

RIVERSIDE: AUDIT & ADVISORY SERVICES

September 29, 2011

To: Charles Rowley
Associate Vice Chancellor
Computing & Communications

Subject: Computing & Communications – Business Operations

Ref: R2011-15

We have completed our audit of Computing & Communications – Business Operations in accordance with the UC Riverside Audit Plan. Our report is attached for your review.

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
CFAO Gupta

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

INTERNAL AUDIT REPORT R2011-15
COMPUTING & COMMUNICATIONS – BUSINESS OPERATIONS
SEPTEMBER 2011

Approved By:

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I. MANAGEMENT SUMMARY

Based upon the results of work performed within the scope of the limited review, it is our opinion that, overall, Computing & Communications – Business Operations' system of internal controls is operating satisfactorily and generally in compliance with University policies and procedures.

A positive observation is that C&C's five-year financial projection (5YFP) was approved by the Campus Committee on Sales and Service Activities (COSSA) and implemented in Fiscal Year 2010-2011. The 5YFP consolidated the former Communications Worker Fee (CWF) and the Telephone Line Charge Rate into one rate, the Communications Infrastructure Fee (CIF) that allowed for a more efficient recharging of services to the campus.

On August 26, 2011, C&C sent out an electronic mail (email) informing all campus Chief Financial and Administrative Officers (CFAO) about the change in the FY 2011-2012 CIF rate to \$53.02. Likewise, C&C informed the campus that a new five-year rate plan will be prepared for consideration during the FY 2012-2013 rate review cycle and that the proposal will include a complete re-examination of UCR's network replacement and upgrade plan.

II. INTRODUCTION

A. PURPOSE

UC Riverside Audit & Advisory Services, as part of its Audit Plan, performed a limited review of Computing & Communications – Business Operations to evaluate compliance with certain University policies and procedures, efficiency and effectiveness of selected operations and adequacy of certain internal controls.

B. BACKGROUND

Computing & Communications (C&C) is the campus unit charged with the management and development of the various campus computing and communications systems. C&C is managed by an Associate Vice Chancellor and has a staff complement of 118 full-time employees.

C&C has eight departments: Instructional Technology, Enterprise Application Development, Academic Information Systems, Database Administration Services, Computing Support Services, Computing Infrastructure and Security, Communications Services, and Policy, Planning, Finance, and Administration. Each department is headed by a Director. This audit is limited to C&C's business operations.

C. SCOPE

Audit & Advisory Services reviewed selected records supporting transactions that occurred between July 2010 and May 2011 (except for the Financial Analytic Review which included June 2011 transactions), and examined procedural controls relating to the following major administrative areas:

1. Internal Controls

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 analytical review of revenues and expenditures for fiscal years 2007-2008, 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.

3. Non-Payroll Expenditures

We judgmentally selected for review 10 cellular phone users' documentation and January 2011 billing statements. Likewise, we selected and reviewed 10 maintenance and license contracts totaling \$641,521. Transactions were reviewed for validity, reasonableness, proper approvals, completeness of supporting documentation, and compliance with applicable University policies and procedures:

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 to June 2011 (not inclusive). Limited analytic review procedures 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 Chief Financial and Administrative Officer's (CFAO) completion of the Internal Control Questionnaire (ICQ).

Our review did not disclose any exceptions

B. Financial Management

Overall expenditures during the last four fiscal years (FY) are presented below:

	FY 2010-2011	FY 2009-2010	FY 2008-2009	FY 2007-2008
19900	9,476,917	8,846,206	10,003,951	11,880,091
Sales & Service	6,914,192	5,871,059	6,401,303	5,850,982
Other Funds	850,692	911,856	892,012	1,149,054
Total	17,241,801	15,629,121	17,297,266	18,880,127
Expenditures:				
Salaries (S)	9,158,633	8,631,494	9,405,975	8,987,804
Benefits (B)	2,779,406	2,474,852	2,289,824	2,185,444
Total S&B	11,938,039	11,106,346	11,695,799	11,173,248
Non-Payroll	5,303,762	4,522,775	5,601,467	7,706,879

General Fund (19900) expenditures decreased in FYs 2008-2009 & 2009-2010 by an average of 14%. In FY 2010-2011, 19900 expenditures increased by 7% over the prior year. Salaries and benefits represent the biggest expense of the department, at \$11.9 million (69% of total expenditures of \$17.2 million) in FY 2010-2011. In FY 2009-2010, salaries of \$8.6 million were down 8% or by \$774K, from \$9.4 million in FY 2008-2009. The decrease in salaries in FY 2009-2010 was due to the systemwide furlough.

C. Communications Infrastructure Fee

On 7/26/2010, C&C announced to the campus via email the implementation of the new Communications Infrastructure Fee (CIF) contained in C&C's 5YFP that was approved by the Campus Committee on Sales and Service Activities (COSSA). The email announced that "the CIF is the recharge mechanism that supports the renewal, expansion, and operations of UCR's voice and data network. The CIF replaced both the CWF and the telephone line charge (dial tone) rate. The CIF facilitates the support of UCR's increasingly converged network and the variety of electronic services and tools utilized by campus faculty and staff. The CIF is administered in the same manner as the former CWF, assessed by title code and full-time equivalent (FTE)." The CIF consolidated the CWF of \$24 and the Line Charge Rate of \$20.90, for a total of \$ 44.90, in FY 2009-2010.

C&C's 5YFP included the combined projection for Funds 66025 and 66080 for FYs 2010-11 to 2014-15. The CIF was calculated at \$47.59 the first year (FY 2010-11) gradually increasing in the succeeding four years, \$55.71, \$60.18, \$65.04, and \$70.32 in FY 2014-2015. For this and the next three fiscal years, Funds 66025 and 66080 are projected to experience deficits, breaking even in the fifth year, FY 2014-2015.

A combined analysis of Funds 66025 and 66080 projected and actual revenues and expenditures for FY 2010-2011 showed the following:

Funds 66025 & 66080	Projected	Actual	Variance
Revenues	5,183,196	4,946,937	(236,259)
Expenditures:			
Personnel	2,296,746	2,198,852	97,894
Benefits	733,972	662,902	71,070
Supplies & Expense	1,656,064	2,716,946	(1,060,882)
Operating Expenditures	4,686,782	5,578,700	(891,918)
Net Revenue/(Deficit)	496,414	(631,763)	(1,128,177)

Note: A positive variance is favorable and a negative is unfavorable.

Revenues consist mainly of the CIF that is recharged based on title and FTE. On August 26, 2011, C&C sent out an email informing all campus CFAOs of the change in the CIF rate from \$47.59 in FY 2010-2011 to \$53.02 (an increase of 11% instead of the 17% or \$55.71 recommended in the 5YFP) in FY 2011-2012. The revisit of the rate was intended to alleviate the impact of the budget cuts to the campus departments. An increase of 11% in the CIF rate will increase FY 2011-2012 revenues by approximately \$540,000 to \$5,487,000. With current year's expenditures

projected at \$5,140,000, the increase in revenues will result in net revenues of approximately \$347,000.

Likewise, C&C informed the campus that a new five-year rate plan will be prepared for consideration during the FY 2012-2013 rate review cycle and that the proposal will include a complete re-examination of UCR's network replacement and upgrade plan, and the reduction of future years' capital costs and associated rate increases.

D. Non-Payroll Expenditures

1. Summary

Non-payroll expenditures for FY 2010-2011 totaled \$5.3 million and in the prior FY, totaled \$4.5 million. The increase was primarily due to the \$656,000 increase in BC46 expenditures under Accounts 770200 and 770205, Non-Inventorial Computer Equipment (items costing \$200-\$1499). The increase of \$656,000 in BC46 was primarily due to the purchase of network equipment.

We selected a judgmental sample of 10 cell phone users' billing statements and 10 maintenance and license agreement transactions totaling \$641,521 and reviewed them for validity, reasonableness, proper approvals, completeness of supporting documentation, and compliance with applicable University policies

2. Cellular Phones

C&C has a Cell Phone Policy with an effective date of 01/01/2008 that includes the procedures in determining employee eligibility for a C&C-issued cell phone. Prior to issuance of a cell phone, to determine eligibility, a Cell Phone Questionnaire (CPQ) is completed by the employee and approved by the supervisor. After approval, an Employee Agreement Concerning the Use of Electronic Communications Resources (Agreement) is signed by the employee and supervisor. When monthly charges are above the monthly service plan rates, a Review Letter is sent to the employee to pay for the extra charges.

The criteria used by C&C in its CPQ comply with Business and Finance Bulletin (BFB) G-46, Guidelines for Purchase and Use of Cellular Phones and Other Portable Electronic Resources. A total of 48 employees were provided with cellular phones. A judgmental sample of 10 users was selected for review. We reviewed their CPQs, Agreements, and their January 2011 cellular phone billing statements.

In FY 2009-2010, C&C's annual cost to provide the cellular phones was \$32,700 with about \$15,000 funded by 19900 and the remaining \$17,000 by other funds. The annual average cost per user is \$680. Extra charges for non-business calls over and above the fixed rates are reimbursed by the employees.

Our review of the January 2011 cell phone billing statements for the 10 selected employees disclosed that the provision of cell phones to employees complied with C&C's and the University's policies, and therefore, appeared reasonable in light of the employee's titles and responsibilities.

3. Computer Maintenance and License Contracts

Hardware/software maintenance and licenses expenditures for the past two fiscal years remained at almost the same level, \$1.64 million in FY 2010-2011 and at \$1.67 million in FY 2009-2010.

Ten transactions totaling \$641,521 were selected and reviewed. Generally, the maintenance and license contracts were a continuation of the prior year's contracts. Maintenance and license contracts charged to 19900 had a corresponding budget and not part of those recharged to the campus departments. Contracts charged against Fund 66025 are included in the calculation of the CIF for recharge to the campus departments.