Biosphere 2 Business Practices

September 2017   FY16 - #11

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Summary

Our audit of Biosphere 2 business practices was included in our approved Fiscal Year (FY) 2016 Audit Plan. The University of Arizona’s (UA) Never Settle plan encourages research innovation and entrepreneurial activities, both of which are occurring at Biosphere 2. While portions of activities at Biosphere 2 have been included in previous audits, this is our first audit with a scope focused specifically on Biosphere 2 business practices.

Background: Biosphere 2 is a research and outreach facility built in the late 1980s located about 30 miles north of UA’s main campus. UA began to manage the facility in 2007 and has owned it since 2011. Biosphere 2’s mission includes serving as a center for research, outreach, teaching and life-long learning about Earth; the activities that occur at Biosphere 2 fall under each of these categories\(^1\). Researchers from across the UA campus can use Biosphere 2’s seven model ecosystems to conduct a variety of unique research projects. The facility also hosts daily tours for the public, special events to educate the community about various scientific topics, summer camps, and conferences. During FY 2016, Biosphere 2 had approximately $1.4 million in tour revenue and $360,000 in conference revenue\(^2\).

Biosphere 2 is led by a Director who also serves as UA’s Vice President for Innovation. As of July 2016, Biosphere 2 is a unit of the Office for Research, Discovery and Innovation, under the Senior Vice President for Research. Biosphere 2 has a Director of Business and Finance who oversees its business functions.

Biosphere 2 staff handle many of the business functions, including ticket sales, conference facility rentals and services, and research administration. Biosphere 2 also uses the centrally-provided administrative services for human resources, payroll administration, and financial services that are typically used by UA departments. In addition, Biosphere 2’s management has chosen to partner with other campus organizations to administer certain activities, such as working with the UA Bookstores to run the gift shop and central Information Technology to assist with IT administration.

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\(^1\) [http://biosphere2.org/visit/leadership-mission](http://biosphere2.org/visit/leadership-mission)

\(^2\) Unaudited data obtained from UAccess Financials.
Audit Objective: Our primary audit objective was to ensure compliance with UA policies and procedures.

Scope: The scope of this audit included business processes and transactions occurring within Biosphere 2’s realm of activities during FY 2016. Based on our risk assessment and using auditor judgement, we selected the following nine areas for detailed testwork (in alphabetical order):

- Budgeting and planning;
- Capital assets;
- Gift shop;
- Information technology;
- Payroll and temporary labor;
- Purchases of tangible non-capital items;
- Rentals and seminars revenue and procedures;
- Research; and
- Ticket sales and revenue.

Methodology: Our audit objective was accomplished by performing the following:

- Performing a preliminary risk assessment to identify risk areas that would be selected for detailed testwork (as listed under Scope).
- Touring the Biosphere 2 facility and discussing processes, common issues, and recent changes with the Deputy Director and the Director of Business and Finance.
- Reviewing procedures for the selected testwork areas, including reviewing written processes, viewing procedures at Biosphere 2, and looking at sample transaction documentation.
- Observing ticket sales processes, including viewing the area where deposits are prepared and stored prior to transporting to the bank, and then verifying revenue transactions in UAaccess Financials and supporting documentation to confirm observed procedures were consistently followed.
- Confirming Cash Handling Training completion with the Financial Services Office (FSO) - Bursars Office Program Coordinator.
- Observing information technology (IT) facilities and hardware at Biosphere 2 and discussing applicable controls with the Communications Network Analyst and the Mechanical Engineer, using a modified version of the Control Objectives for Information and Related Technologies (COBIT) framework.
- Identifying purchases of small technology equipment, such as tablets, and reviewing procedures in place to track these items.
Biosphere 2 Business Practices

- Reviewing Biosphere 2 employees’ access to UA enterprise systems for reasonability.
- Selecting a sample of capital assets and confirming they were still in use and in the specified location at Biosphere 2. This also included discussing Biosphere 2’s capital assets with FSO - Capital Finance to identify resources available to assist Biosphere 2 in updating its capital asset inventory.
- Examining contracts and related procedures for conferences and camps, including ensuring that any signed documents were executed by an authorized UA employee and that adequate processes were in place to ensure payment was billed and received from all conference customers. This also included discussing contracting procedures with the Office of General Counsel and Procurement and Contracting Services.
- Identifying and verifying controls that ensure temporary and hourly employees are paid accurately and timely.
- Discussing budgeting and planning with the Biosphere 2 Director of Business and Finance and the Business Manager, as well as the Associate Vice President for Research and the Research, Discovery and Innovation Director of Finance and Administration. This also included gathering information about the Biosphere 2 advisory committee.
- Ensuring processes over research administration and expenses were in compliance with UA policies.
- Observing gift shop procedures and discussing the division of duties between Biosphere 2 and the UA Bookstore. Evaluation of gift shop procedures was limited to the duties of the Biosphere 2 gift shop employees, as the UA Bookstore handles the inventory and revenue processes, including managing the point of sale software.
- Reviewing FY 2016 purchases for tangible purchases (other than small technology equipment items addressed previously) that are under the capitalization threshold and ensuring procedures were in place to ensure these were valid purchases and were adequately monitored.

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3 In this report, “contract” refers to an agreement between two or more parties that creates obligations that are enforceable or otherwise recognized by law. In daily operations, the document may be referred to by another term, including but not limited to: letter of agreement, memoranda of understanding, or agreement.
Conclusion: Biosphere 2’s internal controls have adequately ensured that activities are in compliance with UA policies and procedures, with the exception of the conference and rental contracts finding that is discussed later in this report. We noted that Biosphere 2 administrators have sought out campus experts in various areas to partner with to help implement strong controls in an efficient manner. For example, the Biosphere 2 gift shop is managed in partnership with the University of Arizona Bookstores to utilize their point of sale system and inventory controls. Biosphere 2 also partners with central UA Information Technology to leverage main campus networks and expertise. These types of partnerships allow Biosphere 2 to focus on their mission while still ensuring business practices run smoothly.

During the audit, we noted a few procedures that could be improved to better support Biosphere 2’s business practices. As a result, the Biosphere 2 staff worked with FSO - Capital to update their capital asset locations to ensure items could be easily identified. We also recommended that staff review administrative service charges on catering bills and consider whether the charges should be passed on to customers who reimburse Biosphere 2 for the catering, in order to ensure that full reimbursement is received. Finally, we noted potential improvements to accounts receivable monitoring to ensure an efficient and complete process.

During the course of the audit, administrative oversight of Biosphere 2 moved from the College of Science to Research, Discovery and Innovation, led by the Senior Vice President for Research. According to the Biosphere 2 administrators, the move will help encourage more interdisciplinary research at the facility.

According to the Institute of Internal Auditors International Professional Practices Framework, an organization is expected to establish and maintain effective risk management and control processes. These control processes are expected to ensure, among other things, that:

- The organization’s strategic objectives are achieved;
- Financial and operational information is reliable and possesses integrity;
- Operations are performed efficiently and achieve established objectives;
- Assets are safeguarded; and
- Actions and decisions of the organization are in compliance with laws, regulations, and contracts.

Our assessment of these control objectives as they relate to Biosphere 2 business practices is presented on the following page.
### General Control Objectives

<table>
<thead>
<tr>
<th>Control Environment</th>
<th>Audit Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achievement of the Organization’s Strategic Objectives</td>
<td>Reasonable to Strong Controls in Place</td>
</tr>
<tr>
<td>• Biosphere 2’s business practices support its strategic objectives.</td>
<td></td>
</tr>
</tbody>
</table>

### Reliability and Integrity of Financial and Operational Information

<table>
<thead>
<tr>
<th>Audit Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reasonable to Strong Controls in Place</td>
</tr>
<tr>
<td>• Revenue is accurately recorded and monitored.</td>
</tr>
</tbody>
</table>

### Effectiveness and Efficiency of Operations

<table>
<thead>
<tr>
<th>Audit Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reasonable to Strong Controls in Place</td>
</tr>
<tr>
<td>• Procedures are adequate to ensure payment is received for all sales.</td>
</tr>
<tr>
<td>• IT resources are administered in support of Biosphere 2’s operations.</td>
</tr>
<tr>
<td>• Oversight of research expenditures is adequate to promote compliance with terms of the awards.</td>
</tr>
<tr>
<td>• Expenses for hourly and temporary employee payroll are accurate and timely.</td>
</tr>
<tr>
<td>• Budgeting and planning processes are adequate to detect inconsistencies in revenues or expenses and to develop short- and long-term financial plans.</td>
</tr>
</tbody>
</table>

### Safeguarding of Assets

<table>
<thead>
<tr>
<th>Audit Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reasonable to Strong Controls in Place</td>
</tr>
<tr>
<td>• Capital assets and accountable assets are recorded, protected, tracked, and disposed of in compliance with UA policies.</td>
</tr>
</tbody>
</table>

### Compliance with Laws and Regulations

<table>
<thead>
<tr>
<th>Audit Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reasonable to Strong Controls in Place</td>
</tr>
<tr>
<td>• Revenue generating activities and associated cash receiving processes are in compliance with UA policies.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Audit Result</th>
<th>No.</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opportunity for Improvement</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Contracts and other documents are signed by an authorized signer.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

We appreciate the assistance of UA employees during this audit.

\[/s/\]
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Audit Results, Recommendations and Responses

1. Standard contracts are not used for rentals and conferences.

**Condition:**

Biosphere 2 does not use a standard, signed contract to document the terms of the agreements with external customers who are renting facilities for conferences or seminars, using overnight lodging, or requesting catering through Biosphere 2. Without a contract, standard UA contract terms and specifics such as payment due dates, cancellation policy, and liability insurance are not communicated and agreed to.

Biosphere 2 was previously using a document that included some rental terms but it was not signed and did not contain standard contract terms typically included in UA contracts.

In addition, there are no complete, written procedures for handling external contracts from initial customer inquiry through contracting, event execution, invoicing, and receivable monitoring.

**Criteria:**

- The Real Estate Administration *Facilities Use Agreement* states the requirements for rental customers to have general liability, automobile liability, and workers' compensation insurances, and the amounts for each.
- Arizona Board of Regents Policy 3-103 A. states that, "University officers designated by the president of the university, as certified to the President of the Board, are authorized to execute contracts and other written instruments on behalf of the Board."

**Cause:**

Biosphere 2 staff felt that the standard *Facilities Use Agreement* maintained by Real Estate Administration was not applicable to their events and conferences and did not think a contract signed in advance was necessary.

**Effect:**

- Payment may not be received timely and completely if the terms are not documented prior to the rental.
- Customer liability insurance coverage may not be adequate to cover issues that may occur during a rental or conference.
**Recommendation:**

Work with Procurement and Contracting Services to develop a contract that can be used to document the terms of all rental agreements with external customers. Ensure that all required UA contract terms are included in the agreement. In addition, ensure that an authorized signer is designated to sign all contracts.

**Management Response: Implemented.**

Management agrees with the finding made during the course of this audit and action has been taken on the recommendation. A Letter of Agreement (LoA) has been created in conjunction with Procurement and Contracting Services that addresses all standard UA terms and specifics such as payment due dates, cancellation policy, and liability insurance.

The Procurement and Contracting Services approved document is generated by the Manager, Conference Center Sales. The LoA is then reviewed and signed by the Program Representative confirming their understanding of the included provisions and verifying that they are authorized to commit the organization to them. The LoA is then signed for acceptance by the Manager, Conference Center Sales. It is then sent over to Procurement & Contract Services for official ABOR/UA signature. The finalized document is stored in pdf format on the Biosphere 2 network drive.