

UNIVERSITY OF NEVADA, RENO
NEVADA TERA-WATT FACILITY
Internal Audit Report
July 1, 2012 through May 31, 2014

GENERAL OVERVIEW

The Nevada Terawatt Facility (NTF) is a research facility established by the University of Nevada, Reno (UNR) in 2000. The facility is part of the UNR Department of Physics, within the College of Science, and is located 10 miles north of campus in Stead, Nevada. The mission of NTF is to conduct research and to train students in the field of high energy density science. NTF is supported primarily from grants received from the U.S Department of Energy (DOE). During the audit period, two DOE awards were in progress the total of which exceed \$30 million. As of the close of the audit period, there were 27 NTF employees including nine professional, three classified, 13 graduate students, one student and one temporary employee. The UNR Office of Sponsored Projects is responsible for maintaining award files, submitting financial reports, and completing effort report certifications for NTF's research grants.

SCOPE OF AUDIT

The Internal Audit Department has completed a review of the UNR Nevada Terawatt Facility for the period of July 1, 2012 through May 31, 2014.

Our review was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included tests of the accounting records and other auditing procedures, as we considered necessary. The tests included, but were not necessarily limited to, these areas.

1. Testing expenditures for reasonableness, supporting documentation, and allowance under the federal government's Office of Management and Budget (OMB) guidelines.
2. Examining equipment inventories for proper accountability.
3. Reviewing effort reports, indirect cost calculations, and the reporting requirements for NTF's sponsored projects for proper completion, accuracy and compliance with OMB guidelines.
4. Testing controls over the receipt and deposit of funds received from business activities.
5. Reviewing leave records and timesheets for proper completion and approval.
6. Testing employee access to the mainframe applications and the internal computer application that is used by NTF.

In our opinion, we can be reasonably assured that the UNR Nevada Terawatt Facility is operating in a satisfactory manner. However, implementation of the following recommendations would further improve operations.

EQUIPMENT

A review of NTF's equipment was performed to determine whether items listed on the department's equipment inventory report were physically present and whether other items were observed that were not included on the report. Of 47 items reviewed, four occasions were noted in which an asset tag was not affixed to equipment items. Upon notification, asset tags were obtained from the Business Center North (BCN) Purchasing Department and affixed to the equipment.

We recommend greater care be taken to ensure asset tags are affixed to equipment at the time of acquisition.

Institution Response

NTF agrees with the audit findings and recommendation.

- **How compliance was achieved. Nevada Terawatt Facility (NTF) requested duplicates of missing asset tags from Business Center North's Purchasing / Inventory controls section and has affixed them to the equipment.**
- **What will be done to avoid the identified problems and issues in the future? A photo of the equipment with the said asset tag is attached to the NTF's inventory records files. NTF performs yearly inspections to confirm the university's asset tag is affixed to the said equipment.**
- **How compliance and future good management and practice will be measured, monitored and assured. During the university's annual inventory, all custodians are required to verify the equipment's location, condition and the presence of the university's asset tag. The NTF inventory manager and the individual custodians are required to sign and date the NTF annual inventory documents / reports, which are forwarded to the Physics Department to be incorporated into the Department's overall annual inventory.**
- **Who will be responsible and may be held accountable in the future if repeat or similar problems arise. The Manager of Fiscal and Administration (Mgr. of F & A), has the responsibility for NTF inventory and will be held accountable for any issues which may arise.**
- **When the measures will be taken and on what schedule compliance and good practice will be secured. All appropriate measures have been implemented and a NTF policy letter pertaining to inventory control was reissued on December 5, 2014. An annual physical inventory and documents are produced in accordance with the university's calendar.**
- **How compliance and performance will be documented for future audit, management and performance review. NTF retains a signed version of the NTF's annual inventory report with copies to the Physics Department and BCN Purchasing / Inventory Control unit.**

REPORTING

We reviewed the reporting requirements for the two sponsored project awards received by NTF from the DOE and then performed a review to verify whether the reports were completed and submitted to the agency in a timely manner. We noted one technical report was not completed and submitted to the sponsor in a timely manner.

We recommend that reports be completed and submitted as required.

Institution Response

NTF agrees with the audit findings and recommendation and will submit the Research Performance Progress Report (RPPR) by April 15, 2015 to the appropriate parties.

- **How compliance was achieved. The NTF Director will submit the report by April 15, 2015.**
- **What will be done to avoid the identified problems and issues in the future? The Manager of Fiscal and Administration monitors a calendar of reporting dates with notations of completion dates.**
- **How compliance and future good management and practice will be measured, monitored and assured. The Mgr. of F & A maintains a calendar of reporting dates and communicates the schedule to the NTF Director.**
- **Who will be responsible and may be held accountable in the future if repeat or similar problems arise. The Director of the NTF is accountable for submission of timely technical reporting.**
- **When the measures will be taken and on what schedule compliance and good practice will be secured. The measures are in place and the report will be submitted by April 15, 2015, in compliance with the U.S. Department of Energy's requirements.**
- **How compliance and performance will be documented for future audit, management and performance review. The Director is responsible for submission of timely reports.**

CASH CONTROLS

During the audit period, NTF collected payments from a local recycling company for scrap metal and the salvage of old equipment items. In reviewing the supporting documentation maintained for these transactions, we noted each of the five checks received during this time were made payable to NTF instead of the Board of Regents.

For proper control, we recommend the vendor be requested to make checks payable to the Board of Regents.

Institution Response

NTF agrees with the audit findings and recommendation and has complied with the findings.

- **How compliance was achieved. The Administrative Assistant III (AIII) contacted the vendor (Western Metals Recycling LLC) and requested that all future checks be made payable to Board of Regents.**
- **What will be done to avoid the identified problems and issues in the future? During the establishment of services the AIII will instruct the contracted vendor to make all checks payable to the Board of Regents.**
- **How compliance and future good management and practice will be measured, monitored and assured. Monthly, the NTF Manager of F & A, reviews all financial actions for accuracy and compliance and if checks are issued incorrectly then the companies are notified that all future checks must be made payable to the Board of Regents.**
- **Who will be responsible and may be held accountable in the future if repeat or similar problems arise. The Manager of F & A will be held accountable for assuring compliance.**
- **When the measures will be taken and on what schedule compliance and good practice will be secured. All measures were implemented in June 2014, and as checks arrive they are audited for compliance. AIII audits the received documents (checks) for payee accuracy maintains a copy for the NTF records.**
- **How compliance and performance will be documented for future audit, management and performance review. NTF retains copies of checks in the appropriate files.**

OTHER

The following items were noted during this review; however, they are the responsibility of the UNR departments specified below.

VOLUNTEERS

We were informed that one individual provided volunteer services at NTF during the audit period. The BCN Worker's Compensation Office requires university departments to complete a volunteer agreement form and related documents for each volunteer and submit the documentation to the worker's compensation office. We noted the appropriate paperwork was completed by the Department of Physics for the volunteer noted but the documentation was not submitted to the worker's compensation office.

We recommend volunteer activities and corresponding documentation be reported to the BCN Worker's Compensation Office, as required.

Institution Response

The College of Science (COS), Department of Physics, agrees with the audit findings and recommendation and corrected the procedure in August 2014.

- **How compliance was achieved. The College of Science and Department of Physics reviewed the instructions provided by BCN Human Resources (HR). Information and instructions were provided to the COS / Personnel Analyst, and the Department of Physics / Administrative Assistant IV (AAIV). The Physics Department scans a volunteer agreements signed by Department Chair to the College of Science and to the BCN HR Workers Compensation Office.**
- **What will be done to avoid the identified problems and issues in the future? The (AAIV) audits the semiannual reconciliation reports and distributes it to all Physics faculty for confirmation (in writing) that all volunteers have been accounted for and recorded by BCN HR Workers Compensation Office. This will be done in compliance with dates provided by BCN.**
- **How compliance and future good management and practice will be measured, monitored and assured. In the department, all university reporting dates are maintained by the AAIV. The Workers Compensation office maintains a listing of departments with volunteers and requires verification that the report was audited for accuracy. Noncompliance is reported to the Department Chair.**
- **Who will be responsible and may be held accountable in the future if repeat or similar problems arise. The Chair of the Physics Department is held accountable for any issues which may arise.**
- **When the measures will be taken and on what schedule compliance and good practice will be secured. Compliance was met in August 2014, continuation of BCN HR practices is met as new volunteers are employed, reconciliation of reports are completed semiannually in January and July respectively.**
- **How compliance and performance will be documented for future audit, management and performance review. Copies of required volunteer forms are kept on file in the BCN HR, and at the department level as per the university's instructions.**

EXPENDITURES

We reviewed a sample of 60 expenditures that were charged to NTF accounts during the audit period. The transactions were reviewed for reasonableness, proper approval, supporting documentation, and compliance with OMB requirements. Of the 60 expenditures reviewed, no material exceptions were noted with 59.

The remaining expenditure involved services provided by an independent contractor. We noted the agreement was processed on a purchase order with a nontaxable expense category used, resulting in a taxable payment for services that was not reported on a Form 1099 tax form.

We recommend greater care be taken when processing these types of transactions to ensure an Independent Contractor Agreement form is completed and that the account coding is accurate for taxable payments. We also recommend the UNR Controller's Office issue an amended Form 1099 to the vendor and to the Internal Revenue Service.

Institution Response

UNR Controller's Office agrees with the audit finding and recommendation.

- **How compliance was achieved: The vendor was issued a corrected 1099.**
- **What will be done to avoid the identified problems and issues in the future: The error arose from a data entry error on the expense coding. UNR Controller's Office has changed the expense sub-object coding structure to prevent data coding errors of this type from impacting 1099 reporting.**
- **How compliance and future good management and practice will be measured, monitored and assured: By changing the sub-object codes to "taxable", payments to vendors that are classified as independent contractors will be reported regardless of the expense codes used. This will ensure data entry errors do not interfere with compliance for 1099 reporting.**
- **Who will be responsible and may be held accountable in the future if repeat or similar problems arise: The University Controller is responsible for ensuring compliance with Internal Revenue Code for 1099 reporting.**
- **When the measures will be taken and on what schedule compliance and good practice will be secured: Corrected 1099 has already been issued, and after the 2014 1099s are issued in January 2015, we will begin making changes to the sub object codes.**
- **How compliance and performance will be documented for future audit, management and performance review: 1099 compliance is documented in the accounting records as required by law. These records are always available for audit and review.**

PRIOR AUDIT

A prior audit of the Nevada Terawatt Facility was conducted for the period of July 1, 2001 through June 30, 2003. All recommendations from the prior audit have been implemented, are no longer applicable, or have been addressed in this audit.

STATEMENT OF REVENUE AND EXPENDITURES

The statement of revenues and expenditures provided below is based on the activity of two sponsored project and two self-supporting accounts that have been assigned to the Nevada Terawatt Facility. The revenue and expenditure information was obtained from the financial accounting system and is provided for informational purposes only.

	Self-Supporting
Balance July 1, 2012	\$ 92,958
Revenues	
Indirect Cost Recovery	45,240
Other	14,468
Total Revenues	<u>59,708</u>
Expenditures	
Salaries	18,268
Travel	4,950
Operating	27,263
Total Expenditures	<u>50,481</u>
Balance June 30, 2013	\$ 102,185
Balance July 1, 2013	<u>\$ 102,185</u>
Revenues	
Indirect Cost Recovery	32,236
Total Revenues	<u>32,236</u>
Transfers Out	<u>3,300</u>
Expenditures	
Salaries	23,167
Operating	36,143
Total Expenditures	<u>60,230</u>
Balance May 31, 2014	<u><u>\$ 70,891</u></u>

Grant Accounts

Revenues

Federal Grants & Contracts, Restricted	<u>\$ 27,934,320</u>
Total Revenues	<u>27,934,320</u>

Expenditures

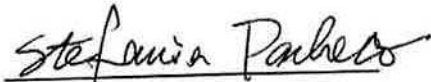
Salaries	14,020,061
Travel	451,630
Host	12,293
Operating	2,310,829
Participant Support	20,000
Sub-Agreements	1,618,189
Tuition & Fees	175,690
Equipment	2,001,778
Other Fixed Assets	672,391
Indirect Costs	<u>6,751,748</u>
Total Expenditures	<u>28,034,609</u>

Balance May 31, 2014	<u>\$ (100,289)</u>
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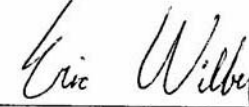
Note: Deficit balance is due to expenditures that have been incurred but not reimbursed from the granting agency.

The Internal Audit Department appreciates the cooperation and assistance received from the Nevada Terawatt Facility and Office of Sponsored Projects personnel during this review.

Reno, Nevada
November 17, 2014



Stefania Pacheco
Internal Auditor II



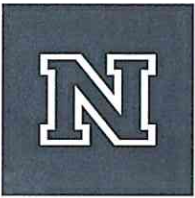
Eric Wilber
Senior Internal Auditor



Grant Dintiman
IT Auditor



Scott Anderson
Director of Internal Audit



University of Nevada, Reno

Memorandum

To: Scott Anderson, Director Internal Audit, Nevada System of Higher Education

From: Tom Judy *Tom Judy*

Date: January 13, 2015

Subject: Nevada Terawatt Facility audit response

The purpose of this memorandum is to transmit the response from the College of Science to the Nevada Terawatt Facility audit for the period July 1, 2012 through May 31, 2014.

I have reviewed and concur with all responses.

cc: Marc Johnson, President
Ronald Zurek, Vice President, Administration and Finance
Jeffrey S. Thompson, College of Science Dean
Aaron Covington, Assistant Research Professor, Director of NTF

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AUDIT

NevadaTerawatt Facility

AUDIT PERIOD

July 1, 2012 through May 31, 2014

NUMBER OF RECOMMENDATIONS

5

#	Recommendation	Implemented	Est. Date of Completion
Equipment			
1	We recommend greater care be taken to ensure asset tags are affixed to equipment at the time of acquisition.	Yes	
Reporting			
2	We recommend that reports be completed and submitted as required.	No	4/15/2015
Cash Controls			
3	For proper control, we recommend the vendor be requested to make checks payable to the Board of Regents.	Yes	
Other Volunteers			
4	We recommend volunteer activities and corresponding documentation be reported to the BCN Worker's Compensation Office, as required.	Yes	
Other Expenditures			
5	We recommend greater care be taken when processing these types of transactions to ensure an Independent Contractor Agreement form is completed and that the account coding is accurate for taxable payments. We also recommend the UNR Controller's Office issue an amended Form 1099 to the vendor and to the Internal Revenue Service.	Yes	