

RIVERSIDE: AUDIT & ADVISORY SERVICES

June 25, 2012

To: Audit Committee

Subject: Financial Analytical Review

Ref: R2012-12

We have completed our Financial Analytical Review in accordance with the UC Riverside Internal Audit Plan. Our report is attached for your review. We will perform audit follow-up procedures in the future to review the status of management action. This follow-up may take the form of a discussion or perhaps a limited review. Audit R2012-12 will remain open until we have evaluated the actions taken.

We appreciate the cooperation and assistance provided by your staff. Should you have any questions concerning the report, please do not hesitate to contact us.

Michael R. Jenson
Director

cc: Payroll Director Nwandu
Accounts Payable/Travel Director Guerra

UNIVERSITY OF CALIFORNIA AT RIVERSIDE

AUDIT & ADVISORY SERVICES

MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS

INTERNAL AUDIT REPORT R2012-12

FINANCIAL ANALYTICAL REVIEW

JUNE 2012

Approved by:

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**UC RIVERSIDE
FINANCIAL ANALYTICAL REVIEW
INTERNAL AUDIT REPORT R2012-12
JUNE 2012**

I. MANAGEMENT SUMMARY

Based upon the results of work performed within the scope of the review, we reviewed to our satisfaction selected transactions in payroll, accounts payable/cash disbursement, and cash receipts areas. Also, we did not detect unusual trends in revenues and expenditures that could not be explained.

An area that needs enhancement to strengthen internal controls and/or effect compliance with University policy is that travel airfare Purchase Orders are not consistently reported on Travel Expense Vouchers (Observation III.B).

This item is discussed below. Minor items not of the magnitude to warrant inclusion in this report were discussed verbally with management.

II. INTRODUCTION

A. PURPOSE

UC Riverside Audit & Advisory Services, as part of its Audit Plan, performed an analysis and evaluation of the UCR campus financial data. This Financial Analytical Review included procedures to study and compare relationships among data on a campus-wide basis in order to identify unexpected fluctuations, trends, discrepancies or activities, the absence of expected fluctuations, trends or activities, and other unusual items.

Our objective was to broadly examine campus financial data to determine if activities in selected areas included significant unintentional errors or if they contained questionable transactions that warranted further review. General ledger, accounts payable, and payroll data were extracted to evaluate high-risk transactions involving liquid resources. This review also evaluated campus department revenues and expenditures.

B. BACKGROUND

The specific audit objectives were to:

- Identify and investigate unusual relationships in the UCR campus financial data;
- Detect, within the scope of the review, irregularities or significant variances in financial reports and source documentation;
- Provide Audit & Advisory Services management with information for the campus risk assessment to assist in developing future audit plans;
- Identify opportunities for improving internal controls.

C. SCOPE

This review analyzed selected data from fiscal year (FY) 2011 and in some cases FY 2010 and FY 2009. We designed the methodology to provide sufficient, competent, and relevant evidence to achieve the objectives of the review. Due to the extensive range of financial activities and the vast volume of financial data, not all identifiable activities were reviewed. Further, because of the nature of this review's global perspective, and other limitations, the audit procedures could not ensure that errors and irregularities were detected, especially minor or isolated incidents.

The review included, but was not limited to the following areas:

1. General Ledger

- a) Prepared spreadsheets to compare FY 2010 and FY 2011 revenues and expenditures by Activity Code with FY 2011 activity. Reviewed activities with over \$1,000,000 and 30% change from FY 2010 to FY 2011. Obtained explanations for increases or decreases and determined the reasonableness of explanations with independent analyses and additional inquiries.
- b) Identified organizations with net deficits as of June 30, 2011 and evaluated the July 1, 2011 general core carryforward by unit for negative carry forward amounts.
- c) Verified the accuracy of Resource Planning & Budget's Carry Forward Analysis for FY 2011.

2. Cash Disbursements

- a) Reviewed travel transactions (i.e. trends by travel vendors and employees, analysis of days to pay).
 - b) Reviewed campus cell phone usage for unusual fluctuations over prior year.
 - c) Reviewed top 25 cumulative vendor payments from FY 2010 to FY 2011.
 - d) Reviewed duplicate vendor addresses within accounts payable.
 - e) Evaluated vendors using commercial mail-drop addresses.
 - f) Evaluated different addresses for the same vendor.
 - g) Evaluated multiple vendor numbers for the same vendor name and vice versa.
 - h) Examined vendor check pick-up logs.
 - i) Evaluated returned 1099s.
 - j) Searched for duplicate vendor invoices.
 - k) Analyzed vendor invoices entered/modified by transactor for any unusual activity (including ePay check requests).
 - l) Reviewed for payments to different vendors on the same Purchase Order (PO).
 - m) Reviewed vouchers/invoices for invoice splitting (Benford Law).
 - n) Reviewed voucher and payment trends (count and amount).
 - o) Searched for missing or duplicate disbursement check numbers.
 - p) Reviewed changes to the vendor master file and procedures.
 - q) Examined Wells Fargo check images (one month) and Electronic Funds Transfer (EFT) payments for FY 2011 to identify deposits to the same bank account for different payees.
 - r) Examined Student Information System refunds/payments to identify any unusual trends.
 - s) Reviewed for different vendors using the same EFT account in and across Accounts Payable, Payroll, Student Information System (SIS), and Wells Fargo Bank cleared check images (one month Accounts Payable and Payroll).
 - t) Reviewed payments in excess of the PO amount.
 - u) Reviewed large payments to vendors without the PO.
 - v) Examined Procard payments for unusual trends and transactions (Benford Law).
 - w) Reviewed trends in check voids and stops.
 - x) Performed payment date analysis.
 - y) Reviewed US Bank Card account delinquency activity.
 - z) Reviewed Travel Advances.
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3. Payroll

- a) Evaluated employees with over \$210,000 annual gross pay and/or over \$100/hour rate of pay.
- b) Reviewed employees with high payout or number of hours by Description of Service (DOS) code (i.e. overtime, comp time, by agreement, etc.).
- c) Examined Wells Fargo check images to review deposits to the same bank account for different payees (one month).
- d) Reviewed duplicate direct deposit accounts across employees.
- e) Reviewed duplicate addresses within payroll and against accounts payable.
- f) Evaluated employee addresses using the commercial mail-drop address.
- g) Evaluated returned W2s.
- h) Reviewed leave reporting (i.e. holiday pay, compensatory time, holiday shutdown, sick and vacation).
- i) Reviewed check pickup controls.
- j) Reviewed payroll transactions with back or future end dates.
- k) Reviewed selected severance calculations.
- l) Searched for faculty on 9 month appointments paid over 12 months starting July 1, 2010, and who may have separated in Fall 2010, to determine if prepaid salary was properly reimbursed to the University.
- m) Judgmentally selected 16 faculty to review general compliance with University Conflict of Commitment policies.

4. Revenues

- a) Reviewed for unusual breaks in frequency of deposits from the various cashiering offices.
- b) Reviewed timing of ledger postings relative to deposits.
- c) Reviewed the process for recording register over/shorts and reported amounts.
- d) Reviewed CASH system receipts by organization and department by year and period for any unusual changes.

III. OBSERVATIONS, COMMENTS, AND RECOMMENDATIONS

A. Increasing deficit balances

We noted that total carry forward (CF) deficit balances by Organization (excluding Contracts & Grants) have increased by \$8 million (51% increase) from \$15 million to \$23 million from FY 2010 to FY 2011.

COMMENTS

Resource Planning and Budget (RBP) prepares a fund carry forward analysis at the beginning of each fiscal year. The funds include Core (which includes the general fund), Gifts, Endowment, Sales & Service, Student Fees, Reserves, State Appropriations, etc. We verified the accuracy of the analysis for FY 2010 and FY 2011 against the UCR Financial System. We noted the following six Organizations (Orgs) with FY 2011 CF deficit balances over \$1 million.

Org	FY 2010 CF Fund Balances (000's)			FY 2011 CF Fund Balances (000's)		
	Positive Balance	Deficit Balance	Total	Positive Balance	Deficit Balance	Total
College of Natural and Agricultural Sciences (CNAS)	20,684	(1,920)	18,764	23,532	(7,798)	15,734
Vice Chancellor Student Affairs (VCSA)	30,332	(4,494)	25,838	32,301	(4,749)	27,552
Finance & Business Operations (FBO)	7,823	(2,933)	4,890	10,188	(2,969)	7,219
Computing & Communications (C&C)	1,347	(30)	1,317	2,254	(2,055)	199
Bourns College of Engineering (BCOE)	11,451	(2,071)	9,380	11,869	(1,877)	9,992
FBO-Operations & Maintenance of the Plant (OMP)	7,439	(668)	6,771	6,721	(1,058)	5,663
Subtotal	79,076	(12,116)	66,960	86,865	(20,506)	66,359
All Other	34,908	(2,974)	31,934	52,685	(2,341)	50,344
Grand Total	113,984	(15,090)	98,894	139,550	(22,847)	116,703

Audit & Advisory Services is currently reviewing the deficit reduction plan for CNAS as part of audit R2012-08 CNAS Financial Management.

We confirmed with RPB and the other Units that deficit reduction/repayment plans are in place for significant portions of the FY 2011 CF deficits and are being monitored annually by RPB and the Units as follows:

Org	Department	Fund	FY 2011 CF Fund Balances (000's)
VCSA	Dining	70034 Retail Dining	(2,948)
	Bookstore	70050 Bookstore and 70055 Bookstore-University Village	(1,461)
	Other	Other	(340)
	Total VCSA		(4,749)
FBO	Printing & Reprographics	66010 Printing & Reprographics and 66011 Asset Acquisition	(1,837)
	Other	Other	(1,132)
	Total FBO		(2,969)
C&C	Communication Services	66080 Telecommunications*	(2,014)
	Other	Other	(41)
	Total C&C		(2,055)
BCOE	CE-CERT	60298 Asset Acquisition and 60299 Sale for Service	(1,492)
	Other	Other	(385)
	Total BCOE		(1,877)
FBO-OMP	EH&S	75543 Arts-HH Water Damage 6/30/10	(398)
	Other	Other	(660)
	Total FBO- OMP		(1,058)

**Needs to be netted with fund 66025 & activity/fund A01378/19900, which yields a FY 2011 carry forward deficit of \$742K. Projections through FY 14/15 were reviewed as part of C&C Business Operations Audit Report R2011-15 dated September 29, 2011. The deficit is currently projected to be resolved by FY 16/17.*

We will review the status of the deficits above as part of the FY 12/13 Analytic Review audit.

B. Travel Airfare Purchase Orders not reported on Travel Expense Vouchers

During our review, we noted that six of 15 selected Purchase Orders for travel airfare were not reported on the corresponding Travel Expense Vouchers.

COMMENTS

The six airfare POs not reported on Travel Expense Vouchers were noted in the following departments:

Department	Count	Amount
Biology	3	\$2,797
Entomology	2	8,561
Physics/Astronomy	1	1,612

Total	6	\$12,970
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In FY2011, there were 7,814 airfare transactions (totaling \$2.6 million), of which 1,603 were airfare PO transactions (totaling \$1.1 million). The respective departments' FAOs have indicated that they are improving their internal processes so that airfare POs are reported on corresponding Travel Expense Vouchers.

University of California Travel Policy Summary states, "A Travel Expense Voucher (Form U85 or equivalent, or an electronic version) reporting all expenses and advances pertaining to a particular trip must be submitted to the campus Accounting Office within 21 days of the end of the trip. For trips lasting over 90 days, the traveler must submit a quarterly report of expenditures to the campus Accounting Office. *A Voucher must be processed even if no reimbursement is due the traveler.*" Therefore, a travel expense voucher needs to be processed if airfare is purchased on a PO.

Also, it states, "The traveler must substantiate the travel and sign the Travel Expense Voucher certifying that the amounts claimed are a true statement of the expenses incurred on official University business and that the original of all required receipts has been submitted. The Travel Expense Voucher or electronic equivalent must be approved for payment by the traveler's department head or by a person to whom the Chancellor has delegated such authority."

Potential risks include: an airline ticket is cancelled and the credit is misappropriated or never reused. Referencing the travel Purchase Order to a Travel Expense Voucher provides a tracking mechanism, attestation, and substantiation that the travel expenditure was incurred on official University business.

RECOMMENDATIONS – ACCOUNTING OFFICE

We recommend that Accounting Services re-communicate applicable portions of the travel policy to the CFAOs and FAOs.

MANAGEMENT REPOSE – ACCOUNTING OFFICE

The Accounting Office concurs. The travel policy regarding airfare purchased via a purchase order will be re-communicated at the next Travel Users Group to be scheduled in Fall 2012, and posted to R'Space My Messages for distribution to all EACS iTravel Roles by 06/30/12.