

RIVERSIDE: AUDIT & ADVISORY SERVICES

February 19, 2013

To: Bobbi McCracken, Associate Vice Chancellor
Financial Services

Subject: Internal Audit of Electronic Fund Transfers (Outgoing Wires)

Ref: R2013-18

We have completed our audit of Electronic Fund Transfers (Outgoing Wires) in accordance with the UC Riverside Audit Plan. Our report is attached for your review.

We appreciate the cooperation and assistance provided by the departments reviewed. Should you have any questions concerning the report, please do not hesitate to contact me.

Michael R. Jenson
Director

cc: Audit Committee Members

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

INTERNAL AUDIT REPORT R2013-18
ELECTRONIC FUND TRANSFERS (OUTGOING WIRES)

FEBRUARY 2013

Approved by:

Noahn Montemayor
Principal Auditor

Michael R. Jenson
Director

UC RIVERSIDE
ELECTRONIC FUND TRANSFERS (OUTGOING WIRES)
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I. MANAGEMENT SUMMARY

Based upon the results of work performed within the scope of the audit, it is our opinion that, overall, the system of internal controls over the process of electronic fund transfers (outgoing wires) is operating satisfactorily.

Positive observations included:

- * Controls over the payment process via wire transfer are considered appropriate and well managed. Separate individuals are authorized to perform the incompatible duties of initiating and reviewing/approving wire transfers. Bank account reconciliations selected for review were completed timely and reviewed and approved by an appropriate level of management.
- * Wire transfer application security measures employ not only physical and user access controls but also digital certificates installed on computer equipment used by authorized employees.

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

II. INTRODUCTION

A. PURPOSE

UC Riverside Audit & Advisory Services (A&AS), as part of its Audit Plan, reviewed the effectiveness of management practices and internal controls related to disbursing funds by electronic fund transfers (outgoing wires) and ensuring compliance with University policy and procedures, applicable federal, state, or local laws, regulations, industry operating rules, and standards.

B. BACKGROUND

Electronic banking, also known as electronic fund transfer (EFT), uses computer and electronic technology as a substitute for checks and other paper transactions. EFTs simplify the payment process to vendors, faculty, student, and staff. Benefits include increased efficiency and security, and immediate access and availability of funds to vendors, faculty, students, and staff. UCR uses two types of EFT payments: bank-to-bank wire transfers and direct deposits via the Automated Clearing House (ACH) Network.

Often the most expedient method for transferring funds between bank accounts, wire transfers are messages to depository banks requesting them to effect payment in accordance with account holders' instructions. Wire transfers are virtually instantaneous. UCR uses wire transfers for domestic or international transactions where no cash or check exchange is involved, and predetermined amounts are directly (electronically) transferred from UCR's bank account to payees' bank accounts. UCR uses Bank of America, the University's primary depository bank, for all outbound domestic or foreign currency wire transfers. While relatively expensive, wire transfer, done bank-to-bank, is considered the safest international payment method. However, preventing fraud or unauthorized activity requires cautious management of physical and logical security components of the computing equipment and operating systems, network, and banking application used for wire transfers.

Direct deposits are the electronic transfers of funds from UCR's bank account to payees' checking or savings account through the ACH Network, a highly reliable and efficient nationwide batch-oriented electronic funds transfer system. The National Automated Clearing House Association establishes the NACHA Operating Rules, the standards and procedures that enable participating depository financial institutions to exchange ACH payments on a national basis. Compared to wire transfers, ACH payments are typically for smaller dollar amounts, payee-payment records are sent in batches, and settlements do not occur until the next business day. UCR uses direct deposits to pay salaries, expense reimbursements, financial aid account balances, student fee refunds, and other amounts due to employees and/or students. UCR does not use direct deposits to pay vendors.

C. SCOPE

Audit & Advisory Services reviewed wire transfer payment processes for compliance with University policies and procedures, internal control concepts, and applicable laws and regulations. The scope of the audit was principally limited to the review of existing practices and procedures to manage payments via outgoing wires and selected outgoing wire transactions during the current fiscal year.

The audit did not include tests of endpoint authentication and communications privacy over the Internet or the effectiveness of methods used to encrypt information transmitted during wire transfers. Also, the testing of direct deposits through the highly reliable ACH Network was not included in the audit scope.

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

Substantive audit procedures were performed during November 2012 through January 2013. Accordingly, this evaluation of internal controls is based on our knowledge as of that time and should be read with that understanding.

III. OBSERVATIONS

Based on results of procedures performed within the scope of the audit, in our opinion, operating policies, internal controls, and processes to manage disbursements by electronic fund transfers (outgoing wires) are operating satisfactorily and generally in compliance with applicable University policy and procedures.

Business Process Controls

- Reviewed Accounting Office general procedures for processing wire transfers using Bank of America's CashPro Online application and evaluated the adequacy, clarity, and propriety of written instructions.
- Determined that information/documentation requirements for wire transfers are adequate to provide audit trail toward recreating activity or error analysis.
- Verified that the incompatible duties of initiating and reviewing/approving wire transfers are properly assigned to separate individuals.
- Noted that management supervision and physical security of work areas and equipment designated for wire transfer operations are adequate to prevent unauthorized use or access.
- Ascertained that general ledger accounts for outgoing wires are reconciled with bank statements on a timely basis.

Application Controls

- Reviewed wire transfer application controls for assurance that user access rights, authorization entitlements, and approvals are administered by appropriate levels of management and adequately documented.
- Verified that active user accounts are maintained in the wire transfer application only for those individuals who are currently involved in processing wire transfers.
- Verified that individual users only have access rights and processing privileges to perform responsibilities as assigned and that proper segregation of incompatible duties is enforced.
- Noted that transaction amount limits and appropriate management approval requirements are implemented in accordance with UC policy and procedures.