UCIRVINE | INTERNAL AUDIT SERVICES

School of Social Sciences

Internal Audit Report No. I2021-101

March 16, 2021

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BILL MAURER
DEAN
SCHOOL OF SOCIAL SCIENCES

RE: **School of Social Sciences Audit**
      Report No. I2021-101

Internal Audit Services has completed the review of the administrative business operations in the School of Social Sciences and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.

Sincerely,

Mike Bathke
Director

Attachment

C: Audit Committee
    Rebecca Ávila, Assistant Dean – Social Sciences
    Shelly Bennett-Burns, Director of Business and Finance – Social Sciences

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2020-2021 audit plan, Internal Audit Services (IAS) reviewed the procedures and processes for cash handling as well as non-payroll expenditures, key controls, and sales and service activities in the School of Social Sciences (Social Sciences). The review identified that some procedures, processes, and internal controls were not observed, established, and/or implemented to minimize business risks, promote best business practices, or ensure compliance with University policies. The following observations were noted.

Cash Handling – The review disclosed missing cash in fiscal years 2018 - 2020. Also, several key policy requirements were not established and implemented. Further details related to these observations are provided in section V.1.

Non-Payroll Expenses – A review of the non-payroll expenditures, disbursement vouchers, PALCard transactions, travel, and business meeting and entertainment expenses, disclosed various observations where University policy requirements were not met. These observations are discussed in sections V.2 – V.5.

Key Control – Social Sciences did not comply with campus policy requirements and collected key deposits from University employees, faculty or staff.   These observations are discussed in section V.6.

Sales and Service Activities – Social Sciences did not prepare and issue University invoices in the Campus Billing System Online (CBSO) as required by campus policy. This observation is discussed in section V.7.

II. BACKGROUND

Social Sciences is the largest academic unit on campus and the faculty and staff are committed to providing the highest quality research and educational experience in 17 undergraduate and graduate degree programs. Social Sciences also plays a major role in driving the University's success with 27.4% of all UCI graduates leaving campus with a degree from the social sciences. In FY 2019-2020, Social Sciences supported more than 7,150 Anteaters.

III. PURPOSE, SCOPE, AND OBJECTIVES

The purpose of this audit was to review the current established practices and processes as well as assess the internal controls in Social Sciences. For testing purposes, the following objectives and scope were established.

1. Determine if proper cash handling procedures and processes for key deposits have been established and implemented to ensure compliance with University policy requirements.

2. Determine if appropriate procedures and processes have been established and implemented to ensure compliance with University policy requirements for non-payroll expenditures (Disbursement Vouchers, Entertainment and Business Meetings, PALCard transactions, and Travel) and perform test work on a sample basis to determine if the expenses were properly and timely reviewed and approved for reimbursement.

3. Determine if proper accounts receivable procedures and processes for sales and service activities have been established and implemented to ensure compliance with Campus accounts receivables policy requirements.

4. Determine if appropriate procedures and processes have been established and implemented to ensure compliance with Campus policy on key control.

5. Determine if Graduate Student Fellowship Stipends were properly documented and paid through the disbursement system.

IV.   CONCLUSION

IAS noted that cash handling procedures and internal control requirements were not properly and fully established and implemented in order to ensure compliance with University policy. A detailed review found instances of missing cash in fiscal years 2018-2020. Also, reviews of the non-payroll expenses found that Social Sciences did not meet requirements as outlined in University policies. In addition, reviews of sales and service activity and key control disclosed that Social Sciences did not comply with campus policies.

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

V.   OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Cash Handling Procedures

Background

Business and Finance Bulletin (BFB) – BUS-49: Policy for Cash and Cash Equivalents Received (BUS-49) 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 University assets are protected, accurately and timely processed, and properly reported.   The bulletin also establishes basic internal control principles (accountability, separation of duties, security, and reconciliation) in regards to collecting and accounting for cash and cash equivalents.

Observation

The current cash handling processes for the cash collections of key deposits were reviewed to determine if Social Sciences complied with the University policy requirements and procedures. In addition, IAS performed a reconciliation of collections in July, August, and September 2019. The following is a summary of the observations.

a) Missing Cash

IAS reviewed the Campus Online Deposit System (COD) deposit supporting documents and noted that not all cash collections were deposited.   IAS reviewed available records and noted that key holders received key deposit refunds even though their key deposits were not deposited into COD. Also, key deposits collected in October 2018 were not deposited until November 2019.

IAS was not able to perform a cash reconciliation to accurately determine the amount of missing cash due to lack of proper supporting documentation, such as cash receipts, as required by policy. Each cash collection was not recorded on an official pre-numbered, multiple-part cash receipt. More than 20 key use forms, which were used to document key deposit collections and to support eight COD deposits, were necessary and unavailable for review to perform a cash reconciliation.

b) Deposits

Cash collections were not deposited timely, at least weekly or whenever collections exceeded $500. All cash collected from August 2019 through November 2019, totaling $1,130, were deposited on November 13, 2019.

In addition, deposits were not validated and prepared under dual custody in accordance with policy.

Failure to validate deposits in dual custody and prepare them in a timely manner weakens the control structure and may lead to loss or theft.

c) Separation of Duties

The business unit head responsible for key deposit collections did not establish appropriate procedures to ensure that no single individual is

responsible for collection, handling, depositing, and accounting for cash received by that unit. At least two qualified individuals must be assigned to carry out key duties of the cash handling process. Failure to maintain adequate separation of duties over cash related functions may result in diversion of University funds.

BUS-49 states that the "business unit head is responsible for establishing procedures that ensure that no single individual is responsible for the collection, handling, depositing and accounting for cash received by that unit. At least two qualified individuals must be assigned to carry out key duties of the cash handling process." Failure to maintain adequate separation of duties over cash related functions may result in the diversion of University funds.

d) Receipts/Invoices

Each cash collection for key deposits was not recorded on an official pre-numbered, multiple-part cash receipt. Also, a copy of the receipt was not provided to payers making an in-person payment.

BUS-49 also states that a "collection not recorded on cash register or point of sale equipment must be recorded on an official pre-numbered, multiple-part Cash Receipt. The receipts must be used sequentially." Furthermore, the receipts must include the cash handler's initials or signature, or by validation stamp, to identify each cash handler recording the transaction. In addition, a copy of the receipt must be provided to payers making an in-person payment and only required for payers making payments through the mail when a receipt is requested.

e) Background Checks

A background check was not performed before the cash handler assumed cash handling duties. The cash handler assumed cash handling duties several years ago, but a background check was recently performed.

BUS-49 states "Each Business Officer is responsible for arranging the appropriate background and employment checks." Also, campus administrators, who have management responsibility for cash handling, must assure that each individual who has or will have access to cash resources (including temporary, casual, and student employees) has been appropriately vetted before access is granted.

f) Training

Based on the above observations, the cash handler nor his supervisor knew the University cash handling policies, procedures, and requirements as required by policy.

Management Action Plan

Effective immediately, Social Sciences will no longer collect key deposits and will stop handling cash.

2. Disbursements Vouchers

Background

Disbursement Vouchers (DVs) are processed in the Kuali Financial System (KFS) to reimburse employees, students, non-employees, and vendors for expenses incurred while conducting university business.

Certain supporting documentation, depending on the type of expense, are required for DVs. For example, a Payee Certification signed by the payee is required supporting documentation for reimbursements of supplies and materials. Also, for emergency purchases, an explanation of why this purchase was not made through proper purchasing methods and the urgent need for the purchase must be included in the KFS explanation field.

As part of the internal control process, DVs must be approved by the appropriate individuals in accordance with UC and campus policies. For example, campus policy on purchasing procedures states that for unauthorized purchases over $500, the approval of the Chief Procurement Officer is required for reimbursement.

After all required approvals are obtained, as an internal control, the DV payment is issued and delivered directly to the payee. Also, payments are not delivered to any of the individuals involved in the approval or payment preparation process.

Observation

IAS selected a sample of 22 DVs from July 1, 2019 to present for review to determine if the department complied with policy and procedures. The following is a summary of the observations.

- Social Sciences purchasing guidelines state the following: "You do have other options for purchasing items;" "You may also purchase items under $500 (including shipping and tax) yourself and seek reimbursement;" and "You are not allowed to spend more than $100 per day per vendor. If you go over this requirement, you will need to include an exception note explaining why it was necessary to go over the amount and the item require approval from the Dean."

  These guidelines contradict University and campus policy requirements which state that only individuals with delegated authority are allowed to

make purchases upon completion of required, mandatory training. This is to ensure that employees observe best business practices and comply with the University purchasing policy.

- The majority of DV reimbursements were made to payees who made unauthorized purchases of goods because they have not been delegated purchasing authority on behalf of the University to make purchases. As a result, the payees also did not use the preferred method of payment (PALCard for most purchases) as indicated in the Purchasing Methods Guide.

  Disbursement vouchers to employees for reimbursements should be avoided because it is not efficient and is a more costly method of payment.

- An exceptional approval for a gift of $600 was not obtained from the Chancellor, or his designee as required by University policy, BFB-G-42: Gifts Presented to Non-Employees on Behalf of the University. Also, a written justification to explain the higher cost or why a deviation from policy is necessary to achieve a University business purpose, and other gift specifications, were not documented as required by policy. In addition, the department did not document the reporting of the gift, $600 or more, to the IRS on Form 1099.

- Exceptional approvals for some unauthorized purchases of goods and services over $500 were not obtained from the Chief Procurement Officer as required by campus policy, Sec. 707-10: Purchasing Procedures.

- The following supporting documentation was not submitted as required by University and campus policies or guidelines:

  - Requisitions were not properly documented and/or approvals in advance were not obtained prior to purchases as required by University policy, BFB-BUS-43: Purchases of Goods and Services; Supply Chain Management (BUS-43).

  - Usage agreements were not completed for the use of electronic communications equipment or services outside of the workplace by employees for official University business as required by University policy, BFB-G-46: Guidelines for the Purchase and Use of Cellular Phones and Other Portable Electronic Resources (G-46).

  - Packing slips or documentation that items ordered were actually received, were not filed as a supporting document, which is a requirement of BUS-43 as part of the administrative review. Packing slips are especially important when purchases are not shipped directly to campus but to payee residences.

- In addition, IAS noted four DVs that were not submitted for reimbursement by faculty in a timely manner. The reimbursements were submitted two, three, or six months after the purchase date. As a best business practice, reimbursements to faculty and staff should be submitted timely for reimbursement.

Management Action Plan

The Social Sciences Business Office will coordinate with the campus Accounting Office, Procurement Team, and Internal Audit to resolve any discrepancies between policy and our DV reimbursement and purchasing procedures. The Business Office will also follow-up with departments and units to address the issues disclosed during the audit and to ensure compliance with accounting reimbursement and purchasing policies.

In addition, the Dean's office held a training session in August for all department staff regarding the University policy requirements to ensure proper and timely DV transaction processing. This training will be a mandatory annual event. This MAP will be implementation by June 30, 2021.

3. **Business Meeting and Entertainment Expenses**

Background

As of July 1, 2014, reimbursements for various transactions such as entertainment, travel, and other expenses are processed through KFS.

Reimbursement requests pertaining to expenditures for business meetings, entertainment, and other occasions must comply with University policy BFB-BUS-79: Expenditures for Business Meetings, Entertainment, and Other Occasions (BUS-79), in addition to other applicable UCOP and UCI policies and guidelines.

BUS-79 states that "Department Heads or equivalent authority have the responsibility to "ensure that the expenditures do not exceed the frequency limits set forth in this Bulletin." It also states, "Employees seeking reimbursement for University business-related meal and entertainment expenses incurred from their personal funds or travel and entertainment cards must submit their expense reports within a reasonable amount of time not to exceed forty-five days after the expenses were paid or incurred."

BUS-79 requires that meals or light refreshments provided in the course of a business meeting must be a necessary and integral part of the business meeting, not a matter of personal convenience, whether the meeting is for internal purposes or includes external organizations. When a meeting takes place over an extended period of time and the agenda includes a working meal, there may be

justification that the meal is integral to the business function. Examples of such events include:

o   A meeting where there is a scheduled luncheon speaker,
o   A meeting where the participants work through the lunch period, or
o   Circumstances where it would be too time-consuming or disruptive to event continuity for participants to take a meal break away from the meeting location.

BUS-79 does not permit reimbursement when two or more employees choose to go to lunch together to continue their business as an incidental part of the meal, when the meal is of a reciprocal nature or when the meeting could have been scheduled during regular working hours.

Meals and light refreshments that are provided by an employer to its employees on a frequent or routine basis are treated by the IRS as taxable income and therefore are not reimbursable under University policy. The following guidelines should be observed in providing meals and light refreshments in connection with a business meeting, entertainment event, or employee morale-building activity:

o   Meals should be limited to no more than once a month or twelve times per year, per group.
o   Light refreshments should be limited to no more than twice per month, per group.

Observation

IAS selected a sample of 64 business meeting and entertainment expenses from July 1, 2019 to present for review to determine if Social Sciences complied with policy and procedures. The following is a summary of the observations.

•   Two payees received reimbursements twice for the same business meeting and entertainment expenses because they were not required to submit the original receipts. IAS noted that both payees initially submitted their reimbursement requests in a timely manner. However, in one instance of duplicate payment, the claim was resubmitted over 40 days after the initial expense was incurred and after the first claim was paid. In the second instance of duplicate payment, the initial claim and the second claim were initiated within two days of each other, and 22 days passed between the first payment and the duplicate. IAS also notes that in each case, two different staff created the documents initiating the reimbursements for these payees.

•   It appears that faculty members chose to have business meetings with visiting speakers specifically at meal times although meetings could have been scheduled during regular working hours. For example, one faculty member submitted reimbursements for breakfast and dinner business

meeting meal expenses with a visiting speaker who was scheduled to speak at 3:30 pm – 5:00 pm. This person arrived the day before so there appears to be ample time between his arrival and departure, aside from meal times, to conduct business. In a separate instance, another faculty member submitted reimbursements for lunch and dinner business meeting meal expenses with another visiting speaker under similar circumstances. IAS noted that both visiting speakers traveled to campus the day before they were scheduled to speak.

Furthermore, for almost all business meeting meal expenses IAS reviewed, there was no explanation of how the meal provided during the course of the business meeting was a necessary and integral part of the business meeting, and not a matter of personal convenience. Nor was an agenda provided which would clearly document that the meal was indeed integral to the business function. Instead, the same exact wording was cited on every business meeting expense reimbursement reviewed: "No other time was available to meet." This repetitive, formulaic response diminishes the validity of the justification.

- One faculty member had frequent meals that exceeded the policy limits of no more than once a month or twelve times per year. He was reimbursed for all 27 lunches attended with UCI colleagues during a nine month period from June 20, 2019 – February 28, 2020. IAS noted that this faculty member had four to six business meals per month.

  In addition, he did not submit 13 of 25 reimbursement requests in a timely manner, as required by policy. For example, four meal expenses incurred in November 2019 were submitted for reimbursement five months later in March 2020.

  Furthermore, this faculty member was reimbursed even though he did not submit 25 meal receipts that documented the method of payment which were required from other faculty members.

- The Host Certification was not always signed and submitted as required by policy. The policy states "The signature of the host must also be obtained for entertainment, recruitment, and employee morale-building activities. A request to reimburse entertainment, recruitment, or employee morale-building expenses must include a written statement signed by the host and/or the approving authority certifying that the hospitality expenses were incurred for an official University business purpose."

  Internal controls, such as a proper documentation, authorization, and review, reduce the potential for reimbursement of improper expenses as well as detect any potential errors/inaccuracies, waste, and fraud.

Management Action Plan

The Social Sciences Business Office will follow-up with departments and units to address the issues disclosed during the audit and to ensure compliance with accounting reimbursement policies.

In addition, the Dean's office held a training session in August for all department staff regarding the University policy requirements to ensure proper and timely ENT transaction processing. This training will be a mandatory annual event. This MAP will be implementation by June 30, 2021.

4. **PALCard Transactions**

   Background

   Staff who have delegated low value purchasing authority to buy equipment, supplies, and services use the Procurement Card (PALCard). Social Sciences purchasing guidelines state, "Any purchase should be submitted to the Purchasing Office on a P.O. Request Form prior to buying the item."

   BUS-43 requires implementation of internal controls, administrative review and separation of duties. BUS-43 Section V., Part 4, B. 1. requires an Administrative Review as follows:

   i.   The expenditure was properly authorized;
   ii. The expenditure is described in sufficient detail on at least one document (web/email confirmation, Supplier invoice, packing slip, receipt, etc.); "miscellaneous supplies" is not sufficient;
   iii. There is evidence that the items sold by the Supplier were actually received;
   iv. The expenditure is appropriate, both in general terms and with regard to the specific fund source used. Although administrative personnel are not expected to understand exactly what technical items are to be used for, they should be able to identify questionable expenditures such as computer game software, inappropriate furniture, pet food supplies not relevant to experiments, and the like;
   v.   The document must be signed and dated, electronically or on paper, by the reviewer to indicate that an administrative review was performed.
   vi. The review must be conducted in a defined period of time, based on individual campus requirements.

   Also, BUS-43, Section III, Part 6, D. 1 Separation of Duties, states, "An individual other than the person who places an order shall periodically perform an administrative review of selected purchase documents to verify that the expenditures listed on the daily procurement card transaction report are supported by the required internal documentation . . . In order to ensure that the verification of expenditures is an entirely independent process, this person should not be the subordinate of any procurement cardholder. In general, this

means that department heads and Management Services Officers cannot be issued a procurement card."

Observation

IAS selected a sample of 30 PALCard transactions from July 1, 2019 to present to determine if Social Sciences implemented required internal controls in compliance with University and campus policies and procedures as well as Social Sciences guidelines. The following is a summary of the observations.

1. Administrative Review:

    • Supporting documentation, such as web/email confirmation, invoice, packing slip, receipt, etc., necessary for administrative review were not always submitted as required by University policy.

    • Packing slips or evidence that items purchased were actually delivered were not documented for administrative review as required by University policy to document the proof of receipt.

    • Business purpose or justification for purchases sometimes were not provided to document the expenditure was appropriate as required.

    • Most administrative reviews were not properly performed and did not include reviews of required supporting documentation as outlined in University policy.

2. Separation of Duties:

    A required internal control, separation of duties, was not consistently implemented in accordance with University policy.   A review of the department and unit PALCard holders disclosed that several department and unit heads or individuals in management positions were issued a procurement card.

3. Employee Agreement Concerning the Use of Electronic Resources

    The usage agreement was not completed for use of electronic resources by employees outside of the workplace. G-46, Section V. C. states "An employee who is to be provided electronic communications equipment or services must prior to receipt of such resources sign a usage agreement acknowledging that primary use of the resources will be for official University business and that any personal use of the resources will be incidental in nature."

    Implementation of internal controls, such as maintaining required supporting documentation, proper administrative review, and separation of

duties, minimizes the risks of error, fraud, waste, and improper use of University funds.

Management Action Plan

The Social Sciences Business Office will coordinate with the campus PALCard Procurement Team and Internal Audit to resolve any discrepancies between policy and our purchasing procedures. The Business Office will also follow-up with the PALCard holders, departments, and units to address the issues disclosed during the audit and to ensure compliance with PALCard and purchasing policies.

In addition, the Dean's office, in collaboration with the PALCard Procurement Team, held a training session in November for all PALCard holders, their supervisors, and reviewers regarding the University policy requirements to ensure proper and timely PALCard transaction reviews. This training will be a mandatory annual event. This MAP will be implementation by June 30, 2021.

5. **Travel Expense Review**

Background

As of July 1, 2014, reimbursements for various transactions such as entertainment, travel, and other expenses are processed through KFS. Reimbursement requests pertaining to travel expenditures must comply with BFB-G-28: Travel Regulations (G-28), the University policy on travel, in addition to campus policies.

Observation

IAS selected a sample of 20 travel expense claims from July 1, 2019 to present to determine if Social Sciences complied with policy and procedures. The following is a summary of the observations:

Thirteen of 20 travel reimbursements selected for review were not submitted in a timely manner, namely within 45 days from the trip end date. One travel reimbursement request was submitted more than seven months after the end of the trip.

Internal controls, such as a proper documentation, prior travel authorization, and timely submissions and reviews, reduce the potential for reimbursement of improper expenses as well as detect potential errors/inaccuracies, waste, and fraud.

Management Action Plan

The Social Sciences Business Office will follow-up with departments and units to address the issues disclosed during the audit and ensure compliance with travel accounting reimbursement policies.

In addition, the Dean's office held a training session in August for all department staff regarding the University policy requirements to ensure proper and timely TV transaction processing. This training will be a mandatory annual event. This MAP will be implementation by 06/30/21.

6. **Key Control**

Background

In July 2012, UCI policy, Sec. 902-14: Policy for Key Control and Access to Campus Facilities (Sec. 902-14), along with the key issuance form, were revised and issued.   The policy was established to ensure the security of campus personnel and students on campus as well as outline the controls implemented by Facilities Management and the UCI Police Department to regulate the possession and use of keys to all campus doors and gates, including cabinets, originally keyed through the Facilities Management Lock Shop.

Sec. 902-14 established several, but not limited to, the following responsibilities for departments and units assigned space in a building or facility on campus. Records will document the key number, name of recipient, date of issue, and date of return or loss, for every key issued to the department/unit.   This information will be recorded on the Key Use Authorization & Acceptance and Use Agreement or facsimile, which requires the signature of the authorized administrator as well as the individual receiving the key. Records should be audited annually.

If a department/unit considers a refundable deposit necessary for key security, it may only be collected from occasional key holders. A deposit may not be collected from a University employee.

Observation

IAS reviewed key use agreement forms that were completed at the time of key(s) issuance to key holders and noted that Social Sciences did not comply with Sec. 902-14. The following is a summary of the observations.

- Key deposits were collected from University employees, faculty, and staff.

- Social Sciences did not use the Sec. 902-14 campus key use agreement form. Instead, they created and used a facsimile of the Key Use Authorization & Acceptance and Use Agreement form which did not include the following

required elements or fields: (1) Key holder's department name; (2) Name of person authorizing the key issuance; and (3) Agreement terms stating that the key holder "acknowledges receipt of such keys, and agrees to use such keys only in accordance with the UCI Key Control and Access Policy" and "agrees that the above keys remain the sole and exclusive property of the University while in the undersigned's possession."

Furthermore, not all fields on the Social Sciences' key use agreement forms were completed when key(s) were issued to key holders.

Management Action Plan

The Social Sciences Business Office will follow-up with our Facilities Office to address the issues disclosed during the audit and ensure compliance with campus policies.

The Social Sciences Facilities Office will ensure that the Key Use Authorization & Key Acceptance and Use Agreement forms are completed accurately and will conduct an annual key audit. This MAP will be implementation by 06/30/21.

7. Sales and Service Activities

Background

In the previous iteration of UCI policy, Sec. 701-23: Sales and Service Activities Interim Policy (Sec. 701-23), it stated that sales and service activities must not begin until a fully executed Sales & Service Agreement by Risk Management is in place.

UCI policy, Sec. 701-14: Procedure for Accounts Receivable – University Invoice (Sec. 701-14), states "The University Invoice is the method used by University departments to bill for goods and services, fines, claims for reimbursement, and other miscellaneous obligations due the University. The department providing the services and/or goods prepares the invoices through the Campus Billing System Online (CBSO).

Observation

A review of the general ledger found sales and service activity in one department for the past few years. The audit disclosed that the department had obtained approvals from the Budget Office to establish a sales and service account and published rates as well as approvals from Risk Management for the Sales and Service Agreement with outside entities. However, the department did not prepare and issue University Invoices in the Campus Billing System Online (CBSO) as required by Sec. 701-14, on Accounts Receivable.

Management Action Plan

During the course of the audit, Social Sciences established an account in CBSO, effective November 2020, and in December 2020 began preparing and issuing University Invoices to outside entities for sales and service as required by campus policy and CBSO guidelines.