



# **Director's Administrative Fund**

*Internal Audit Report No. 06-16*



**Interdepartmental  
Letterhead**  
L-705  
Ext. 2-8202

**DATE:** May 18, 2006

**TO:** George H. Miller

**SUBJECT:** Internal Audit Report No. 06-16 - Director's Administrative Fund

The Audit & Oversight Department has completed an audit of the Director's Administrative Fund. A copy of the report is attached for your review. The audit was performed at the direction of the University of California and was conducted in parallel with the review of UC executive compensation.

The purpose of this audit was to determine whether expenditures from the Director's Administrative Fund from July 2004 through March 15, 2006, when an interim director was appointed, complied with the University of California (UC) and Lawrence Livermore National Laboratory (LLNL) policies. The Administrative Fund is provided to each Laboratory director and campus chancellor by the UC Regents to supplement their budget and serves as an additional resource for the performance of their official responsibilities.

In general, expenditures from the Administrative Fund were appropriately authorized, in compliance with UC/LLNL policies and not excessive in amount. Controls over the Administrative Fund appeared adequate and duties were appropriately segregated. In addition, no disbursements were noted that appeared to constitute compensation. Minor differences in the financial records and other items identified during the review were discussed with management.

No formal response to the report is requested, as no issues were identified requiring management attention.

A handwritten signature in cursive script that reads 'Paul T. Schafer'.

Paul T. Schafer, Laboratory Auditor and Director  
for Audit & Oversight

George H. Miller

May 18, 2006

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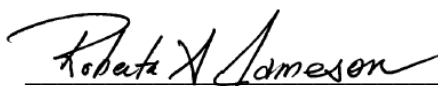


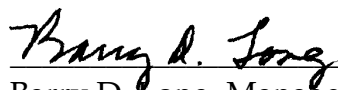
## Director's Administrative Fund

*Audit No. 06-16*

May 2006

*Approved and forwarded:*

  
\_\_\_\_\_  
Roberta A. Jameson  
Auditor-In-Charge

  
\_\_\_\_\_  
Barry D. Long, Manager  
Internal Audit Services Division

## Internal Audit No. 06-16 – Director’s Administrative Fund

### I. Purpose

The Audit & Oversight Department has completed an audit of the Director’s Administrative Fund. The purpose of this audit was to determine whether expenditures from the Director’s Administrative Fund from July 2004 through March 15, 2006, when an interim Director was appointed, complied with the University of California (UC) and Lawrence Livermore National Laboratory (LLNL) policies.

### II. Summary

**In general, expenditures from the Administrative Fund were appropriately authorized, in compliance with UC/LLNL policies and not excessive in amount. Controls over the Administrative Fund appeared adequate and duties were appropriately segregated. In addition, no disbursements were noted that appeared to constitute compensation.**

**Minor differences in the financial records and other items identified during the review were discussed with management (Refer to Appendix A). No issues were identified requiring management attention.**

### III. Background

The LLNL Director has two discretionary cash funds, the Administrative Fund and the Contingency Fund. Each fund is maintained in separate Wells Fargo Bank revolving checking accounts.

The Administrative Fund is provided to each Laboratory director and campus chancellor by the UC Regents to supplement their budget and serves as an additional resource for the performance of their official responsibilities. For example, the fund may be used to reimburse entertainment expenses in excess of the maximum allowed by UC policy. Use of these funds is governed by UC and LLNL policy. The Director’s Office has implemented additional guidelines for use of the Administrative Fund which are focused on ensuring that expenditures are reasonable and do not appear excessive or lavish. Ultimately, all disbursements made from the Administrative Fund must be made for a recognized business purpose.

## Internal Audit No. 06-16 – Director’s Administrative Fund

The beginning balance in the Administrative Fund was \$39,140. UC allocated \$101,525 to the fund during the review period, and \$75,710 was expended primarily for business related entertainment and lodging. Bank fees amounted to \$35, leaving an ending balance on March 15, 2006 of \$64,920.

The Director’s Contingency Fund was established to allow the Director to accept certain defined gifts, under the delegation of the UC Regents. This fund was not established to receive the Administrative Fund allocation from UC. There was no activity in the Contingency Fund from July 2004 to January 2006. The balance in this fund as of March 15, 2006 was approximately \$6,500.

### IV. Scope

This review was performed at the direction of UC, using prescribed audit procedures and analytical review steps, in coordination with a concurrent review of UC Executive Compensation. A UC generated Chancellor’s Administrative Fund operational questionnaire was used to obtain an understanding about the use of the fund. The general control environment was assessed and expenditures were reviewed for reasonableness and adequate justification. Documentation for the top 25 expenditures (by amount) of the Administrative Fund was examined and all payments to members of the Senior Management Group (SMG) at LLNL were reviewed to determine if the expenditure constituted compensation and complied with policy. The highest 25 expenditures accounted for approximately \$37K or 48% of the expenditures. Payments to SMG member constituted \$11K or 15% of the expenditures.

The Director’s Contingency Fund was not reviewed because there was no activity in the fund during the review period.

**Audit 06-16 – Director’s Administrative Fund  
Audit Procedures and Results**

| Audit Procedure   | Results  |
|---|--|
| <p><b>Questionnaire</b><br/>Completed the Chancellors Administrative Fund (CAF) questionnaire to obtain an understanding of how the Director administers the UCOP allocation.</p> | <p>The questionnaire was completed. Accounting has custody of checks, issues checks at the request of the Director’s Office, and maintains a log. Separately, Accounting reconciles the bank account monthly. A third Accounting representative handles changes to the authorized signatures. The Director’s office has signature authority for the checks. Segregation of duties over expenditures is adequate.</p>   |
| <p><b>Allocation</b><br/>Determined that the CAF is comprised only of the UCOP allocation.</p>  | <p>Two accounts exist for the use of the Director, the Director’s Administrative Fund and the Director’s Contingency Fund.</p> <p>Deposits to the Director’s Administrative Fund were reviewed and it was determined that its only source of funds was the UC allocation.</p> <p>UC policy states “Up to 25% of a recipient’s annual allocation can be carried forward for use in the next fiscal year; any unused portion beyond 25% must be returned to the accounting office at the end of the fiscal year.” The Director’s Office monitors this limit to ensure that at least 75% of the allocation is utilized. However, the policy does not address whether an accumulated balance should be included in the limitation. As of March 15, 2006, the balance in the account was \$64,920, which is higher than the 25% allocated over the past year, but lower than 25% of the allocation over the past few years.</p> |

**Audit 06-16 – Director’s Administrative Fund  
Audit Procedures and Results**

| Audit Procedure   | Results  |
|---|--|
|   | <p>Since the fund will be affected by the new Laboratory management contract in 2007 and the practice of maintaining an accumulated balance in the account is long-standing, clarification of policy and specific UC approval is not deemed necessary at this time. This policy was discussed with management and management agreed it would be addressed upon contract closure.</p> <p>The Director’s Contingency Fund is comprised of gifts to LLNL, has a balance of \$6,452.25 and had no activity during the review period (July 2004 to March 2006). Due to the lack of activity in the fund over time, prior reviews have recommended closing the fund. However, the Laboratory Director’s Office has decided to keep the account open.</p> |
| <p><b>Sub-Allocations</b><br/>Determined if the Chancellor allocates any of the CAF to Vice Chancellors and include these allocations in the scope of the audit work.</p> | <p>No sub-allocations exist at LLNL.</p>   |
| <p><b>Largest Expenditure Review</b><br/>Reviewed documentation for the top 25 expenses from the CAF and determine compliance with UCOP and local policy.</p>             | <p>Documentation for the top 25 expenses from the Administrative Fund was reviewed for the period July 2004 to January 2006. Adequate documentation supported the expenditures and all complied with UC and LLNL policy regarding the use of the fund.</p> <p>UC policy requires that monthly reports be sent to “General Accounting.” This is done by the Director’s Office to LLNL</p>   |

**Audit 06-16 – Director’s Administrative Fund  
Audit Procedures and Results**

| Audit Procedure  | Results  |
|--|--|
|  | <p>Accounting. Neither the Director’s Office nor Accounting sends reports to UC. LLNL is in compliance with the policy as stated; however, it is unclear whether the intent of the policy is for reports to be sent to UC. However, this is a long-standing practice at LLNL and UC has never requested this information.</p> <p>Several of the 25 expenditures were incurred to replenish a small wine stock maintained by the Director’s Office. UC policy requires that a record be kept of any inventory accumulated with the Director’s Fund. An inventory was taken during the course of this review and another is planned during 2007. Given the size of the inventory, these practices appear reasonable.</p> |
| <p><b>Senior Management Payments</b><br/>Reviewed all payments to individuals.</p> | <p>Many of the payments from the Administrative Fund are to individuals to reimburse for expenses incurred. Therefore, the review was limited to payments to SMG members. Adequate documentation supported the expenditures and they all complied with UC and LLNL policy regarding the use of the fund. In addition, the log description for all expenditures from the fund was reviewed and no unusual transactions were noted.</p> <p>Minor differences in the financial records were discussed with management. No issues were identified requiring management attention.</p>  |

**Audit 06-16 – Director’s Administrative Fund  
Audit Procedures and Results**

| <b>Audit Procedure</b>   | <b>Results</b>  |
|--|---|
| <b>Payments to UC</b><br>Reviewed all campus recharges to the CAF. | There were no campus recharges. Miscellaneous payments to UC were noted for joint sponsorship of events and purchase of UC items for gifts. |