

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA  
OFFICE OF ETHICS, COMPLIANCE AND AUDIT SERVICES



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May 3, 2011

**DIRECTOR DOGAN**

**Subject: Final Report of Audit Services Project No. 11A007 - ANR: 4H Central Office**

Attached please find the final report for: Audit No. 11A007 – ANR: 4H Central Office. It includes Action Plans that were developed by members of your staff. The Action Plans will be entered into the TeamCentral database and monitored until completion. With the issuance of this final report, please destroy any previous draft versions.

We very much appreciate the assistance provided to us by your staff and ANR OP staff during our review. If you should have any questions, please feel free to contact me at 510-987-0482 (e-mail: [Susana.Atwood@ucop.edu](mailto:Susana.Atwood@ucop.edu)), or Maria Cornejo at 510-987-9455 (e-mail: [Maria.Cornejo@ucop.edu](mailto:Maria.Cornejo@ucop.edu)).

  
Susana Atwood  
Audit Director

Attachment

cc: SVP Vacca  
ANR Controller McGuire  
Director Chin  
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Management Services Officer Thomas  
Principal Auditor Cornejo

UNIVERSITY OF CALIFORNIA  
ETHICS, COMPLIANCE AND AUDIT SERVICES  
OFFICE OF THE PRESIDENT  
INTERNAL AUDIT SERVICES

ANR: 4H CENTRAL OFFICE  
Audit No. 11A007  
May 2011

Work Performed by:  
Maria Cornejo, Principal Auditor

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## **Executive Summary**

### **Introduction**

As part of the 2010-2011 annual audit plan, Internal Audit Services conducted an operational review of the 4H Central Office. In conjunction with this review, Audit Services also assessed certain functions at the Agriculture and Natural Resources Business Operations Center, Davis (BOC-Davis) as this office offers operational support to the 4H State Office. For the latter, the extent of our review was limited to transactions that flowed from the 4H Central Office which are supported by the BOC. The transactions reviewed at the BOC included cash deposits, payroll and non-payroll expenditures, and general ledger reconciliations.

The California 4H State Office provides statewide leadership and direction to the 4H Youth Development Program in programmatic, research, and administrative areas. The 4H program helps young people reach their full potential as competent, confident, leaders of character who contribute and are connected to their communities.

Administratively, the 4H Central Office reports to the Division of Agriculture and Natural Resources (ANR). ANR is a statewide network of University of California researchers and educators dedicated to the creation, development, and application of knowledge in agricultural, natural, and human resources.

The 4H Office is composed of nine full-time employees and three part-time employees.

The Agriculture and Natural Resources-Business Resource Center, Davis provides financial services to statewide programs, Research and Extension Centers, and ANR units located in Davis. The department is headed by an Associate Director and six full time employees.

### **Objectives and Scope**

The overall audit objective was to determine whether operational internal controls are in place and working effectively. We interviewed appropriate departmental personnel at the 4H Office and the BOC-Davis, and to the extent considered necessary, tested processes to ensure that:

- Travel expenses were adequately supported and approved.
- Checks received were adequately processed.
- Transfer of custodianship over checks was documented.
- General ledger reconciliations were performed in a timely manner and journal entries were validated against corresponding supporting documents.
- General ledger certifications were completed as required by campus policies.
- Employee time was processed in a timely manner and approved by the supervisor.
- Vacation accruals were consistently monitored.
- Non-payroll expenses were appropriately supported and approved.
- Purchasing card credit limits were reasonable and set within the limits established by the campus.

In addition, we performed a high level review of the 4-H general ledger accounts to identify potential items of concern. Review of the general ledger covered the period from July 1st, 2010 through September 30<sup>th</sup>, 2010. Interviews and walkthroughs of the operating processes were conducted within the first two months of 2011.

## **Overall Conclusion**

In general, internal controls were in place and working effectively. Travel expenses were adequately supported and approved, checks received were accounted for, general ledger reconciliations were adequately processed on a timely basis, and general ledger certifications were completed as required by campus policies. In addition, employee timesheets were processed and approved in a timely manner. Vacation accruals were consistently monitored. Non-payroll expenses were adequately supported and approved.

Opportunities for improvement were noted over the protection of social security numbers, purchasing card credit limits assigned to users, establishing evidence for transfer of custodianship over incoming checks, and untimely resolution of overdraft balances.

## Opportunities for Improvement and Action Plans

### 1. Social security numbers are not adequately protected.

RMP-8 Legal Requirements on Privacy of and Access to Information<sup>1</sup> general requirements note that under the Information and Practices Act, the University of California shall establish appropriate and reasonable administrative, technical, and physical safeguards to ensure compliance with the act and the security and confidentiality of records.

A review of two invoices received from two different conference speakers noted that the speakers' social security numbers were documented on the respective invoices; the numbers had not been masked, nor had the invoices been adequately protected. In the case of the latter, the invoices were filed in a cabinet which remains unlocked during and after business hours.

As the University seeks to safeguard and ensure the privacy of any personal data that it utilizes and/or receives during the course of its operations; departments should ensure appropriate security over personal information or its destruction when the information is not needed. Without the implementation of appropriate security measures, personal information is subjected to confidentiality and/or privacy leaks, which could potentially damage the employee as well as the University. This applies to both, confidential information maintained in paper form, or electronically.

It appears that a complete understanding of the protection and safekeeping requirements applicable to sensitive information may have caused this oversight.

#### ***Action Plan***

*The BOC-Davis Associate Director has implemented practices to ensure that confidential and personal information is masked, destroyed, or protected. In addition, the BOC-Davis office will ensure that personal and confidential information is maintained in locked drawers until further decisions are made to either mask it or destroy it.*

*Target Date: Action plans were implemented prior to the issuance of this report.*

### 2. Purchasing card credit limit assignments are higher than necessary.

A review of the purchasing card credit limit assignments for 10 employees at the 4H Central Office noted that they had been set at \$25,000.

Information received from the client regarding purchasing trends and current needs of the program noted that the default credit limit is in excess of the employee and department/program needs.

Allowing for unnecessary high credit limits increases the department's liability and places the University at higher risk should potential fraud be entertained by individuals.

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<sup>1</sup> RMP-8: Legal Requirements on Privacy of and Access to Information.

It appears that the limit of \$25,000 was a default of the Materiel Management System, and 4H management had not independently assessed their needs.

***Action Plan***

*Purchasing card credit limits will be reviewed and updated in alignment with the business needs of the department and the program. The MSO will review purchasing card activity reports for each employee, and based on historical information, will place a request to the Materiel Management Department at the UC Davis campus to lower the established default credit limit for each employee, as applicable.*

*Going forward, periodic reviews will be performed by the department to assess the credit needs of the department and the program.*

*Target Date: 8/1/2011*

**3. Transfer of custodianship over checks is not documented.**

UC Policy for Cash and Cash Equivalents Received (BUS-49) requires that all cash transfers be documented and the documentation of accountability maintained by category.

A review of the check register utilized by the 4H Central Office to document incoming checks noted that the transfer of custodianship over checks from the 4H Central Office to the BOC-Davis is not documented. The same situation applies when the BOC-Davis relinquishes the checks to the campus Cashiering Office for further processing.

Lack of implementation of appropriate measures to safeguard negotiable instruments and establish a clear audit trail allows for the misplacement of checks and the potential for fraud.

It appears that lack of clarity over this University requirement may have caused the oversight.

***Action Plan***

*Going forward, the 4-H Central Office will obtain a transfer of custody signature from BOC-Davis personnel when transferring custody of deposits to them. In instances when deposits containing only checks are mailed to the campus Cashier's Office (via intercampus mail), the BOC-Davis will retain a photocopy of the checks, statement of cash collections, and other supporting documents until an electronic receipt confirming the deposit is received from the campus Cashier's Office and is reconciled to the supporting documentation. After the receipt has been agreed to the supporting documentation, the photocopies of the checks will be destroyed. When checks are hand-delivered to the campus Cashier's Office for deposit, a receipt will be obtained from the Cashier's Office by the person making the deposit.*

*The 4H Management Services Officer and the BOC-Davis Associate Director will ensure appropriate implementation of the action plans, as applicable.*

*Target Date: 8/1/2011*

#### 4. Overdraft balances remain unresolved.

The UC Davis Policy and Procedures Manual<sup>2</sup> states that the monthly review of the general ledger certifies the validity of the charges and credits. It further states that reviewers must ensure that appropriate corrective actions are taken to correct invalid entries in the ledger.

Review of the California State 4H Office general ledger as of September 2010 noted seven accounts with overdraft balances. The combined total for the overdrafts was calculated at \$278,385.62.

Reasons offered by the client after researching the overdrawn accounts questioned by Audit included: (1) use of an old account to record a new grant, (2) overlap of expenses from the final costs for one year and the new costs starting up for the next year (where fees had not been received yet), (3) funds received from ANR not yet allocated for the new year, (4) allocation from ANR appropriated to an inactive account, (5) account used under the assumption that it would continue as allocation from ANR which did not materialize, and (6) grant funds wrongly allocated by the UC Davis Extramural Accounting Office to the prior year's account.

Untimely follow up and resolution of unusual and/or overdraft entries increases the risk of inaccurate reporting of financial information, possible entries to the wrong account, and potential fraud.

It appears that the untimely identification and follow up of unusual entries may have caused this oversight.

#### ***Action Plan***

*The 4-H Central Office will implement a process whereby overdraft accounts will be reviewed and necessary corrections identified and processed monthly. In addition, the office will research and clear the overdraft balances identified during the audit. The 4H Management Services Officer will be responsible for the implementation of these action plans.*

*Target Date: 8/1/2011*

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<sup>2</sup> UC Davis Policy and Procedures Manual, 330 Financial Management and Services