

RIVERSIDE: AUDIT & ADVISORY SERVICES

July 30, 2013

To: Audit Committee

Subject: Financial Analytical Review

Ref: R2013-10

We have completed our Financial Analytical Review in accordance with the University of California, 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 R2013-10 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.

Gregory Moore
Director

cc: Assistant Controller Librenjak
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 R2013-10

FINANCIAL ANALYTICAL REVIEW

JULY 2013

Approved by:

Laura Bishin
Principal Auditor

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Assistant Director

Gregory Moore
Director

**UC RIVERSIDE
FINANCIAL ANALYTICAL REVIEW
INTERNAL AUDIT REPORT R2013-10
JULY 2013**

I. MANAGEMENT SUMMARY

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

We observed one area, Accounts Payable Check Pickup (Observation III.A), that needs enhancement to strengthen internal controls.

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

II. INTRODUCTION

A. PURPOSE

University of California, Riverside (UCR) Audit & Advisory Services (A&AS), 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 A&AS 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) 2011-2012 and in some cases FY 2010-2011 and FY 2009-2010. 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 2010-2011 and FY 2011-2012 revenues and expenditures by Activity Code. Reviewed activities with over \$1,000,000 and 30 percent change from FY 2010-2011 to FY 2011-2012. 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, 2012 and evaluated the July 1, 2012 general core carryforward by unit for negative carry forward amounts.
- c) Verified the accuracy of Resource Planning & Budget's Carry Forward Analysis for FY 2011-2012.

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 2010-2011 to FY 2011-2012.
- d) Reviewed duplicate vendor addresses within accounts payable.
- e) Evaluated different addresses for the same vendor.
- f) Evaluated multiple vendor numbers for the same vendor name and vice versa.
- g) Examined vendor check pick-up logs.
- h) Searched for duplicate vendor invoices.

- i) Analyzed vendor invoices entered/modified by transactor for any unusual activity including UCR's Online Payment Request Application (ePay) check requests.
- j) Reviewed for payments to different vendors on the same Purchase Order (PO).
- k) Reviewed vouchers/invoices for invoice splitting (Benford Law).
- l) Reviewed voucher and payment trends (count and amount).
- m) Searched for missing or duplicate disbursement check numbers.
- n) Reviewed changes to the vendor master file and procedures.
- o) Examined Wells Fargo check images (one month) and Electronic Funds Transfer (EFT) payments for FY 2011-2012 to identify deposits to the same bank account for different payees.
- p) Examined Student Information System refunds/payments to identify any unusual trends.
- q) 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).
- r) Reviewed payments in excess of the PO amount.
- s) Reviewed large payments to vendors without the POs.
- t) Examined Purchasing Procurement Card (ProCard) payments for unusual trends and transactions (Benford Law).
- u) Performed payment date analysis.
- v) Reviewed US Bank Card account delinquency activity.
- w) Reviewed Travel Advances.

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) Reviewed leave reporting (i.e. holiday pay, compensatory time, holiday shutdown, sick and vacation).
- g) Reviewed check pickup controls.
- h) Reviewed payroll transactions with back or future end dates.
- i) Reviewed selected severance calculations.
- j) Searched for faculty on nine-month appointments paid over 12 months starting July 1, 2011, and who may have separated in Fall 2011, to determine if prepaid salary was properly reimbursed to the University.
- k) Judgmentally selected six faculty to review general compliance with University Conflict of Commitment policies.

- a) Reviewed payroll check analytics (i.e. number an amount of transfers, cancellations, hand drawn checks) from FY 2010-2011 to FY 2011-2012.

4. Revenues

Reviewed the CASH System receipts by organization and department, by year and period, for any unusual changes.

III. OBSERVATIONS, COMMENTS, AND RECOMMENDATIONS

A. Accounts Payable Check Pickup

During our review, we noted that the number of Accounts Payable checks on the check pickup log decreased from 434 in FY 2010-2011 to 420 in FY 2011-2012. However, ten percent (or 43) of the check pickup signatures on the log were illegible (up from four percent, or 18, in FY 2010-2011).

COMMENTS

Certain vendor checks and employee travel and reimbursement checks are pre-flagged for pickup in Accounting. After check printing, additional checks can also be requested to be pulled for pickup in Accounting. There are controls in place to secure the checks and verify the individual picking up the checks.

Accounting has re-emphasized that Accounts Payable check pickups should have the name and signature of the individual written into the log, as in the past there were high numbers of illegible signatures which made it impossible to verify if check pickups were made by authorized individuals. We could not determine who picked up 43 checks (10 percent of check pickups) totaling \$427,612 in FY 2011-2012 compared to 18 checks (4 percent of check pickups) totaling \$514 in FY 2010-2011. Two of the FY 2011-2012 checks with illegible pickup signatures were checks for \$250,000 and \$108,250.

We subsequently determined that 32 of the 43 illegible check pickup signatures were associated with one individual in Accounting. This individual was coordinating to send out the checks via campus mail because they were not picked up after several weeks. Generally checks are flagged for pickup because there is an urgent need for the check. If checks sit around for weeks after they are issued, we question the need to flag them for pickup. Additional resources are expended contacting the respective owners of the checks and coordinating to send them their check. We understand that additional control features were implemented during FY 2012-2013 in UCR's Travel Planning and Expense Reporting System (iTravel), which now defaults the payment option first for Electronic Funds Transfer where possible, then to a mailed check. Departments no longer have the option to select check pick-up; a department can request a check

pick-up, the request is evaluated by Accounts Payable before approving an exception to the default payment delivery method. As such, we expect the number of check pickups to continue to drop.

RECOMMENDATIONS – ACCOUNTING

We recommend that Accounting improve documentation of Accounts Payable check pickups and continue to discourage check pickups where possible.

MANAGEMENT RESPONSE – ACCOUNTING

Concur. The check pick up process has been re-communicated to the primary individuals distributing check pick-ups and their supervisors. However, it is important to note that of the of the 43 signatures originally deemed as illegible by Audit & Advisory Services, 32 of the signatures were associated with an individual in Accounting attempting to distribute the checks, so the printing of the individual's name seemed unnecessary. Therefore, the true count of illegible signatures was 11 (or 2.5 percent of check pick-ups in FY2012; a decrease from the 4 percent in FY2011).

B. Employee Conflict of Interest

We noted one case where an employee was providing freelance services to the University on POs. There was no Conflict of Interest (COI) form on file for this vendor.

COMMENTS

For FY 2010-2011, we reviewed for different vendors using the same EFT account in and across Accounts Payable, Payroll, SIS, and Wells Fargo Bank cleared check images. We judgmentally selected 10 to review and noted that one employee in one unit (employed from 2009 to present) was also providing freelance services on POs created in another unit (2004 to present). The sum of payments to the vendor from his employment date through June 2013 was \$12,152 on 29 invoices. There was no COI form on file.

When the vendor became an employee in 2009, a COI form should have been completed for subsequent POs. We noted that the form was subsequently completed by the purchasing unit and forwarded to Materiel Management.

Campus Policy 750-63 as of June 20, 2013 stated:

“PURCHASES FROM AN EMPLOYEE/NEAR RELATIVE - A COI form ... must accompany a requisition that requests procurement of

goods or services from a University employee, or a firm in which a University employee, or near relative of an employee, has more than a 10 percent ownership interest. A University employee is defined as an individual who is presently employed by the University.”

We note that the Policy, which is owned by Purchasing (Materiel Management), was last updated in 2000. It was not clear procedurally if the unit executing the PO, the hiring unit, and/or the employee has the responsibility to initiate the COI form. The policy has since been updated to say:

“A COI form must be completed by an employee in coordination with the department requesting the procurement of goods or services...”

We believe that this clearly establishes responsibility.

Although there is a requirement effective September 2012 that all UCR employees (faculty, staff, and postdoctoral scholars) complete the ‘Compliance Briefing: University of California (UC) Ethical Values and Conduct’ course annually (except specific researchers who need to complete another course), the Office of the President provided an exemption from having to complete this course to employees with title code 3750-TEACHER-UNEX-CONTRACT-YR (which included this employee). Without the adequate COI employee training, it is unlikely that the employee can be expected to self-identify a COI. This puts the onus on the department requesting the procurement to identify possible COI and complete the form.

C. Faculty Conflict of Commitment (COC)

During our review, we noted a possible COC with one faculty member. The Regents have retained a law firm on this matter. No other instances of conflict of commitment were noted.

University of California Office of the President Systemwide Policy – The Academic Personnel Manual – Policy 025 (APM-025) defined the policy and provides the mechanism for obtaining prior written approval for activities likely to raise a COC. UC policy mandates that an annual report is submitted whether or not a faculty member engaged in Category I or Category II activities. A response of ‘Yes’ or ‘No’ is required.

Local Campus Policy – Academic Personnel Review Procedures for the Senate Faculty “The Call” states that COC reports must be on file in order for the review process to move forward.

No other action was deemed necessary at this time.