



UCSB Audit and Advisory Services

Internal Audit Report

Conference Services – Internal Control Review

August 8, 2018

Performed by:

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Approved by:

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Report No. 08-18-0018

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AUDIT AND ADVISORY SERVICES
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August 8, 2018

To: Sally Vito, Director
Conference & Hospitality Services

Re: **Conference Services – Internal Control Review
Audit Report No. 08-18-0018**

As part of the 2017-18 annual audit services plan, Audit and Advisory Services has completed an audit of Conference & Hospitality Services. Enclosed is the report detailing the results of our work.

The primary purpose of this review was to assess Conference & Hospitality Services' internal controls and procedures and to ensure sound business practices are in place to support operational effectiveness and efficiency, including compliance with University policies. The limited scope of our audit focused on cash equivalent handling, procurement, reconciliation, and information security during fiscal year 2017-18.

The results of our audit found Conference & Hospitality Services has established effective internal controls and are consistent with University policies and procedures and best practices in the following business areas: cash equivalent handling, reconciliation, procurement, and protection of financial data. However, we identified modest opportunities to be better aligned with best practices by completing reconciliation reviews in a timely manner.

Detailed observations and management corrective actions are included in the following sections of the report. The management corrective actions provided indicate that each audit observation was given thoughtful consideration, and positive measures have been taken or planned in order to implement the management corrective actions.

We greatly appreciate the assistance on this project provided by Conference & Hospitality Services personnel. If you have any questions, please contact me.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ashley Andersen".

Ashley Andersen
Audit Director
Audit and Advisory Services

Sally Vito, Director, Conference & Hospitality Services
August 8, 2018
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Enclosure

cc: Chancellor Henry Yang
Vice Chancellor Administrative Services Garry Mac Pherson
Willy Brown, Associate Vice Chancellor Housing, Dining & Auxiliary Enterprises
Melissa Jarnagin, Chief Financial Officer/Director, Housing, Dining & Auxiliary Enterprises
UCSB Audit Committee
Senior Vice President and Chief Compliance and Audit Officer Alexander Bustamante

PURPOSE

The primary purpose of this review was to assess Conference & Hospitality Services' internal controls and procedures and to ensure sound business practices are in place to support operational effectiveness and efficiency, including compliance with University policies. This audit is part of the fiscal year 2017-18 annual audit services plan of the University of California, Santa Barbara.

SCOPE, OBJECTIVES AND METHODOLOGY

The limited scope of our audit focused on cash handling, procurement, reconciliation, and information security during fiscal year 2017-18.

The objective of our review was to determine whether:

- Cash handling is consistent with University of California (UC) and University of California Santa Barbara (UCSB) policies and procedures.
- Conference costs are accurate, approved, and properly recorded in the general ledger.
- Conference revenues are adequately accounted for and properly reconciled.
- Adequate safeguards have been properly implemented to protect financial data.

To accomplish our objectives, we:

- Researched and reviewed relevant UC and UCSB audits and advisory work related to Conference Services. Table 1 lists relevant audit reports.
- Researched and reviewed UC and UCSB policies, procedures, best practices, and other guidance relevant to the scope of the audit. See Table 3 for detailed descriptions of the most relevant policies:
 - University of California Business and Finance Bulletin BUS-49, *Policy for Cash and Cash Equivalents Received* (UC Policy BUS-49).
 - University of California Business and Finance Bulletin IS-2, *Inventory, Classification, and Release of University Electronic Information* (UC Policy IS-2).
 - University of California Business and Finance Bulletin IS-3, *Electronic Information Security* (UC Policy IS-3).
 - University of California Business and Finance Bulletin IS-12, *Continuity Planning and Disaster Recovery* (UC Policy IS-12).
- Gained an understanding of the internal control processes and business practices through interviews with key personnel and review of the department's support documentation.
- Gained an understanding of systems, applications, and repositories that process and store department data.
- Performed and documented a risk assessment based on policy and regulation requirements for business processes such as payroll, cash handling, insurance coverage, information technology (IT), travel reimbursements, financial processes, and fraud risks.

- On a sample basis, selected conference checks to ensure compliance with cash equivalent handling procedures for oversight of University financial assets.
- Performed detailed testing on a sample of high value conference costs by reviewing support and system documentation to ensure accurate processes and approvals are in place.
- Reconciled conference revenue with the campus General Ledger for accuracy, timeliness, and completeness.
- Evaluated whether adequate information security controls implemented by Conference & Hospitality Services around their financial data are aligned with selected requirements of UC Policy IS-3.

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

| Table 1 Relevant UC Audit and Advisory Reports | | |
|--|-------------|----------------|
| Report Name | Year | Campus |
| UCLA Conference Services 17-2201 | 2017 | UC Los Angeles |
| UCSC Conference Services SC-12-08 | 2012 | UC Santa Cruz |
| UCLA Conference Services 11-2203 | 2011 | UC Los Angeles |

Source: Auditor analysis.

BACKGROUND

Conference & Hospitality Services¹

The primary objective of Conference & Hospitality Services is to support and enhance the educational, research and public service mission of the University by providing services and facilities in the planning, coordination, and execution of conference programs. Conference & Hospitality Services support the educational mission of the University and contribute to the Housing, Dining & Auxiliary Enterprises (HDAE) program by providing additional revenue and services to students, faculty, and other educationally related groups. Additionally, Conference & Hospitality Services markets the University and the Santa Barbara community to clients.

Conference & Hospitality Services has been serving a variety of clients for over 30 years – local, national, and international. They provide an array of services to assist clients from the initial planning stages, as well as throughout the entire lifecycle of a conference or event. They support academic conferences, corporate conferences, religious groups, retreats, sports and cheer camps, student camps and more.

Summer Conferences

Clients can choose from a standard coordination that offers planning packages designed to meet each client’s unique needs with a Meetings Only Package, Apartment Conference Package, or a Standard Conference Package. A Full Management Comprehensive Package is also available and includes the coordination of on and off campus accommodations, conference meals, program logistics, financial management, online registration, on-site registration, fee collection, and audio-visual support.

¹ Source: Conference & Hospitality Website.

Events

Event locations feature all the resources to plan any type of event with flexible multi-purpose spaces, audio-visual equipment and professional Conference & Hospitality staff on hand to make Santa Barbara event planning convenient and stress free. Events include: banquets and receptions, day meetings, Loma Pelona Center multipurpose meeting facility, The Club & Guest House accommodations, and the West Conference Center for retreats.

Individual & Short Stays

Conference & Hospitality Services offers a variety of lodging options for visiting professors, graduate researchers, and long-term University visitors. They also provide limited, temporary student accommodation. See Table 2 for FY 2016-17 Conference & Hospitality income and expense.

| Table 2 | FY 2016-17 Conference & Hospitality Services |
|----------------|--|
| | |
| Total | |
| Income | \$8,181,106 |
| Expense | \$ 1,189,260 |

Source: Conference & Hospitality Services.

KxConferencing Management Software²

Conference & Hospitality Services uses KxConferencing Management software to streamline their client’s needs by using one centralized system to manage day meetings and events, accommodations, catering, recording payments and deposits, and generating master bill invoices. KxConferencing was developed specifically for university events and conferences. Assigned users have access to the system in order to review, coordinate, and manage a conference or event effectively and efficiently.

Relevant UC Policies³

UC policies govern the Universities control of cash and cash equivalents received, inventory, classification, and release of electronic information of assets, protection of information resources, and establishes guidelines for technology continuity planning. See Table 3.

² Kinetic Software’s conference and event solution, KxConferencing.

³ Source: University of California policies.

| Table 3 | | Relevant UC Policies for Effective Internal Controls | |
|--|---|---|--|
| Policy | Description | | |
| UC Policy BUS-49, <i>Policy for Cash and Cash Equivalents Received</i> | This bulletin establishes the University’s policies related to handling and processing cash and cash equivalents, and defines roles and responsibilities related to receipt, safeguarding, reporting and recordkeeping for all University cash and cash equivalents. Its purpose is to ensure that these important University assets are protected, accurately and timely processed, and properly reported. | | |
| UC Policy IS-2, <i>Inventory, Classification, and Release of University Electronic Information</i> | The purpose of this bulletin is to establish guidelines for the classification of information assets to aid risk assessments in conformance with University IT security policy and to identify a need for specific security measures to ensure appropriate level of protection for resources. This policy prefaces protecting information and information systems from unauthorized access, use, disclosure, disruption, modification or destruction. | | |
| UC Policy IS-3, <i>Electronic Information Security</i> | This bulletin establishes guidelines for achieving appropriate protection of University electronic information resources and to identify roles and responsibilities at all levels in the UC system. | | |
| UC Policy IS-12, <i>Continuity Planning and Disaster Recovery</i> | The purpose of this bulletin is to provide recommendations and guidelines for information technology continuity planning and disaster recovery activities in support of the University’s commitment to protection of and accessibility to information resources. | | |

Source: Auditor analysis.

SUMMARY OPINION

The results of our audit found Conference & Hospitality Services has established effective internal controls and are consistent with University policies and procedures and best practices in the following business areas: cash equivalent handling, reconciliation, procurement, and protection of financial data. However, we identified modest opportunities to be better aligned with best practices by completing reconciliation reviews in a timely manner.

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

DETAILED OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS

A. Financial and Business Processes

1. Cash Equivalent Handling

The result of our work indicates cash equivalent handling practices are consistent with UC Policy BUS-49. Specifically, we found Conference & Hospitality Services follows appropriate business practices for separation of duties, checks made payable to the UC Regents, use of official University receipts, sequential receipts, and cashier validation of funds received. We were informed checks are automatically endorsed by the campus cashier. Table 4 summarizes our analysis.

| Table 4 | | Cash Equivalent Handling |
|--|---------------|--|
| Processes | Rating | Comments |
| Separation of Duties | ✓ | The student financial assistant receives and records cash or checks. The Financial Assistant Manager reviews for accuracy. |
| Checks Made Payable to UC Regents | ✓ | Checks are made payable to the UC Regents. |
| Official University Receipt | ✓ | The cash register logs the transaction and produces a receipt with: UCSB Conference Services, date, time, and receipt number. |
| Receipts are Sequential | ✓ | Receipts are generated sequentially from the cash register. |
| Cashier Signature or Validation Stamps | ✓ | Campus cashier verifies line items included on deposit slip, validates the deposit slip, and prints an itemized receipt with line items and total. |

Source: Auditor analysis.
 ✓: Step complied with UC policy.
 N/A: Step could not be validated.

2. Revenue Reconciliations

We tested revenue reconciliations for accuracy, completeness and timeliness. We found QuickBooks⁴ reconciliations for the month of July were performed within 30 days of month end close. However, the month end review of all reconciliations and support documentation was not always completed in a timely manner. We further identified that the template used for monthly general ledger reconciliations could be improved for better effectiveness and efficiency.

3. Procurement

Our detailed test of the 10 highest dollar volume purchases during the fiscal year 2017-18 found that Conference & Hospitality Services has adequate processes and procedures in place to comply with substantiation and documentation of conference costs. We reviewed whether there was adequate invoice documentation of costs to support amounts recorded in the general ledger, vendor contracts were valid at the time purchase orders were placed, invoices were signed upon receipt of goods or services, and transactions were properly approved in the Gateway e-procurement system. See Table 5 for our results of the procurement review.

⁴ QuickBooks: An accounting software package geared toward small and medium-sized businesses.

| Table 5 | Procurement | |
|----------------------|--|--------|
| | Criteria | Rating |
| Conference Purchases | Invoices agreed with general ledger amounts recorded. | ✓ |
| | Purchase orders were appropriate and within contract date. | ✓ |
| | Invoices of goods and services were received and signed. | ✓ |
| | Purchases were properly approved in the Gateway system. | ✓ |

Source: Auditor analysis.
✓: Compliance with procedure requirements.

B. Information Security

We found that information security controls in place align with business need to protect financial data. Table 6 summarizes our analysis.

1. Access Control

The financial reporting of conference services is performed using two shadow systems: QuickBooks for revenue and Microsoft Access⁵ for expenses. We were informed that both systems are only accessed by a reduced number of employees:

- Access to QuickBooks is limited to the Finance Manager, Assistant Finance Manager, and the student financial assistant.
- Microsoft Access is restricted to the Director, Assistant Finance Manager, and the student financial assistant.

2. Restricted Information

We noted that copies of checks are kept as source documentation in monthly binders. Checks with restricted or personal information requires the highest level of security protections whether in storage or in transit. We verified that copies of checks in our sample did not include the routing number on the bottom of the checks.

3. Backup / Retention

We were informed that Administrative & Residential Services Information Technology (ARIT) performs nightly full image back-ups for the department's files server files. These backups are stored in other servers located in North Hall Data Center and kept for 90 days. The campus is working to document a campus wide disaster recovery plan.

⁵ Microsoft Access: A database management system (DBMS) from Microsoft.

| Table 6 | | Information Security |
|------------------------|---------------|--|
| Categories | Rating | Comments |
| Access Control | ✓ | Limited and restricted access to financial systems. |
| Restricted Information | ✓ | Copies of checks do not include routing. |
| Backup / Retention | ✓ | There are regular backups and they are kept for 90 days. Campus is working to document a campus wide disaster recovery plan. |

Source: Auditor analysis.
 ✓: Compliance with procedure requirements.
 ✗: Non-compliance with UC Policy.

We recommend Conference & Hospitality Services to improve current template used for general ledger reconciliations to ensure reconciliations and support documentation are timely reviewed.

Management Corrective Actions

Conference & Hospitality Services will create a new form to ensure general ledger reconciliations and support documentation are timely reviewed.

Audit and Advisory Services will follow up on the status of this management action plan by October 31, 2018.