

The logo for UC Irvine, featuring the letters 'UC' in a large, bold, serif font, followed by 'IRVINE' in a smaller, all-caps, serif font. A vertical line separates the 'UC' from 'IRVINE'.The text 'INTERNAL AUDIT SERVICES' in a serif font, arranged in two lines. A vertical line is positioned to the left of the text.

International Shipping

Internal Audit Report No. I2023-101

February 23, 2023

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Reviewed By

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February 23, 2023

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RE: International Shipping Audit
Report No. I2023-101

Internal Audit Services performed a review of international shipping, and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. We would like to commend you and your staff's efforts in completing the management action plans prior to the issuance of this report. If you have any questions, please do not hesitate to contact me.

Sincerely,



Mike Bathke
Director

Attachment

C: Audit Committee
Julianna Bayley, Assistant Director – Transportation & Distribution Services
Jennifer Chey, PALCard and Low Value Purchasing Manager – Procurement Services
Kirk Matin, Environmental Compliance/Hazardous Waste Manager – Environmental
Health & Safety
Grace Park, Director for Research Engagement and Compliance – Office of Research
Administration

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2022-2023 audit plan, Internal Audit Services (IAS) reviewed current campus international shipping practices and processes. The review identified that necessary procedures, processes, and internal controls were not established and implemented to minimize business risks, promote best business practices, or ensure compliance with all applicable University requirements as well as federal export laws and regulations. IAS notes the following observations.

International Shipping Processes – Of the four campus websites with resources on outbound shipping, only one noted the University of California Office of the President (UCOP) requirements for restricted party and sanctioned country screenings and export control reviews prior to shipping internationally. And, although the UCOP requirements for shipping recordkeeping were not cited on any website at the time of review, Office of Research (OR) corrected their website to include this prior to the review’s conclusion. This observation is discussed in section V.1.

Export Control Review – Although UCI sent more than 1,600 international shipments between May 2021 through August 2022, faculty and staff requested less than 100 export control reviews. This observation is detailed in section V.2.

Recordkeeping – Required shipping records, either the pro forma/commercial invoice or air waybill, were not maintained and on file. This observation is further discussed in section V.3.

II. BACKGROUND

At UCI, domestic and international shipping is not centralized either through an online module used to process outbound shipments or by a dedicated team able to assist faculty and staff with all outbound shipping needs. Instead, faculty and staff independently process international shipments primarily through Federal Express (FedEx), United Parcel Service (UPS), DHL, or American CargoService (ACS).

III. PURPOSE, SCOPE, AND OBJECTIVES

The purpose of this audit was to review the currently established international shipping practices and processes as well as assess the implemented internal controls. The scope included a limited review and sample testing of available international shipment data from May 2021 through August 2022. IAS requested international shipment data from all four carriers, however, only FedEx and ACS were able to provide data and only for the most recent year.

For testing purposes, IAS included the following objectives:

1. Review and assess overall shipping processes to determine if appropriate procedures and internal controls for outbound international shipments are established and implemented to ensure compliance with University international shipping requirements;
2. Determine if export control reviews were conducted for all international shipments based on available international shipping data; and
3. Determine if required international shipping records are maintained and on file for a period of five years from the date of the export as well as whether a system of documentation exists.

IV. CONCLUSION

IAS notes that appropriate procedures and internal controls for international shipments were not properly and consistently established and implemented to ensure compliance with University requirements and to reduce the potential for customs delays, seizure of goods, fines, or violation of federal export laws.

IAS discussed observation details with management, who formulated action plans to address the issues. The details are presented below.

V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. International Shipping Processes

Background

UCOP guidelines on international shipping requires an export control review as well as restricted party and sanctioned country screenings of all outbound shipments, including hand carried items, whether they are related to research or not, prior to shipping. The guidelines also requires that all shipping records including pro forma invoices, airway bills, export filings, and associated communications to be maintained for a period of five years from the date of the export.

Observation

At UCI, shipping is not centralized through an online module used to process outbound shipments and/or with a dedicated team assisting faculty and staff with all outbound shipping needs. Instead, faculty and staff independently process international shipments mainly through FedEx, UPS, DHL, or ACS.

IAS reviewed the OR, Transportation and Distribution Services (TDS), Environmental Health & Safety (EH&S), and Procurement Services' campus websites since they each have some resources and background information on outbound shipping. IAS was to determine whether appropriate procedures for international shipping were established and implemented to ensure compliance with University international shipping requirements. The review disclosed that while each website contained some information about international shipping, there were no overarching policies or procedures that present consistent guidelines regarding outbound shipments. The OR website was the only one that noted the UCOP requirements for restricted party and sanctioned country screenings and export control reviews prior to shipping internationally, mostly due to federal regulations surrounding research activity. TDS, EHS, and Procurement Services did not cite any UCOP requirements on their websites. Also, IAS notes that at the time of review, none of these websites cited UCOP requirements for shipping recordkeeping. However, OR corrected this oversight prior to the conclusion of this review.

Consistent and appropriate resources and procedures for international shipping are essential to ensuring compliance with University international shipping requirements.

Management Action Plan

UCI had made the decision to not purchase an online module to centralize all outbound shipments. As such, UCI will continue to work in siloed environments with gaps. In the meantime, OR now hosts an international shipping webpage which addresses regulatory requirements, including shipping recordkeeping requirements. Division of Finance and Administration (DFA) units that host shipping websites, such as EH&S, TDS, and Procurement Services, will update their shipping websites to include a link to the OR international shipping website to help ensure that faculty and staff are informed of export control review requirements for all outbound international shipping, including non-research-related shipments. DFA websites will recommend that anyone with a potential international shipment should submit a request for an export control review.

Note: OR, EH&S, TDS, and Procurement Services completed their management action plans prior to the conclusion of this review.

Due Date: Completed

2. Export Control Review

Background

The UCOP guidelines on international shipping requires an export control review as well as restricted party and sanctioned country screenings of all outbound

shipments, including hand carried items, whether they are related to research or not, prior to shipping.

Observation

The following observations are based on a review of international shipping data for the UCI campus that were provided by FedEx and ACS, who are contracted vendors. IAS notes that international shipping data from DHL and UPS were not available for this review.

- Faculty and staff used FedEx for 1,597 international shipments to 63 countries/territories from May 3, 2021 to June 27, 2022. The shipments included letters [1,313], FedEx Pak [39], tube [1], customer packaging [179], FedEx box [40], small box [13], medium box [7], large box [1], x-large box [2], and 10kg box [2]. All shipments weighed between 0.00 to 580.1 pounds.
- In addition, ACS was used for three international shipments weighing 180.779 to 507.063 pounds from September 8, 2021 to July 15, 2022.
- However, between May 5, 2021 to June 24, 2022, there were less than 100 requests for export control reviews of which OR performed 58.

The review did not disclose any international shipments to embargoed countries/regions: Cuba, Iran, North Korea, Syria, and specific regions of Ukraine (Crimea, Donetsk, and Luhansk). The risk of shipments to embargoed countries is minimized because faculty and staff cannot ship to embargoed countries through FedEx, UPS, and DHL.

Internal controls, such as an export control review prior to shipment, reduce the potential for customs delays, seizure of goods, or violation of federal export laws as well as fines of \$250,000 to \$1 million per violation and prison time for criminal convictions if an export license was not obtained when required.

Management Action Plan

UCI had made the decision to not purchase an online module to centralize all outbound shipments. As such, UCI will continue to work in siloed environments with gaps. In the meantime, OR now hosts an international shipping webpage which addresses regulatory requirements, including shipping recordkeeping requirements. DFA units that host shipping websites, such as EH&S, TDS, and Procurement Services, will update their shipping websites to include a link to the OR international shipping website to help ensure that faculty and staff are informed of export control review requirements for all outbound international shipping, including non-research-related shipments. DFA websites will recommend that anyone with a potential international shipment should submit a request for an export control review.

Note: OR, EH&S, TDS, and Procurement Services completed their management action plans prior to the conclusion of this review.

Due Date: Completed

3. **Recordkeeping**

Background

To comply with UCOP guidelines on international shipping, all shipping records including pro forma invoices, airway bills, export filings, and associated communications are required to be maintained for a period of five years from the date of the export. The shipper should request or save a copy of relevant documents from the carriers, such as DHL, FedEx, or UPS, because they will not keep copies of shipping records.

Observation

IAS selected nine of 21 international shipments of goods/items from June 19, 2021 to June 9, 2022 for further review to determine if campus departments complied with UCOP guidelines. For this review, international shipments of documents (visa paperwork, financial documents, checks, etc.) were excluded. The review sample did not include UCI Health exports due to their low volume of international shipments. IAS notes that international shipment data from FedEx and ACS were available for review but not for UPS and DHL. The following is a summary of the observations:

- For five of the nine shipments, either the pro forma/commercial invoice or the air waybill were not maintained and on file.

In addition, no shipping records were maintained and on file at all for two other shipments.

- Ten of 13 departments stated that they established and implemented a business practice to maintain and file shipping records for five years. However, IAS could not perform additional test work to confirm the departments practices because international shipment data earlier than the last two calendar years, 2021 and 2022, were not available for review.

In addition, the review disclosed inconsistent recordkeeping practices. Departments maintained either hard copy files or an electronic copy was uploaded to the Quali Financial System (KFS) or saved on a shared drive or on a local hard drive.

The UCI campus should be informed of the UCOP retention requirements regarding international shipping records to ensure that departments and units

establish and implement appropriate business processes and procedures for proper recordkeeping in compliance with UCOP guidelines.

Management Action Plan

UCI had made the decision to not purchase an online module to centralize all outbound shipments. As such, UCI will continue to work in siloed environments with gaps. In the meantime, OR now hosts an international shipping webpage which addresses regulatory requirements, including shipping recordkeeping requirements. DFA units that host shipping websites, such as EH&S, TDS, and Procurement Services, will update their shipping websites to include a link to the OR international shipping website to help ensure that faculty and staff are informed of export control review requirements for all outbound international shipping, including non-research-related shipments. DFA websites will recommend that anyone with a potential international shipment should submit a request for an export control review.

Note: OR, EH&S, TDS, and Procurement Services completed their management action plans prior to the conclusion of this review.

Due Date: Completed