 2004

Auditor's Comment Agree with response. Internal Audit will follow-up in the first quarter of fiscal year 2005.

4. Internal Control– Opportunities exist to improve controls over cash collection and billing processes.

A) Cash Collection

Discussion CBB's success in creating a demand for its lab services has resulted in an increase in cash collection activity over the years. All cash receipts come in check form, and most checks will exceed \$500 in amount. Total receipts from lab operations were over \$500,000 in fiscal year 2003, and CBB exceeded this figure in the third quarter of fiscal year 2004. Considering the level of activity we recommend management strengthen controls over cash.

- Currently one person collects and deposits cash receipts. Separating the collection duties from the deposit duties would improve controls. This would provide additional monitoring and confirmation that all cash receipts collected are properly deposited. We believe management could separate these two functions by including the Secretary in the process. The Secretary could open the mail, write a cash receipt or enter into a log, restrictively endorse, and forward the funds to the Administrative Assistant for deposit. Upon deposit, the Administrative Assistant would then give the Secretary a deposit slip to reconcile against the log.

B) Billing

Discussion CBB independently invoices their customers for the lab services they provide. A part-time employee handles much of the process with oversight by the Director of Operations. Our review of the billing process found some opportunities for improvement.

- CBB maintains electronic billing records and files on a shared drive accessible to the Administrative Assistant. Since the Administrative Assistant also makes deposits,

internal control could be strengthened by restricting the Administrative Assistant's access to billing records. Allowing such access increases the potential for the depositor to conceal irregularities through unauthorized changes to the billing records.

- ❑ Periodically CBB needs to modify or cancel invoices. Although a supervisor reviews and initials the original invoice, and reviews any changes, the supervisor does not initial changes. We believe this is an important control to ensure changes are properly approved.
- ❑ An important internal control to detect errors or irregularities in the cash receipt process is to ensure proper posting to the university financial system. Although the billing clerk states a regular review of the university financial reports is done, there is no indication of the review in CBB records. Because of its importance, we believe the billing clerk should provide written acknowledgement in CBB records that the review was performed.

Control Recommendations We recommend the following procedures to strengthen internal control over the cash and billing cycles;

- ❑ Segregate cash collection, deposit, and billing functions within CBB. We suggest the Secretary administer cash receipts and that CBB restrict access to billing records for those engaged in either cash collection or deposit activities.
- ❑ Establish a control for a supervisor to initial changed or cancelled invoices.
- ❑ Establish a procedure to provide written acknowledgement in CBB records that a review of university financial reports was performed.

Corrective Action by Management We propose to establish the following system. The secretary will receive checks and log upon receipt. Checks are passed onto the Administrative Assistant who will do the deposits. The account clerk will verify that the checks have been deposited into the correct account. People other than the account clerk will have "read only" access to accounting files reflecting invoice activities – such files will be write protected. Issues related to handling of cash, depositing will be taken care of by May 31, 2004.

All invoices and changes are already systematically examined and initialed by the Director of Operations. Thus, it appears that this issue is already taken care of.

An additional column on the CBB invoice summary spreadsheet will be included to enable the account clerk to verify that a review of university financial reports was performed.

Individual Responsible – Administrative Assistant and Director *Target Date* - May 31, 2004

Auditor's Comment Agree with response. Internal Audit will follow-up in the first quarter of fiscal year 2005.

5. Personnel/Payroll- Personnel file content needs attention

A) Items to Exclude from Personnel Files

Discussion Human Resources Department's guidelines state departments should not maintain either medical information or certain recruitment documents in the employee personnel file. We found the CBB has been keeping both types of documents in the personnel files. The Human Resources Department requires these documents be stored in separate medical and recruitment files instead.

B) Items to Include in Personnel Files

Discussion Human Resources Department's guidelines address personnel file content. We tested 7 past and present employee's personnel files for compliance. We found that some CBB files either did not contain the suggested documents or were not consistently included.

- Performance Appraisals. 0 of 7 files included the current performance appraisal. CBB files all employee appraisals together in one file; however, one should be kept in the employee's personnel file as well.
- Appointment Records. 5 of 7 files included all applicable appointment forms.
- Files for Transferred Employees. 0 of 3 employees who transferred into CBB from another University department had personnel files from their previous department. Guidelines indicate that the new department should request the personnel file from the old department upon transfer.
- Credential Checks. 1 of 2 included complete credential checks. The University recently approved a policy which will require a credential check for most newly hired CBB employees. We reviewed two files of recent hires who were subject to the credential check. In one cases, copies of documentation was accepted for verification. The policy states only original documentation should be accepted. The original documentation has since been verified.

Control Recommendations We recommend CBB's Human Resource representative establish separate medical and recruitment files. A review of the files should be done to identify documents currently in the personnel file that should be in the medical and recruitment files. Also, procedures should be established to ensure correct and complete information is included in all files.

Corrective Action by Management The CBB Human Resource representative will establish separate medical and recruitment files for all CBB employees. This action will follow a review of files to identify documents that should be removed. Correct and complete information will be obtained for credential checks, appointment records, performance appraisals and files for transferred employees. For credential checks, we will follow instructions for P&S staff as stipulated in the document "Credentials Check at Point of Hire." This document calls for verification through Degree Verify – an electronic database for all academic degrees awarded in the United States. For foreign nationals, we will verify degrees using certified copies of transcripts as well as letters of reference. All hires since June 1, 2003 will follow this process. We propose to have this complete by June 30, 2004.

Individual Responsible – Administrative Assistant and Director *Target Date* - June 30, 2004

Auditor's Comment Agree with response. Internal Audit will follow-up in the first quarter of fiscal year 2005.

6. IT Security- Controls are weakened by lab staff sharing computer passwords.

Discussion CBB lab personnel all share a single password to log onto CBB computers. Consequently, CBB lacks the ability to trace network activity to any particular employee in case an investigation is necessary. CBB Management realizes the risks associated with this practice but says that the potential for problems is remote. Lab personnel do not utilize computers extensively, and they were told that the cost to establish separate accounts would be expensive. However, we believe The University's Information Technology Services could establish separate accounts with minimal cost or effort. The benefits could be significant if problems do occur.

Control Recommendations CBB should work with The University's Information Technology Services to establish separate login passwords for the lab staff.

Corrective Action by Management We will contact UITS to establish login passwords for lab staff. We presume that this will not be an expensive endeavor as we had been led to believe some time ago when we had addressed this issue ourselves. The CBB facility will be moved to the Exchange Server before August 2004. At this time, each staff member will have an individual login. This activity will be completed by August 2004.

Individual Responsible – Director of Operations and Director *Target Date* - August 2004

Auditor's Comment Agree with response. Internal Audit will follow-up in the first quarter of fiscal year 2005.

7. Grant Administration- Required Administration Invention Agreements should be filed with Division of Sponsored Programs.

Discussion The University requires all sponsored research projects to have a completed Administration Invention Agreement (A/IA) on file in the Sponsored Programs Office.

The A/IA is an important document which serves two purposes. First, it documents that the Principle Investigator and the Departmental Executive Officer agree to accept responsibility for managing the sponsored funds in accordance with sponsor and University policy and to recognize their responsibility for resolving any deficits or unallowable costs.

Secondly, the A/IA indicates agreement with University Patent policy, Conflict of Interest policy, and for federally sponsored research, it promotes compliance with the Bayh-Dole Act of 1980. The Bayh-Dole Act of 1980 requires universities to disclose any patents that could arise from federally sponsored research.

During this review, three of the four selected sponsored research projects did not have this form on file at Sponsored Programs Office.

Control Recommendations Management should ensure that the A/IA forms are completed and returned to Sponsored Programs Office in a timely fashion, as well as communicate the importance of this document to all Principle Investigator's working on CBB grants.

Corrective Action by Management We will ensure that a completed A/IA agreement is on file in the Sponsored Program Office for all 510 projects. Examples would include the NSF ERC grant, NIH and NSF training grants. The need for such a document will be considered together with signatory and other contractual issues mentioned under Item #1. We expect to complete this process by the end of May 2004.

Individual Responsible – Administrative Assistant and Director *Target Date* - May 2004

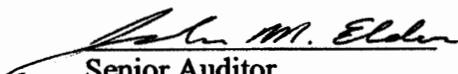
Auditor's Comment Agree with response. Internal Audit will follow-up in the first quarter of fiscal year 2005 to determine if subsequent grants have a completed A/IA agreement.

SUMMARY

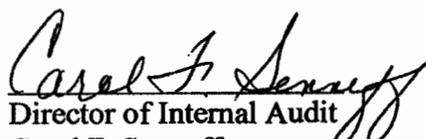
CBB is clearly dedicated to providing The University of Iowa with a world-class biotechnology organization. Participation in a five-year, \$17 million National Science Foundation grant and a \$3 million award from the State of Iowa to renovate and expand its lab at Oakdale showcase its recent successes. Among its strengths we found during our review is a strong commitment to a comprehensive safety program.

CBB faces two major challenges in the coming year. CBB's founder and director since 1983, will be retiring. The director has been a successful advocate for the lab by securing financial support, overseeing construction of the facilities, partnering with the private sector and bringing in external research funding. A change in leadership always has its risks, although, we believe the search committee now assembled is prepared and well-suited for the task.

The upgrade of the lab at Oakdale is also an important challenge and ambitious goal. Potential risks include construction delays, properly implementing enhanced operating and safety controls and securing clients for the facility. Our review of the overall planning process did not uncover any concerns; however, closely monitoring progress throughout will be essential.


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