



UCSB Audit and Advisory Services

Internal Audit Report

UC Education Abroad Program

April 24, 2013

Performed by:

Olga Mery, Senior Auditor
Sam Hartline, Principal Auditor

Approved by:

Robert Tarsia, Director

Report No. 08-13-0002

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AUDIT AND ADVISORY SERVICES
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April 24, 2013

To: Dennis Dent, Director, Budget & Finance
UC Education Abroad Program

Re: **UC Education Abroad Program**
Audit Report No. 08-13-0002

As part of the 2012-13 annual audit plan, Audit and Advisory Services conducted an audit of the University of California Education Abroad Program (UCEAP). Enclosed is the audit report detailing the results of our audit.

The purpose of the audit was to determine whether UCEAP is operating consistently with those University of California Office of the President (UCOP) and University of California, Santa Barbara (UCSB) requirements applicable to its operations.

The audit identified several opportunities to improve UCEAP operations and help ensure compliance with applicable requirements. This report includes recommendations for:

- Improvements in accounting procedures and controls for UCEAP's foreign Study Centers, including better electronic security practices and consulting with UCOP Banking and Treasury Services regarding possible changes to foreign banking arrangements.
- Improvements in local accounting practices, including better online access to UCSB's general ledger system for UCEAP to access transaction and balance information for its account/funds.
- A comprehensive disaster recovery plan, including an IT disaster recovery plan that addresses business continuity.

We have included a copy of our detailed observations and management corrective actions. The management corrective actions provided indicate that each recommendation was given thoughtful consideration and that positive measures have been planned to implement the corrective actions. The cooperation and assistance provided by UCEAP personnel during the review was sincerely appreciated. If you have any questions, please feel free to contact me.

Respectfully submitted,

A handwritten signature in cursive script that reads "Robert Tarsia". The signature is written in black ink and is positioned above the printed name.

Robert Tarsia
Director
Audit and Advisory Services

Dennis Dent, UCEAP Director Budget & Finance
April 24, 2013

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Enclosure

cc: Chancellor Henry Yang
Associate Vice Chancellor Ron Cortez
UCSB Audit Committee
Senior Vice President and Chief Compliance and Audit Officer Sheryl Vacca
UCEAP Associate Vice Provost and Executive Director Jean-Xavier Guinard
David Kujan, UCEAP MSO
Jessica Blazer, UCEAP Study Center Finance Section Head

PURPOSE

The purpose of this audit was to determine whether the UC Education Abroad Program (UCEAP) is operating consistently with University of California Office of the President (UCOP) and University of California, Santa Barbara (UCSB) requirements applicable to its operations.

SCOPE, OBJECTIVES AND METHODOLOGY

The scope of the audit covered UCEAP business activity during the 15-month period from July 1, 2011, to September 30, 2012.

Audit objectives included determining whether:

- Study Center accounting practices are sufficient to ensure that only proper, authorized transactions are reimbursed.
- UCEAP's general IT controls are adequate overall and are in compliance with UCOP and UCSB requirements.
- General ledger and other financial management internal controls are adequate to ensure that charges to UCEAP's general ledger are appropriate.

To accomplish the objectives, we documented, reviewed, and evaluated:

- UCEAP Study Center processes, policies and procedures, and internal controls.
- Select IT general controls.
- General ledger and other financial management internal controls.

We also tested a sample of transactions to determine whether internal controls are operating as intended, and examined reconciliations to UCSB's general ledger.

This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

BACKGROUND

The mission of the University of California Education Abroad Program is to equip UC students with the knowledge, understanding, and skills for work and life in a globally interdependent and culturally diverse world.

Since 1962, UCEAP has served as the UC systemwide international exchange program. Serving all ten campuses, UCEAP continues its support of the University of California's mission through academic instruction and exchange relationships around the world. UCEAP is currently active in 39 countries with over 285 program options. UCEAP operates Study Centers in about 39 foreign countries; the centers are satellite locations that provide programs, support, and resources for students in exchange programs.

UCEAP contributes to the University's mission of teaching, research, and public service. Since its inception, more than:

- 86,000 UC students have participated in UCEAP and graduated into careers in private industry, public service, and academia.
- 550 UC faculty have served as EAP Study Center directors, visiting professors, and program instructors.
- 27,000 international students have completed non-degree study at a UC campus through UCEAP's reciprocal exchange agreements¹.

Table 1	UCEAP Enrollment by Campus: Three Year Total for Academic Years 2008-09 through 2010-11	
	Campus	3 year Total
UCB		2,460
UCD		1,117
UCI		1,617
UCLA		1,780
UCM		96
UCR		630
UCSB		2,726
UCSC		1,485
UCSD		1,760
UCSF		2
	Total	13,673

Source: UCEAP Director's Annual Report (dated October 27, 2011)
UCEAP Research, July 2011

On May 4, 2011, UCEAP, which reports to the UCOP organization, entered into a Memorandum of Understanding (MOU) with UCSB. The goal of the MOU is creating a partnership through which a single campus (UCSB) provides an administrative home for UCEAP, a system-wide program. The purpose of this new partnership was efficiency, economies of scale, and cost reductions. As a result of the MOU, UCEAP was to utilize UCSB's financial and administrative systems. UCEAP began converting from UCLA's general ledger system to UCSB's general ledger system on July 1, 2011. The conversion was completed in 2012.

¹ Source: UCEAP website, March 2013.

SUMMARY OPINION

The audit identified several opportunities to improve UCEAP operations and help ensure compliance with applicable requirements. This report includes recommendations for:

- Improvements in accounting procedures and controls for UCEAP's foreign Study Centers, including better electronic security practices and consulting with UCOP Banking and Treasury Services regarding possible changes to foreign banking arrangements.
- Improvements in local accounting practices, including better online access to UCSB's general ledger system for UCEAP to access transaction and balance information for its account/funds.
- A comprehensive disaster recovery plan, including an IT disaster recovery plan that addresses business continuity.

Audit observations and management corrective actions are detailed in the remainder of the audit report.

DETAILED OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS

A. Recommended Improvements in Study Center Accounting

The Study Centers are satellite locations in about 39 foreign countries which, by their nature, may involve a higher level of risk due to a lower level of supervision and oversight. In evaluating Study Center accounting practices, the following risk areas were identified:

- There were 22 bank accounts at 20 different banks, in most cases local branches that are convenient for Study Center staff. It may be possible to provide greater efficiency to UCEAP staff by having fewer different international banks. Additionally, there were six Study Centers with UCEAP credit cards, which are used for cash advances to help fund local operations. There are differing limits on cash withdrawals, which makes paying some invoices an unusual process. Study Center staff sometimes withdraw the maximum cash allowed per day at ATMs for several days until the total amount needed for an invoice is collected, an inefficient process that may also result in risks to the security of personnel.
- Many of the Study Centers use QuickBooks, and the UCEAP staff accountants in Santa Barbara have remote access to those data files. It appears that there is a unique username and password for each Study Center; however, the UCEAP staff accountants in Santa Barbara access the files using those same usernames and passwords, which makes it difficult, if not impossible, to tell who is making entries and adjustments.
- Electronic Study Center data (in the QuickBooks files) can be retroactively changed after all final reviews and approvals are completed. UCEAP processes in this area are generally sound with good controls, including required review and approval of the monthly invoice and expense packet by the Study Center directors. However, these controls are weakened when the electronic data can be retroactively changed after all reviews and approvals are completed. At the headquarters level, a correction in August was made to an April transaction in the Study Center data record, unfortunately deleting the original April entry.

We recommend that UCEAP:

- Consult UCOP Banking and Treasury Services about potential improvements to streamline foreign banking operations, including alternatives to cash advances on credit cards to fund operations.
- Establish unique usernames and passwords in QuickBooks for each staff accountant that are different than those used by the Study Center staff.
- Consider implementing electronic controls to prevent retroactive adjustments by either UCEAP central staff or the Study Centers, which would effectively involve closing the monthly books in QuickBooks after all required approvals have been obtained.

Management Corrective Actions

UCEAP will contact UCOP Banking & Treasury services by June 30, 2013, to explore options for consolidating foreign bank providers. Historically, banking providers have been selected due to proximity to the Study Center office, low banking fees, and compatibility with program needs. We are unable to open bank accounts in some countries where banking restrictions are too severe. Working with UCOP Banking Services, the EAPCard was developed to accommodate our need to withdraw cash in local currency and pay for expenses with a credit card, when possible. That said, UCEAP recognizes the potential synergies of banking with fewer entities where possible; toward that effort, UCEAP has forwarded our list of bank accounts to UCOP for review and consultation with Banking Services for potential consolidation.

Separate log-in passwords will be created for Study Center staff and EAP accountants by July 2013.

Effective immediately, closing passwords will be applied each month to the QuickBooks files by an EAP accountant to ensure no changes are made to a prior period's activity. This will ensure changes are recorded according to established procedure as an adjusting entry in the current period.

Audit and Advisory Services will follow up on the status of this issue by September 30, 2013.

B. Recommended Improvements in Financial and General Ledger Controls

UCEAP began converting from UCLA's general ledger system to UCSB's general ledger system on July 1, 2011; the conversion was completed in 2012. Our review of general ledger and other financial management processes found that UCEAP staff does not have access to all unexpended balance information for certain account/funds in Data Warehouse. Difficulty in accessing this information makes monthly reconciliations difficult and more time consuming.

We recommend that UCEAP consult with Business & Financial Services about obtaining access to all general ledger information necessary to properly monitor and reconcile general ledger activity.

Management Corrective Actions

UCEAP has already contacted the UCSB Budget Office and Business and Financial Services to request read-only access to unexpended balance accounts. We anticipate gaining access prior the end of the current fiscal year.

Audit and Advisory Services will follow up on the status of this issue by September 30, 2013.

C. Recommended Improvements in Information Technology & Disaster Recovery Planning

Our review of UCEAP's IT general controls found the following:

- Disaster Recovery Plan – Sections of a disaster recovery plan are completed, but an overall comprehensive disaster recovery plan is needed. Within this overall plan there should be an IT disaster recovery plan that addresses business continuity in the event of a disaster.
- Information Security Policy – There is no written information security program or policy addressing the unique needs of UCEAP and its Study Centers, as required by UC Business and Finance Bulletin BFB IS-3, *Electronic Information Security Policy*.
- The backup copies of data are stored onsite. UCEAP should consider offsite storage for backup copies.

We recommend that UCEAP partner with UCSB Emergency Services and implement UC Ready. UC Ready is a continuity planning software tool that is being implemented across the UC system. It assists in gathering information to determine critical teams, functions and activities, and in planning for performing work in different ways and at alternate locations, if necessary. It also assists in compiling lists of people, processes, systems, and other pertinent information needed during or after any event or disaster.

Management Corrective Actions

UCEAP is finalizing the recruitment of its new IT Director and one of the new incumbent's priorities will be to review, formulate, and document a comprehensive disaster recovery plan as well as a written Information Security Policy per UC Business and Finance Bulletin BFB IS-3.

UCEAP will request the assistance of UCSB in identifying a secure back up site for UCEAP data on campus. Should a suitable site not be found on campus, UCEAP will explore other commercial avenues locally as it recognizes the need for off-site storage.

Audit and Advisory Services will follow up on the status of this issue by September 30, 2013.