

## **RIVERSIDE: AUDIT & ADVISORY SERVICES**

August 21, 2012

To: Bobbi McCracken  
Associate Vice Chancellor, Financial Services

Subject: Departmental Controls Assessment – Post Budget Cuts/Reorganizations

Ref: R2012-11

We have completed our Departmental Controls Assessment – Post Budget Cuts/Reorganizations 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 R2012-11 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

xc: Audit Committee  
Executive Officer Zahedi  
Director Materiel Management Lewis  
Chief Financial and Administrative Officer Jones  
Assistant Vice Provost for Academic Personnel Napper  
Chief Operating Officer Hedges  
Associate University Librarian for Administrative Services Rios  
Financial and Administrative Officer Heang  
Financial and Administrative Officer Liderbach-Vega  
Financial and Administrative Officer Tessier  
Financial and Administrative Officer Wine  
Manager and Senior Scholar Advisor Gentile

UNIVERSITY OF CALIFORNIA AT RIVERSIDE

AUDIT & ADVISORY SERVICES

MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS

INTERNAL AUDIT REPORT R2012-11

DEPARTMENTAL CONTROLS ASSESSMENT  
POST BUDGET CUTS/REORGANIZATIONS

AUGUST 2012

Approved by:

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**UC RIVERSIDE  
DEPARTMENTAL CONTROLS ASSESSMENT  
POST BUDGET CUTS/REORGANIZATIONS  
INTERNAL AUDIT REPORT R2012-11  
AUGUST 2012**

**I. MANAGEMENT SUMMARY**

Based upon the results of work performed within the scope of the limited review of 14 selected departments/clusters which experienced reorganizations, and/or reductions and/or turnover in key financial/administrative staff, it is our opinion that some key internal controls over major campus business processes need enhancements to be in compliance with applicable University policies and procedures as follows:

- Inadequate Segregation of Duties (SOD) - Several functions at seven of 14 departments reviewed were assigned in a manner that does not provide an adequate segregation of duties. Collectively, there were eight observations on three SOD functions. (Observation III.A)
- Impact on Business Processes - Several business-related functions and procedures at five of 14 departments reviewed are not performed consistently and/or in accordance with University Policy and/or sound business practice. Collectively, there were nine observations on five functions/procedures. (Observation III.B)

Other observations include:

- Staffing/Organizational Structures - Ten control weaknesses noted in six reviewed CHASS clusters could have resulted from under-staffing and/or the current organizational structure. (Observation III.C)
- Security/Fire Safety Concerns - Library management expressed concerns regarding individual and fire safety in the Rivera Library. (Observation III.D)

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 (A&AS), as part of its Audit Plan, performed a limited review of 14 selected departments to determine the impact of the recent budget cuts and reorganizations on overall internal controls over major campus business processes.

Included in the review were consideration and evaluation of significant processes and practices employed in the management of selected departments/clusters, specifically addressing the following components:

- Management philosophy, operating style, and risk assessment practices;
- Organizational structure, and delegations of authority and responsibility;
- Positions of accountability for financial and programmatic results;
- Process strengths (best practices), weaknesses, and mitigating or compensating controls; and
- Information and communication systems, application systems, databases, and electronic interfaces.

**B. BACKGROUND**

The University has been facing a State budget crisis over the last several years resulting in reduction of staff through layoffs, cutbacks, normal attrition, and hiring freezes. Several years ago, the College of Natural and Agricultural Sciences (CNAS) centralized certain functions in the Dean's Office and in several other clusters allowing departments to operate with fewer administrative staff. The College of Humanities and Social Sciences (CHASS) followed this "model" over the last couple of years, clustering 21 departments into seven clusters. Service Centers were created in Finance and Business Operations. In addition to these planned reorganizations to lower cost and increase efficiency, there were other departments/units with reduced staff that had to adjust responsibilities to maintain proper segregation of duties and internal controls.

**C. SCOPE**

With the assistance of various Unit CFAOs, we reviewed 14 selected departments that had a reduction of at least 25% of their financial/administrative support staff from FY 10/11 to FY 11/12 and/or had turnover in key control positions.

The departments selected and reviewed were:

Unit	Department
Bourns College of Engineering	Bioengineering
College of Natural and Agricultural Sciences	AEE – Environmental Sciences
	Center for Conservation Biology
	Physics/Astronomy
College of Humanities Arts & Social Sciences – Clusters	Anthropology/Sociology
	Comparative Literature/Foreign Languages
	English/History
	Economics/Political Science
	Performing Arts
	Multidisciplinary Unit
Chancellor Executive Vice Chancellor/Provost	International Scholars Center
Finance and Business Operations	Architects & Engineers
Palm Desert Graduate Center	Palm Desert Graduate Center
Library	Library

The review included evaluating whether organizational procedures for selected departments comply with UC and UCR policies and procedures, and good business practice. The review of selected departments was principally limited to the following areas:

1. General Overview and Risk Assessment
2. General Control Environment
3. Business Processes
4. Information and Communication Systems

We evaluated administrative and accounting procedures, and internal controls based on management responses to the internal control questionnaire and verification of selected areas. We compared the number of financial/administrative support staff by FTE and position from FY 10/11 to FY 11/12 and the number of staff and FTE supported in the department/cluster as a workload metric.

**D. INTERNAL CONTROLS AND COMPLIANCE**

As part of the review, internal controls were examined within the scope of the audit.

Internal controls is a process designed to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

Substantive audit procedures were performed from April through May 2012. Accordingly, this evaluation of internal controls is based on our knowledge as of that time and should be read with that understanding.

**III. OBSERVATIONS, COMMENTS, AND RECOMMENDATIONS****A. Inadequate Segregation of Duties**

Some functions at various departments were assigned in a manner that does not provide an adequate segregation of duties. UCR Policy and sound internal controls require that responsibilities be assigned to personnel in such a manner that no one individual controls all critical aspects of processing a transaction.

**1. Check Distribution**

Five of 14 departments did not have proper check distribution procedures in place.

**COMMENTS**

In four departments, an individual involved in activities that created the checks also distributed the checks. All four departments (AEE, Center for Conservation Biology, Anthropology/Sociology Cluster, and Palm Desert Graduate Center) have since changed their procedures to adequately segregate those duties.

There was no signoff for Accounts Payable check pickups at the Library. The Administrative Assistant/Receptionist, who hands out the checks, started keeping a log of non-payroll checks disbursed effective July 1, 2012. (The payroll checks already have a roster that is signed when a check is picked up.)

## **2. Receiving**

One individual in the Economics/Political Science Cluster prepared POs, verified receipts, and approved invoices. The administrative cluster implemented a policy to separate duties effective July 1, 2012. No person who prepares a purchase order will approve their own invoice for payment. Two persons can currently purchase, each will approve the other's transactions and neither will sign for anything they order. Other staff members will be responsible for receiving (including signing packing slips and inventory) for all goods received.

There was insufficient evidence of the date and name of recipient of received PO and purchasing card items in the Comparative Literature/Foreign Language Cluster. In response to this observation a receiving log has been given to both the student assistant in the front office and each of the staff. They have been instructed to sign and note on the log any incoming packages that the department has ordered. The office manager will only sign for packages if no other staff are present in the department.

## **3. Equipment Management**

Equipment inventory/adjustments and certifications were performed by a lone staff member in the Economics/Political Science Cluster. In response to this observation, the cluster now has separate persons ordering, receiving, and performing inventory controls. The Financial Administrative Officer will continue to be responsible for the certification.

## **B. Impact on Business Processes**

Some business-related functions and procedures at various departments are not performed consistently and/or in accordance with University Policy and/or sound business practice.

### **1. Management Reports**

Four of 14 departments (Anthropology/Sociology Cluster, Performing Arts Cluster, Economics/Political Science Cluster and Library) do not prepare and distribute certain financial reports on a monthly basis. Seven of eight months' Ledger Reconciliation Storage System (LRSS) reconciliations reviewed in FY 11/12 were completed late at the International Scholars Center.

**RECOMMENDATION – ANTHROPOLOGY/SOCIOLOGY CLUSTER, PERFORMING ARTS CLUSTER, ECONOMICS/POLITICAL SCIENCE CLUSTER, and LIBRARY**

We recommend that these clusters/departments review their reporting needs and prepare/distribute monthly financial reports on a timely and consistent basis.

**MANAGEMENT RESPONSE - ANTHROPOLOGY/SOCIOLOGY CLUSTER**

Anthropology/Sociology is now reporting on a monthly basis to the Chairs of each department. By February 1, 2013, we have a goal of creating monthly reports for all extramural awards. However, for intramural grants (e.g. Academic Senate, Honors, and CIS) we will report on a quarterly basis.

**MANAGEMENT RESPONSE - PERFORMING ARTS CLUSTER**

The Performing Arts Cluster is planning on creating regular monthly budget versus expense reports for departments/chairs and monthly faculty fund statements (including commitments) by 10/01/2012. The departments in this cluster currently have no Federal Contracts & Grants.

**MANAGEMENT RESPONSE - ECONOMICS/POLITICAL SCIENCE CLUSTER**

Monthly reports will be provided to the Principal Investigators (PIs) by the 25<sup>th</sup> of each month starting with the upcoming Fiscal Year 2013. PIs will also be encouraged to use the PI Web Reporting System to check balances as needed. These reports will be placed in a shared folder so PIs can review as necessary.

**MANAGEMENT RESPONSE - LIBRARY**

During the summer, a review of former reports and needs of current data will be undertaken so that by October 15, 2012 some form(s) of monthly reporting (in addition to the general ledger and an account balance report the interim CFAO compiles) can take place. We are currently down 1 position in finance and administration/budget office.

**RECOMMENDATION – INTERNATIONAL SCHOLARS CENTER**

We recommend that ISC complete the LRSS reconciliations by the 15<sup>th</sup> of the following month as required by policy.



MANAGEMENT RESPONSE – INTERNATIONAL SCHOLARS CENTER

ISC concurs with the recommendation. Effective August 2012 all reconciliations will be completed by 15<sup>th</sup> of the following month as required.

**2. Equipment Management**

Equipment inventory and certification had not been completed for the most recent bi-annual inventory in the Performing Arts Cluster.

RECOMMENDATION – PERFORMING ARTS CLUSTER

We recommend that the past due and succeeding bi-annual inventory be completed and certified as required by policy.

MANAGEMENT RESPONSE – PERFORMING ARTS CLUSTER

Equipment inventories were performed every year for Dance, Music and Theatre. Creative Writing was added to the cluster for FY 11/12 and we noted that the inventory has not been done for that department for over 2 years now. We are completing the inventory certification for all departments this year and expect to complete the process by 10/01/2012.

**3. Late Travel Expense Vouchers**

We noted that there are insufficient controls to minimize late Travel Expense Vouchers (TEVs) at the Economics/Political Science Cluster.

RECOMMENDATION – ECONOMICS/POLITICAL SCIENCE CLUSTER

We recommend that the department implement a process to minimize late Travel Expense Vouchers.

MANAGEMENT RESPONSE – ECONOMICS/POLITICAL SCIENCE CLUSTER

We have added a pre-approver for all travel transactions processed within the administrative cluster. This role was added in May 2012 when the financial analyst was hired. Every month, the pre-approver will follow up with the travel processors to ensure timely input and follow up with PI's to ensure the TEV moves through the system to be in compliance with the university provided timeline.

**C. Staffing/Organizational Structures**

Ten control weaknesses identified in the previous observations in this report involved the six reviewed CHASS clusters. These weaknesses could have resulted from under-staffing and/or the current organizational structure.

**COMMENTS**

CHASS recently clustered 21 departments into seven clusters to lower administrative costs and enhance efficiency with fewer administrative staff.

The CHASS Dean's office and the clusters have been "resourceful" in reassigning responsibilities within and across departments to maintain proper segregation of duties and perform business processes with limited staff. However, control weaknesses noted in several clusters could have resulted from under-staffing and/or the current organizational structure.

**RECOMMENDATIONS – CHASS DEAN'S OFFICE**

We recommend that the CHASS Dean's Office continue to review the budget, staffing, and workload in their clusters and continue to identify staffing alternatives, such as further consolidating functions/clusters and/or designating some functions to the Dean's Office staff for improved efficiency and controls.

**MANAGEMENT RESPONSE – CHASS DEAN'S OFFICE**

The CHASS Dean's Office recognizes the need for and challenges with ensuring a reasonable level of staff support, organized in an efficient and effective manner within available financial resources throughout the College. We are committed to this goal and continue to explore more optimal solutions. Currently, we are recruiting to hire an HR manager to help us better address this and other HR/staffing related matters.

**D. Security/Fire Safety Concerns**

The Library expressed concerns regarding individual and fire safety in the Rivera Library.

**COMMENTS**

The Rivera Library appears to be cavernous and three years ago, a student was assaulted. More recently, on June 13, 2012 there was a reported assault of a female student employee. The Library submitted a proposal to install security cameras to the Be Smart About Safety - Worker's Compensation Rebate Committee, but funding was denied.

#### RECOMMENDATIONS – LIBRARY

We recommend that the Library review their budget and work with other units (i.e. CEVC/P) to identify funding sources to improve Library safety.

#### MANAGEMENT RESPONSE – LIBRARY

The University Librarian will continue to petition UCR for funding for these safety issues.