

**UNIVERSITY OF CALIFORNIA, DAVIS
INTERNAL AUDIT SERVICES**

**School of Veterinary Medicine
Dean Transition Review
Internal Audit Services Project #12-27**

December 2011

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MANAGEMENT SUMMARY

Internal Audit Services (IAS) conducted a review of internal controls over financial and administrative processes and functions in the School of Veterinary Medicine (Vet Med) Dean's Office. Our review was carried out in conjunction with a Senior Leadership Transition Assessment of the Vet Med Dean's Office performed by an outside consultant.

Our review addressed the following topics:

- Internal controls over administrative processes within the Dean's Office;
- General ledger account reconciliations for the Dean's Office;
- Overdraft account balances at June 30, 2011 for the Dean's Office;
- Recording and tracking of discretionary fund balances and commitments; and,
- High level assessment of Vet Med information systems resources and related risks.

IAS hired an outside consultant to perform a review to ensure transparency to the incoming dean regarding the financial condition and state of operations of the Dean's Office and secondly to identify what, if any, issues, opportunities or risks may command the early attention of the new dean. The results of that review are covered in a separate Advisory Services report.

To perform our review, we interviewed personnel from the Vet Med Dean's Office. Additionally, we obtained and reviewed reports from the Davis Financial Information System (DaFIS) and supporting schedules prepared by Vet Med Dean's Office personnel.

Our review did not identify any significant weaknesses in processes for general ledger account reconciliations, managing overdrafts, or procedures for routine business activities. However, we did note an opportunity for improvement related to record and tracking discretionary fund commitments. Additionally, monitoring of the usage of restricted gift funds could be enhanced to further ensure adherence to donor stipulations.

Our review also noted that Vet Med may benefit from consolidation of its information systems support operations. Central services, such as patch management, antivirus, configuration management (utilizing active directory), web site hosting, exchange email and storage, are all examples of infrastructure that can be highly leveraged and cost savings realized through economies of scale. Additional information is contained within the body of this report.

I. OBSERVATIONS, RECOMMENDATIONS, MANAGEMENT CORRECTIVE ACTION

A. Discretionary Fund Commitments

Documentation and tracking of discretionary fund commitments can be enhanced.

With the exception of discretionary fund commitments connected to faculty start-up packages, there are currently no formal and consistent processes or consolidated documentation related to requests for discretionary funds, responses to such requests, monitoring of fund usage and/or tracking of multi-year commitments. Lack of formal processes and documentation could potentially result in the over-commitment of discretionary funds.

Recommendation

For faculty startup packages, there is a detailed spreadsheet of current and future year commitments. Once a formal, consistent process is implemented for capturing documentation related to other discretionary fund requests and responses, the same workbook could be expanded to include additional worksheets to track such discretionary fund commitments.

Management Corrective Action

A process will be developed and implemented to catalogue requests, acceptances and denials, monitor unused funds, and to capture all commitments on one document. Completion date: February 28, 2012.

B. Restricted Gifts

Procedures for review of expenditures from restricted gift accounts should be strengthened.

Vet Med Account Managers have exclusive responsibility for ensuring gift funds are spent appropriately, although there is no formal procedure for this review. While some Vet Med departments have internal routing so that an individual other than the Account Manager who is familiar with gift account requirements reviews the transactions, others do not. The Vet Med Development Unit does not review gift expenditures unless responding to a donor's direct query. Without formal and consistent procedures for review of restricted gift account transactions, there is a risk that gift account expenditures could be inconsistent with donor wishes, leading to impaired donor relations.

Recommendation

Develop and implement consistent procedures for reviewing transactions in restricted gift funds to ensure compliance with donor restrictions.

Management Corrective Action

Develop procedures for monitoring gift accounts, identifying which gifts require oversight beyond Account Managers, such as gifts in an amount above a certain threshold, foundation gifts, and other gifts with a level of complexity or sensitivity. Other gifts will be managed by Account Managers, with some auditing on an annual basis. Completion date: March 31, 2012.

C. Information Technology Support

Information systems support operations may benefit from consolidation.

When IAS met with School of Veterinary Medicine (SVM) information technology (IT) staff, one of the opportunities for improvement identified was the distributed nature of IT support across the School. The dean's office Computing and Technology Services (CATS) unit provides IT support for the dean's office, academic departments, and some other units within the school, however, there are significant IT operations housed outside of CATS support that operate independent of the central IT function. This includes the Veterinary Medicine Teaching Hospital (VMTH) and the California Animal Health and Food Safety Lab (CAHFS).

Distributed IT staff support and the support of separate IT infrastructures limits SVM's ability to invest in specialized IT staffing skills that could be leveraged across the entire college and that would otherwise be too costly for a single unit to obtain. In addition, in cases such as the VMTH, specialized clinical IT staff end up spending time troubleshooting more general IT issues that could be more cost effectively served by general IT help desk support.

In addition to staffing issues, maintaining separate IT infrastructures to support basic computing services is costly. Central services, such as patch management, antivirus, configuration management (utilizing active directory), web site hosting, exchange email and storage, are all examples of infrastructure that can be highly leveraged and cost savings realized through economies of scale. The distributed nature of IT support also introduces challenges with consistent application of IT policy and controls to ensure system and data security. Centralization provides a means to develop consistent IT policy and supporting control frameworks (e.g., automated patch management, active directory group policies) to ensure systems and data are adequately secured across the entire SVM.

Recommendation

Consider consolidation of SVM IT support within the CATS unit operated out of the Dean's Office.

Management Corrective Action

This has been a topic of discussion at the SVM during the past year. First, CAHFS is funded by a separate state contract and has specific unique regulatory requirements; combining the IT functions with the rest of the SVM would not be feasible. However, combining the VMTH with the Dean's Office group could well result in the economies discussed above. When the Dean's office is relocated to the Health Sciences District in December 2012, combining these functions would be more practical than now due to the physical separation. Discussions with the VMTH will be initiated, and a plan for the best organizational structure will be made over the course of the next year. Completion date: December 2012.
