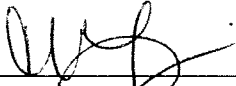**UNIVERSITY OF CALIFORNIA, IRVINE**
ADMINISTRATIVE AND BUSINESS SERVICES
INTERNAL AUDIT SERVICES

OFFICE OF RESEARCH
CALIFORNIA INSTITUTE FOR TELECOMMUNICATIONS AND
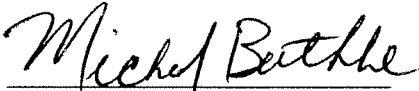**INFORMATION TECHNOLOGY**
Report No. 2011-102

November 29, 2010

Prepared by:

Helen Templin
Senior Auditor

Reviewed by:

Michael Bathke
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Reviewed by:

Bent Nielsen
Director
UC Irvine Internal Audit Services

November 29, 2010

**G.P. LI
DIRECTOR
CALIFORNIA INSTITUTE FOR TELECOMMUNICATIONS AND
  INFORMATION TECHNOLOGY (Calit2)**

Re: **Calit2 Business Processes
      Report No. 2011-102**

Internal Audit Services has completed the review of Calit2 Business Processes and the final report is attached.

Please let us know if we can provide additional support or assistance.

Bent Nielsen
Director
UC Irvine Internal Audit Services

BN:ht

Attachment

C: Audit Committee
     Joe Harvey, Calit2
     Sinqui Musto, Office of Research

CALIFORNIA INSTITIUTE FOR TELECOMMUNICATIONS AND INFORMATION TECHNOLOGY
Report No. 2011-102

I. BACKGROUND

The California Institute for Telecommunications and Information Technology (Calit2) is a two-campus multidisciplinary research institute. By integrating UC Irvine (UCI) and UC San Diego (UCSD) research expertise with industry insight, Calit2 seeks innovative information technology (IT) approaches that will benefit society and ignite economic development. The institute is conducting research under four thematic areas: energy, environment, health care, and digital culture. At UCI, Calit2 is designated as a special research program, reporting to the Vice Chancellor for Research.

II. PURPOSE, OBJECTIVES AND SCOPE

The purpose of the review was to evaluate Calit2 business processes and to determine if they are complying with applicable policies and procedures for fiscal year 2009-2010. Based on Internal Audit Services' (IAS) risk assessment of Calit2, the following objectives were established:

1. Evaluate the following aspects for unit employee management: personnel files, background checks, written job descriptions, performance evaluations, overtime approvals, payroll ledger reconciliations, and sick, vacation, and furlough balance tracking for appropriateness and completeness;

2. Review non-payroll expenditures for approval and appropriate documentation to determine compliance with University policy;

3. Evaluate equipment inventory procedures and sample inventoried items to ensure UCI tagging and location;

4. Discuss and review cash handling and cash receipt procedures to determine evidence of controls and that assets are properly safeguarded;

5. Evaluate whether there are adequate controls over budgeting and financial reporting, including any business continuity planning;

6. Evaluate the controls related to any extramural funding;

7. Review information technology (IT) items such as: change management, computer operations, disaster recovery, and access to programs and data for appropriateness.

III. CONCLUSION

In general, the selected Calit2 processes reviewed appear to be functioning as intended. However, business risks and control concerns were identified relating to employee management, cash receipts, and business continuity planning.

Observation detail and recommendations were discussed with management, who formulated action plans to address the issues. These details are presented below.

IV. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Employee Management

Background

UCI Human Resources (HR) provides guidance to hiring managers on recruiting, screening, and interviewing prospective staff. HR will provide assistance or consult on an as-needed basis depending on the position or school. The department will select candidates for interviews and decide on the final candidate for hiring.

Once an employee is hired, the Calit2 personnel analyst is responsible for ensuring that all completed documents are placed in the employee personnel file. Calit2 has one central personnel analyst position. However, the Calit2 personnel analyst retired effective September 2009, and this position has not been filled since. The Calit2 Financial Analyst has been conducting some of the job duties for this position in the interim. The current Calit2 Financial Services Manager, who was hired on a permanent basis as of August 2010, has posted the personnel analyst position for current recruitment.

When employees transfer from another UCI department, their personnel file is transferred to the new home department and should be verified for completeness. The personnel file consists of four parts: General, Payroll, Medical, and Confidential. To ensure security, all employee files should be locked in a file cabinet and kept separate from public access. It is the responsibility of each unit manager to ensure that all files are properly secured. Confidential and Medical files should be kept separate from the General and Payroll files.

Observation

<u>Background Checks</u>

UCI Administrative Policy Sec. 300-10 states that background checks be completed on critical positions. The University believes that background checks provide a safer environment for people, property, and information at the University. Background check procedures are part of the pre-employment process. HR works with the new employee to get the background check completed, then notifies the hiring manager via email whether the employee has cleared the background check. This email should be filed in the employee's personnel file to acknowledge background check clearance. IAS was unable to locate the email confirmation of a cleared background check for all five of the current critical positions in Calit2. HR confirmed that three of these employees had cleared a background check. However, no documentation was found for the other two employees and it is uncertain if they had cleared a background check.

<u>Performance Evaluations</u>

UCI Personnel Policy 23 states that "The performance of each employee shall be appraised at least annually in writing by the employee's immediate supervisor, or more frequently in accordance with local procedures." Written performance evaluations provide a means of communicating between the supervisor and employee on how job performance and expectations are being met. Performance evaluations provide a framework for setting objectives, identifying goals, providing feedback, and evaluating results. In reviewing the personnel files, the last performance evaluation conducted for any staff member was for the year ending August 2008.

<u>Personnel Files</u>

Personnel files for staff career employees are maintained in locked cabinets in the Calit2 personnel analyst office. IAS sampled 13 staff personnel files for completeness which resulted in the following observations:

- None of the critical position employees in Calit2 that were reviewed had a background check clearance email from HR;
- None of the active nine employees has a recent performance evaluation;
- One of 13 files needs to be sent to HR for storage – the employee no longer works at UCI. This employee file is also missing separation documents;
- Three of 13 files need to be sent to the employees' current home department to maintain integrity of the entire personnel file. Two of these three

employees have subsequently been separated from the University and the third is still an active employee in her home department;

- Two current employees were re-classed. Only one had the relevant documents in his file;

- Four of 13 files have documents classified as "Medical" according to HR's definition of such documents. These documents should be separated and locked away from the General and Payroll portions of the personnel file.

IAS discussed personnel files with the Financial Services Manager. Calit2 is in the process of recruiting for a personnel analyst.

Leave Accrual Monitoring and Reconciliation

IAS reviewed one year's worth of timesheets for the Calit2 permanent staff. It appears that Calit2 does not keep accurate departmental records of leave accruals.

IAS noted that Calit2 is not tracking/monitoring or reconciling leave usage/accruals and there is no other record of leave accrual outside the Payroll/Personnel System (PPS). In addition, IAS found that three employees had gone over the amount of furlough hours allotted, creating negative balances that have not been corrected.

PPS maintains leave balances in arrears and thus, system generated leave balances are not current. Departments should keep records for each employee of actual leave usage. Units are considered to be the department of record for reporting the final balances for leave accruals for transferring and separating employees.

Failure to properly monitor and reconcile leave accruals results in an increased risk that errors, irregularities, and omissions could occur and not be detected in a timely manner.

Management Action Plan

Background Checks

The identified, current two employees will have their background checks conducted within the next two months. All new hires identified in critical positions will have their background checks completed within one week of hire with a copy of the results included in the employee's personnel file.

Performance Evaluations

Calit2 has hired a new Personnel Analyst effective November 1, 2010. Performance evaluations will be conducted for the prior fiscal year and tracked by

the new Personnel Analyst. The Financial Services Manager will work with her to have all outstanding evaluations up to date. Calit2's goal is to have all outstanding evaluations completed by December 31, 2010.

Personnel Files

Calit2's goal is to have all personnel files updated by December 31, 2010.

Leave Accrual Reconciliation

The new Personnel Analyst will review and update all accruals. The Financial Services Manager estimates that all updates will be completed within three months and tracking/monitoring/reconciling leave usage/accruals will be kept current year round.

2. Cash Receipts

Background

Calit2 maintains a cash box to store deposits required for department electronic card keys (a deposit of $15 per key). When the electronic key cards are returned to Calit2, the deposit is returned.

Observation

Excess Cash on Hand

IAS noted that there was $2,510 in the cash box. Also, it was noted that the Calit2 front office also keeps a separate envelope with $135 at the front desk for distributing keys when the Financial Analyst is unavailable. In addition, the record-keeping to properly account for the key deposits is lacking and there has been no reconciliation performed between cash accepted, and keys that have been distributed/returned for over two years.

Cash Security

The $2,510 in cash was not properly secured in accordance to UC policy. Although the cash was kept in a locked cash box in a locked desk drawer, the physical security measures, as outlined in BUS-49 for amounts over $2,500, is deficient. Cash in excess of $2,500 must be stored and locked in a steel-door safe.

Management Action Plan

<u>Excess Cash on Hand</u>

Calit2 has set up a change fund with Accounting. Calit2 Financial Services will keep $400 for return key deposit distribution and the remainder will be deposited into the fund. The Financial Manager will ensure that the fund is reconciled on an ongoing basis and will also conduct four "surprise" audits per year beginning with the fourth quarter of the calendar year.

<u>Cash Security</u>

Calit2 will retain $400 cash for return key deposits and it will be kept in a secure safe.

3. Business Continuity Plan

Background

Business continuity planning ensures that the University is able to carry on its mission of teaching, research and service without drastic interruptions. A business continuity plan includes planning for non-IT related aspects such as key personnel, facilities, crisis communication and reputation protection, and should refer to the disaster recovery plan for IT related infrastructure recovery/continuity.

Observation

Calit2 does not have a business continuity plan, policy and/or procedure in place.

Management Action Plan

Within the next six months, Calit2 will have its business continuity plan in place. The Financial Service Manager will start this process with the UCI Business Continuity Planner in November 2010.