

**RIVERSIDE: AUDIT & ADVISORY SERVICES**

September 23, 2011

To: Tom Weaver  
Director of Finance and Operations

Subject: University Extension – General and Financial Management

Ref: R2011-05

We have completed our audit of University Extension – General and Financial Management in accordance with the UC Riverside 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 R2011-05 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 me.

Michael R. Jenson  
Director

Attachment

Xc: Audit Committee Members

UNIVERSITY OF CALIFORNIA AT RIVERSIDE  
AUDIT & ADVISORY SERVICES  
MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS

INTERNAL AUDIT REPORT R2011-05  
UNIVERSITY EXTENSION -  
GENERAL AND FINANCIAL MANAGEMENT  
SEPTEMBER 2011

Approved By:

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**UC RIVERSIDE  
UNIVERSITY EXTENSION –  
GENERAL AND FINANCIAL MANAGEMENT  
INTERNAL AUDIT REPORT R2011-05  
SEPTEMBER 2011**

**I. MANAGEMENT SUMMARY**

Based upon the results of work performed within the scope of the limited review, it is our opinion that, overall, University Extension's (UNEX) system of internal controls is operating satisfactorily and is generally in compliance with University policies and procedures.

Positive observations include:

- UNEX is developing a system to manage international and domestic wire transfer payments of registration and other fees. The UNEX Department of Information Technology Online Application (DOA) will interface with the UNEX Q2 System for enrollments and will facilitate the monthly reconciliation of wire transfers to student enrollments. The development of the system is ongoing with full implementation expected by September 30, 2011.
- In Fiscal Year (FY) 2010-2011, academic revenues increased significantly by \$4.6 million or 35% from \$13 million the prior FY, indicating sales and marketing plans undertaken by UNEX the last FY appeared to have been effective.

We observed areas that need to be enhanced to strengthen internal controls and/or effect compliance with University policy:

- Significant shortages and overages recorded in balance sheet account 116400, University Extension (UNEX), and entered in the online Campus Department Cashier System's Deposit Advice Forms (DAF) were not actual shortages and overages in the deposits made to the University's bank account. The shortages and overages were not clearly identified and reconciled. (Observation III.B.2)
- Two contract and grant funds had deficit balances as of 6/30/2011. (Observation III.C.2)

- Travel vouchers lacked adequate information to ensure that all expenses being claimed were proper and business-related. (Observation III.D.2)

These are explained in greater detail in Section III of this report.

## **II. INTRODUCTION**

### **A. PURPOSE**

UC Riverside Audit & Advisory Services (A&AS), as part of its Audit Plan, performed a limited review of University Extension (UNEX) general and financial management operations to evaluate compliance with certain University policies and procedures, efficiency and effectiveness of selected operations, and adequacy of certain internal controls.

The specific audit objectives are to:

1. Review and evaluate internal controls and administrative procedures.
2. Determine that procedures result in operational efficiency and effectiveness, as well as provide adequate accounting control.
3. Evaluate the reasonableness, validity, and propriety of selected expenditures including whether expenditures incurred contributed to the achievement of program objectives.
4. Determine compliance with selected University policies and procedures.

### **B. BACKGROUND**

University Extension is the continuing education and professional studies branch of UCR. It has three academic departments: (1) Arts & Humanities, Science, Law, and Health; (2) Business, Engineering & Technology, and International Education, and (3) Education.

UNEX is a self-supporting activity primarily supported by students' registration fees. It operates on an annual budget in excess of \$15 million. Overall management of UNEX rests with the Dean. Each of the three academic departments is headed by a Director. Administrative and financial operations are managed by the Director of Finance and Operations.

The UNEX Student Information application called Q2 was implemented in November 2005. The system was the result of three years of

development spearheaded by UC Davis in partnership with UCR UNEX. UNEX's online enrollment system does not interface with Q2. Online registrations have to be input to Q2 by UNEX Student Services.

**C. SCOPE**

Audit & Advisory Services reviewed selected records supporting transactions that occurred from July 2010 through March 2011, and examined procedural controls relating to the following major administrative areas:

**1. Internal Controls**

We evaluated administrative and accounting procedures and internal controls based on management responses to the internal control questionnaires (ICQ) and verification of selected areas.

**2. Financial Analytic Review**

We performed a financial analytic review of revenues and expenditures for fiscal years 2007-2008, 2008-2009, 2009-2010, and 2010-2011. This included identifying unusual trends or fluctuations and obtaining explanations for any significant or unusual variances. Funds were reviewed for any significant deficits. UNEX balance sheet account 116400 was reviewed for recorded shortages and overages.

**3. Non-Payroll Expenditures**

We selected a judgmental sample of 25 non-payroll contract and grant and 15 travel expenditures totaling \$108,321 and \$120,457, respectively, and reviewed for validity, reasonableness, proper approvals, completeness of supporting documentation, and compliance with applicable University policies.

**4. Contracts and Grants**

We reviewed the financial statements of UNEX contracts and grants and ascertained whether there were any specific problems relating to the grants administered by the department. We verified the contracts and grants' fund balances and determined if deficits were promptly and appropriately addressed. Updated balances as of June 30, 2011 were reviewed.

**5. Wire Transfer Management System**

We interviewed the UNEX Information Technology Manager on the system specifications and implementation timeline for the Department

of Information Technology Online Application for wire transfer management. Also, we evaluated the system planned access controls, documentation, and disaster recovery plans.

**D. INTERNAL CONTROLS AND COMPLIANCE**

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

Internal control 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

Our substantive audit procedures were performed in April 2011 to May 2011. Limited procedures related to contracts and grants were performed in July 2011. 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. Internal Controls**

We reviewed and evaluated the Organizational Unit's overall organizational structure and controls to ensure that these are conducive to accomplishing their business objectives through the Finance Director's completion of the Internal Control Questionnaire (ICQ).

Our review did not disclose any exceptions.

**B. Financial Analytic Review**

**1. Summary**

We performed a financial analytic review of the actual revenues and expenditures on operating funds (excluding general, contract and grants, and donor funds) for FYs 2007-2008 to 2010-2011. This included identifying unusual trends or fluctuations and obtaining explanations for any significant and unusual variances. Likewise, we reviewed the balance sheet account (BSA) 116400, University Extension.

Actual revenues and expenditures of operating funds for the past four FYs are presented below:

|                   | 2010-2011  | 2009-2010  | 2008-2009  | 2007-2008  |
|-------------------|------------|------------|------------|------------|
| Revenues          | 21,066,063 | 15,684,093 | 15,065,854 | 14,439,241 |
| Expenditures      | 18,045,612 | 14,725,786 | 15,469,587 | 13,822,368 |
| Surplus (Deficit) | 3,020,451  | 958,307    | (403,733)  | 616,873    |

Source: UCRFStotals – Divisions 117 to 120

While revenues in the past three FYs (2007-2008 through 2009-2010) registered only modest increases, a significant increase in revenues of \$5.4 million or 34% was realized in FY 2010-2011. Of the \$5.4 million increase in revenues, Fund 20300, UNEX Income, accounted for \$5.1 million (from \$14.2 million in FY 2009-2010 to \$19.3 million in FY 2010-2011) and auxiliary enterprises accounted for \$0.3 million (from \$1.2 million to \$1.5 million during the same periods). The above table does not take into account UNEX's debt service payments. UNEX management indicated increased sales and marketing plans undertaken the last fiscal year appeared to have been effective.

Generally, increased enrollments result in increased expenditures. At UNEX, the increased revenues had a direct impact on expenditures which in FY 2010-2011 increased by \$3.3 million or 23% over the prior year.

Our observations are discussed below.

## 2. Balance Sheet Account 116400

Significant shortages and overages recorded in balance sheet account (BSA) 116400 and entered in the online Campus Department Cashier System's DAF were not actual shortages and overages in the deposits made to the University's bank account. The shortages and overages were not clearly identified and reconciled.

### COMMENTS

Balance sheet account 116400 is a temporary holding account for UNEX revenues and other types of transactions that include tuition and wire transfers, accounts payable, and refunds. Transactions are recorded in this account pending allocation and transfer to the appropriate UNEX activity codes, funds, and accounts. Included in the transactions are shortages and overages that were entered in the DAFs together with cash deposits and credit card collections. At first glance, it would seem that the deposits made by UNEX had significant shortages and overages.

Shortages and overages recorded in BSA 116400 during the four previous FYs were:

| Fiscal Year | Shortages | Overages | Net Overages (Shortages) at June 30 <sup>th</sup> |
|-------------|-----------|----------|---|
| 2010-2011   | ( 19,213) | 13,539   | (5,674)   |
| 2009-2010   | ( 45,183) | 46,055   | 872   |
| 2008-2009   | ( 10,492) | 11,717   | 1,225   |
| 2007-2008   | ( 8,723)  | 15,209   | 6,486   |

In FY 2010-2011, the amounts of recorded shortages/overages ranged from \$1 to \$5,199. An inquiry of the UNEX Student Services (UXSS) Assistant Dean disclosed that while some of the amounts were actual shortages and overages, the majority of the shortages/overages resulted from differences between the registrations recorded in the UNEX Q2 Registration and Cashiering System (Q2) and the credit card payments received.

Generally, in the daily reconciliation of cash collections, the total enrollments recorded in Q2 should balance to the payments received (cash and credit cards). However, in instances when a student changes or withdraws from the enrolled class one or more days after he/she had enrolled and applies the payment on the original class to the new class, the daily reconciliation of cash collections on the day the change was made would not balance to the payments received. To illustrate this situation, cited below is an example and the procedures followed in processing this transaction:

- On Monday, Student A enrolls online in Class BBB with a course fee of \$100 and pays with a credit card. UXSS enters enrollment in Q2 which creates a transaction number.
- In Monday's Cash Collection Report, the Q2 registrations balance with the payments received.
- On Friday, Student A personally appears at UXSS and requests to withdraw from Class BBB (which has not started) and instead attends Class CCC with a course fee of \$200. Student A cannot go online and do these changes.
- Student Services processes enrollment in Class CCC and accepts credit card payment for \$100 (\$100 for Class BBB previously paid on Monday will be applied to Class CCC).
- In Friday's Cash Collection Report, the Q2 course fee (\$200) will not balance with the payment received (\$100). Under present procedures, the difference of \$100 is recorded in the DAF with the line description "Shortage". The use of the line descriptions "Shortage" and "Overage" in the DAF is misleading.

- UXSS can process de-enrollments and application of payments from one class to another in Q2, but any changes/transfers would tie to the original transaction number. In this case, the original transaction number was associated with the online registration enrollment since that was where the transaction number was created.

Shortages/overages recorded may involve one or more registrations for one or more students. Shortages/overages recorded in BSA 116400 were not reconciled.

## RECOMMENDATIONS

We recommend the following:

- To facilitate reconciliation and resolution of differences between the Q2 registrations and payments received, differences that could be associated with specific students should be identified with the student's number in the DAF.
- For differences identified and resolved, the line description "adjustment" and the student number should be entered in the DAF for in-office transactions. For differences affecting online registrations, the line description "correction" and the student number should be entered in the DAF.
- Monthly reconciliation should show any unresolved differences as reconciling items.
- The line description "shortage" or "overage" should be used only for actual shortages and overages in the daily deposits.

## MANAGEMENT RESPONSE

The overage/shortage account is no longer being used to report corrections/adjustments. It should be noted that these discrepancies occur as a result of our computer system, Q2 being order-based as opposed to transaction-based. Additionally, Cybersource, the online credit card payment system and our in-house credit card processing system are not linked even though they are deposited to the same account. The combination of these two circumstances creates an environment where discrepancies between online and in-house close-out reports occur but actual revenue is not affected. The activities noted in the audit are actually corrections and adjustments for balancing which occur because the two credit card deposits are not

combined and because of the limitations of an order based computer system.

We are now using BSA 116400 to report adjustments and corrections on closeout reports. The process is described in the following manner:

- When an additional payment is processed “in-house” for a class transfer on an order that originated with an online transaction, a false overage appears on the in-house close-out reports. To reflect this discrepancy we enter a line item on that day’s in-house DAF under BSA 116400 which is labeled “adjustment” with the amount and CID of the affected student noted. On that day’s “online” transaction closeout reports, a false shortage appears. To reflect this discrepancy, we enter a line on that day’s “online” DAF under BSA 116400 which is labeled “correction” with the amount and CID of the affected student noted.
- In the past, these “adjustments” and “corrections” were labeled as overages and shortages on the in-house DAF but per Campus Cashiers, we were not allowed to indicate the corresponding discrepancies on the online DAF. As of July 1, 2011 we were given permission by Main Campus Cashiers to include these discrepancies on the online DAF and instructed by accounting to label them as “adjustments” and “corrections”.
- As of July 1, 2011 any actual overages and shortages are reported on the DAF under account R70900.
- If at the end of the month there are any unresolved correction/adjustment issues, they will be noted and resolved in a timely manner.

## C. Contracts and Grants

### 1. Summary

As of 3/31/2011, UNEX had eight contracts and grants with awards totaling \$2.5 million and available balances totaling \$1.4 million. We judgmentally selected 25 non-payroll transactions totaling \$108,321 that were charged to the various contracts and grants, and reviewed for validity, reasonableness, proper approvals, completeness of supporting documentation, and compliance with applicable University policies. Likewise, updated balances as of 6/30/2011 were reviewed.

## 2. Fund Deficit

Two contract and grant funds had deficit balances as of 6/30/2011.

### COMMENTS

Fund 20715 with an awarded amount of \$465,080 had incurred \$485,225 in expenditures resulting in a net deficit of \$20,145. The fund expired on 6/30/2011. Fund 20844 which expired on 6/30/2006 had an outstanding deficit of \$1,196.

### RECOMMENDATIONS

Expired contracts and grants with remaining deficits need to be resolved by the department.

### MANAGEMENT RESPONSE

These balances will be charged-off to University Extension operations (fund 20300) in FY11-12.

## D. Non-Payroll Expenditures

### 1. Summary

Non-payroll expenditures from operating funds in FY 2010-2011 totaled \$7.4 million. A judgmental sample of 15 travel expenditures totaling \$120,457 was selected and reviewed for validity, reasonableness, proper approvals, completeness of supporting documentation, and compliance with applicable University policies.

Our observations are discussed below.

### 2. Travel

Travel vouchers lacked adequate information to ensure that all expenses being claimed were proper and business related.

### COMMENTS

Our review of travel expenses primarily focused on determining compliance with Business and Finance Bulletin (BFB) G-28, *Policy Regulations Governing Travel*, which states: "*University employees traveling on official business shall observe normally accepted standards of propriety in the type and manner of expenses they incur. In addition, it is the traveler's responsibility to report his or her actual travel expenses*

*in a responsible and ethical manner, in accordance with the regulations set forth in this Bulletin."*

Our review of the travel vouchers and back up documentation disclosed that majority of the vouchers lacked adequate information. The travelers did not indicate the specific purpose of their trips.

#### RECOMMENDATIONS

Travel transactions should contain adequate information to ensure expenses being claimed are proper and business-related.

If the purpose of the trip is for marketing/marketing meetings, or embassy visits, the travelers should indicate in the iTravel the name of the University/school/entity where marketing meetings and embassy visits occurred, the names of the parties they met, etc.

If the traveler had several destinations on one trip, then the specific reason for going to each of those places should be indicated in the iTravel.

Also, if meals were provided in the conference, these should be disclosed in the iTravel so the per diem rate could be adjusted, if needed.

#### MANAGEMENT RESPONSE

Detailed descriptions of the purpose of the trip will be provided with each travel voucher. If the purpose of the trip is to attend a conference, the per diem rate will be adjusted to account for meals that may be included in the cost of the conference.

#### **E. Wire Transfer Management System**

Incoming wire transfer (WT) payments, both international and domestic, have increased within the last three and current fiscal years:

| FY        | Total Amount | No. of WTs |
|-----------|--------------|------------|
| 2010-2011 | \$4,745,159  | 189        |
| 2009-2010 | 2,902,622    | 148        |
| 2008-2009 | 2,213,760    | 110        |
| 2007-2008 | 1,905,264    | 117        |

A wire transfer can cover enrollment fees for one or multiple students or payment for one or more classes for one student. Presently, wire transfer

amounts are manually reconciled monthly to the UNEX Q2 System for enrollments.

In November 2010, the Director of Finance and Operations (DFO) initiated the development of a system that would manage the wire transfers and facilitate the monthly reconciliation of the wire transfers against the Q2 enrollments. A group consisting of the DFO, the UNEX Information Technology (IT) Manager and five other IT and Business staff convened and identified the specifications of the new system.

We evaluated the planned access controls, documentation, and disaster recovery plans for the system, and they appear to be adequate.

The development of the system, called Department of Information Technology Online Application (DOA), is ongoing with full implementation expected by September 30, 2011.