UCIRVINE | INTERNAL AUDIT SERVICES

Police Department

Internal Audit Report No. I2015-102

February 17, 2015

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UNIVERSITY OF CALIFORNIA, IRVINE

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February 17, 2015

PAUL HENISEY
CHIEF
UC IRVINE POLICE DEPARTMENT

RE: Police Department Audit
     No. I2015-102

Internal Audit Services has completed the review of the Police Department 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.

Mike Bathke
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee
    Jeff Hutchison, Assistant Chief, UC Irvine Police Department
    Marla Purcell, Administrative Services Director, UC Irvine Police Department

I.   MANAGEMENT SUMMARY

In accordance with the fiscal year 2014-2015 audit plan, Internal Audit Services (IAS) reviewed the business operations, internal controls, and policy compliance in the Police Department (UCIPD) within the University of California, Irvine (UCI).   In general, internal controls and processes in UCIPD appear to be functioning as intended.   However, the review disclosed some internal control/compliance weaknesses that should be improved to minimize risks and ensure compliance with University policies and procedures and/or best business practices. The following concerns were noted.

Payroll – For overtime, internal controls were not established to ensure that overtime pay was appropriate and accurate. Prior approvals for overtime were not documented as required by policy. This observation is discussed in section V.1.a.

Concerns were also noted with vacation and sick leave accrued adjustments. These adjustments were made without supervisory review or approval. This observation is discussed in section V.1.b.

Cash Handling – Collections were not deposited in a timely manner as required by policy. A separation of duties was not properly established in the cash handling process. Improvement is also needed in safety measures for employees transporting cash and cash equivalents.   In addition, employees with cash-handling responsibilities did not receive appropriate training.   Further details related to these issues are provided in section V.2**.**

Non-payroll Expenditures – Also, for some PALCard purchases, the required supporting documents were not retained on file.   In addition, the business purpose for purchases were not adequately detailed or documented on the internal requisitions. This observation is discussed in section V.3.a.

Concerns were also noted with PayQuest reimbursements.   The requested reimbursements were not properly processed and reviewed.   The review disclosed that reimbursements were not properly substantiated and required exceptional approvals were not obtained.   This observation is discussed in section V.3.b.

Lost and Found – Internal controls necessary to accurately track and monitor and cross reference property was not established and in place.   This observation is discussed in section V.4.

Risk Assessment and Security Plan – A comprehensive or periodic IT risk assessment and a security plan have not been completed for UCIPD IT environment. This observation is discussed in section V.5.

II.   BACKGROUND

The UCIPD's primary mission is to provide public safety and policing services to ensure a safe and secure learning environment for the entire UCI community. The UCIPD also actively collaborates with the UCI community to foster and maintain an environment that supports the well-being of students, faculty, staff and visitors to the campus through education, problem solving and enforcement. In carrying out its mission, the UCIPD uses innovative practices, technology, continuing training and partnerships to provide professional police services to prevent, prepare for, respond to and recover from all criminal activity, hazards and threats.

Administratively, the UCIPD Chief serves as the law enforcement leader and administrative head and is supported by the Administrative Services Director (ASD), who directs the administrative operations in UCIPD.   The ASD's responsibilities include administrative oversight and management of personnel, payroll, budget, and financial operations and matters.

III.   PURPOSE, SCOPE, AND OBJECTIVES

The scope of the audit focused on the business operations during fiscal year 2013-2014 through present. The primary purpose of the audit was to assess whether appropriate internal controls are established and currently in place are adequate and sufficient to prevent or detect fraudulent or non-compliant transactions, while ensuring compliance to policy as well as the overall efficiency and effectiveness of business operations.

Based on the assessed risks, the following audit objectives were established.

1. Review non-payroll expenditures for proper accountability and separation of responsibilities, adequate documentation, assurance of valid, properly pre-authorized and approved transactions, and compliance with policies and procedures.

2. Determined whether the following aspects of payroll complied with University policy: overtime approval, payroll ledger reconciliations, and sick and vacation leave adjustments.

3. Reviewed cash handling processes for conformance with policies and procedures and for assurance that collected funds are properly recorded, secured, reconciled, and deposited.

4. Evaluate the equipment inventory tracking procedures and sample inventorial items to ensure appropriate tagging, storage, and maintenance.

5. Determined whether the management of lost and found properties complied with University policy.

6. Reviewed the recharge processes and performed testwork to determine if UCIPD is in compliance with University policy.

7. Assessed and reviewed selected information technology (IT) general controls.

IV.   CONCLUSION

In general, internal controls and processes reviewed appear to be functioning as intended.   However, select internal control and compliance concerns were identified in the areas of payroll, cash handling, non-payroll expenditures, lost and found, and IT risk assessment and security plan.

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

V.   OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Payroll

a. Overtime

Background

Personnel policy on overtime for staff members requires the department head to approve overtime for non-exempt employees to meet essential operating needs. The department is responsible for ensuring an employee requested advance approval for overtime work and properly report the overtime worked in a timely manner prior to compensation.

Observation

IAS reviewed the overtime authorization and approval processes and noted that overtime was properly reviewed and approved. However, overtime was authorized verbally and not documented in writing to substantiate that approvals were obtained in advance as required by policy. UCIPD stated that they utilize the University-wide Mutual Aid Authorization form to authorize and document mutual aid requests but the forms are not maintained to support the related overtime.

In addition, IAS analyzed overtime pay for officers at all UC campuses for the last four calendar years and noted that on average UCIPD officers received the highest overtime pay per officer ($23,743 in calendar year 2013). IAS also noted that over the last four calendar years (2010-2013), UCIPD's total overtime pay increased 93 percent, from $418,192 to $807,274, which was the highest in the UC system for calendar year 2013.

UCIPD currently utilizes a manual paper-based timekeeping process that does not permit detailed analysis and monitoring of overtime. IAS

recommends that UCIPD consider the cost/benefit of upgrading to an automated timekeeping system, which will reduce the risk of errors of recording/calculating employee time as well as provide management improved reporting capabilities. UCIPD would then be able to more effectively manage, analyze, and monitor overtime.

Lack of documentation to support the process of pre-authorizing and justifying overtime weakens the controls structure and encumbers the review and reconciliation process. Compliance with policies and procedures ensures overtime is appropriate and accurate for compensation.

Management Action Plan

A large portion of UCIPD's overtime ($297,610 in 2013) is created in response to outside requests for mutual aid assistance and special events. While it is accurate that UCIPD's overtime has been the highest amongst the ten UC campuses, UCIPD personnel have worked by far the most number of hours providing mutual aid assistance to its fellow campuses, in particular to assist UC Santa Barbara in helping them manage their very difficult public safety issues. In addition, the related costs associated with mutual aid and special event requests are charged back to requesting units/campuses.

UCIPD management agrees that automated timekeeping processes would create efficiencies, reduce risk of errors, and provide enhanced monitoring and reporting capabilities. UCIPD management has explored the possibility of moving to the campus automated Time Reporting System (TRS). However, current restraints in TRS do not allow for UCIPD's complex and unpredictable shifts. UCIPD currently utilizes automated scheduling software that may be able handle the timekeeping function. UCIPD management, in conjunction with Human Resources and the Office of Information Technology, will explore timekeeping automation being mindful of the current budgetary and resource constraints.

Effective immediately, new overtime authorization processes, including timely requests for overtime as well as appropriate approval in advance, justification, and documentation, will be established and communicated to all staff. In addition, UCIPD will start retaining the University-wide Mutual Aid Authorization forms to support the related overtime. The UCIPD Timesheet

Administrator will review and verify that authorization for the reported overtime was authorized in advance and properly documented prior to compensation.

UCIPD has also been funded for a senior analyst position, which will enhance timekeeping/payroll processing and controls.

b. Vacation & Sick Leave Accrued Adjustments

Background

Departments are responsible for ensuring compliance with personnel policies for both faculty and staff. In regard to payroll and personnel processes, department management is responsible for ensuring that all adjustments in the Payroll/Personnel System (PPS) are appropriate and accurate.

Observation

For all vacation and sick leave accrued adjustments reviewed, IAS noted that the adjustments were made without supervisory review or approval.

Implementation of proper internal controls, such as proper review and approval, minimizes the risks of errors, fraud, and improper use of University funds.

Management Action Plan

By June 30, 2015, internal controls for processing vacation and sick leave accrued adjustment will be established and communicated to appropriate staff. All vacation and sick leave accrued adjustments, as well as any other payroll adjustments, will be computed and documented with a justification for supervisory review and authorization prior to entering an adjustment in PPS.

2. Cash Handling

Background

Business and Finance Bulletin 49 (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 regard to collecting and accounting for cash and cash equivalents.

Observation

The current cash handling processes were reviewed to determine if the UCIPD complied with the established policies and procedures. The following is a summary of the observations.

a) Deposits

Although collections were generally deposited weekly, the collections were not deposited in a timely manner when collections exceed $500 as required by policy.

IAS also noted that some checks were not made payable to "UC Regents" and all checks were not restrictively endorsed immediately upon receipt, but when collections were prepared for deposit. Also, deposits were not validated and prepared in dual custody.

In addition, cash deposits were not transported securely by employees in dual custody as required by policy.

Failure to validate deposits and prepare them in a timely manner as well as to properly safeguard cash and cash equivalents weakens the control structure and may lead to loss or theft.

b) Separation of Duties

Internal control procedures that ensure an adequate separation of duties were not always maintained. For example, an individual who reconciled the deposits to the general ledger also prepared deposit advice forms and transported cash to the Cashier's Office for deposit. Also, mailed remittances were not verified and processed by two employees.

University policy 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.

c) Securing Collections

A cash register drawer, a cash drawer insert or another secure cash receptacle where each cashier is assigned a unique identifier not accessible by or shared with other individuals was not provided. Instead, one cash drawer and insert were shared by several employees who also shared the same combination to the drawer.

In addition, a key log was not maintained to account for every employee who was given the combination to the cash drawer. As a best business practice, a key log should be established, signed by each employee, and updated along with a change to the combination when an employee leaves the department.

d) Receipts/Invoices

IAS review disclosed that a receipt was not given to a customer and receipts were not used sequentially as required by policy. Also, reviews were not performed to verify that there were no missing or lost receipts and that all receipts were accounted for sequentially.

e) Change Fund Verification

Unannounced cash counts and verification of a $50 change fund for which cash handling employees are accountable were not performed and documented. Unannounced cash count and verification are required on a periodic basis, at least quarterly, by someone other than the fund custodian to comply with the policy.

In addition, IAS noted that the change fund was not issued and established through the Accounting office. UCIPD did not have a record of how the change was first established more than ten years ago.

f) Voids/Refunds

Transactions that were voided as well as refunds were not explained and documented on front of the receipts. In addition, voids and refunds were not reviewed or approved in writing by the supervisor as required by policy.

University policy requires that voids and refunds to be fully documented and explained as well as approved in writing by the supervisor. Inadequate management of voided and refunded transactions increases the risks of fraudulent transactions being processed subjecting the University to unnecessary financial loss.

g) Training

Cash handling employees did not refresh their knowledge concerning policies, procedures and techniques on policies on an annual basis as required by policy. In addition, cash handling employees were not trained on what to do in the event of an emergency.

Management Action Plan

By June 30, 2015, management will establish procedures and internal controls that comply with University policy and train employees accordingly. To comply with the policy, steps will be taken to ensure that sequentially numbered receipts are used internally to support each cash, check, and credit card sales transaction made in person; checks are endorsed immediately upon receipt; checks are deposited timely to ensure security and meet established

maximum limits for collections; deposit amounts are validated in dual custody; appropriate internal controls are established for collection, handling, depositing, refunds, and accounting and documented.

Also, the supervisor and employees that are involved in the cash handling process will review BUS-49 annually to comply with policy requirements on training and cash handling employees will also be trained on emergency procedures.

At present, UCIPD management will assume the risk in continuing current business practices and allow several cash handling employees to access the same petty cash fund drawer. In 2015, during renovation of the front desk, the management will reassess this issue and either purchase a policy compliant cash register, allow only one employee to access the cash drawer, or continue business as usual.

In addition, UCIPD management will contact the Accounting Office to officially establish the change fund.

3. **Non-Payroll Expenditures**

    a. PALCard Transactions

    Background

    The purchasing card (PALCard) is used by staff with purchasing responsibilities to buy equipment, supplies, and services. UC purchasing policies require purchases to be pre-authorized either formally through an internal requisition or informally, such as an email. In addition, UCI PALCard policies require an administrative reviewer to review PALCard supporting documentation and account/fund for appropriateness for each transaction in a timely manner.

    Observation

    A sample of 16 PALCard transactions was selected from July 1, 2013 through present for further review and the following observations were noted.

- For some PALCard transactions, the required supporting documents, such as packing slips and invoices, were not maintained on file as appropriate supporting documentation and for administrative review in accordance with policy.

- The review of the internal requisitions disclosed that the business purpose for purchases was inadequately detailed and/or not documented as required by policy.

- For one PALCard transaction reviewed, the administrative review was not performed within fourteen days of the transaction as required by policy.

In addition, a review of the purchasing process disclosed that authorizations for procurement were approved verbally prior to purchase, but documented the approvals after the order date on the internal requisitions. As a best business practice, approvals of requests should be documented prior to the purchase.

Implementation of internal controls, such as maintaining proper documentation and timely administrative review minimizes the risks of error, fraud, waste, and improper use of University funds.

Management Action Plan

By June 30, 2015, the audit observations will be shared with all PALCard holders, reviewers, and approvers to ensure compliance in maintaining necessary supporting documentation and timely administrative review. In addition, the PALCard holders, reviewers, and approvers will review University of California Policy BUS-43.

b. PayQuest Transactions

Background

UCI employees utilize the PayQuest automated system to request reimbursement for various expenditures and certain other payments. Reimbursement requests pertaining to travel expenditures must comply with Office of the President (UCOP) Business and Finance Bulletin G-28; expenditures for business meetings, entertainment, and other occasions must

comply with UCOP Business and Finance Bulletin BUS-79. Reimbursement requests must also comply with all applicable UCI policies.

Observation

A sample of 19 PayQuest transactions from July 1, 2013 to June 30, 2014 selected for review to determine if UCIPD complied with policy and procedures. The following is a summary of the observations:

- Four PayQuest reimbursement requests were not properly substantiated. Proper supporting records, such as a hotel receipt containing itemized charges, business meeting agenda, or a document verifying that mileage reimbursement did not exceed airfare cost, necessary for appropriate reimbursement were not obtained and reviewed prior to submitting the travel vouchers to the Accounting office.

- A traveler did not obtain advance approval to use surface transportation even though air travel is the appropriate mode of transportation as required by policy. In addition, an exceptional approval was not obtained although an itemized hotel receipt was not submitted for reimbursement.

IAS noted that some vendors were paid through PayQuest although credit card payments were acceptable. For such transactions, a PALCard is the appropriate method of purchase and is more cost effective. Internal controls such as a proper documentation, authorization, review, and timely submission of reimbursements reduce the potential for reimbursement of improper expenses as well as errors/inaccuracies, waste, and fraud to go undetected.

Management Action Plan

By June 30, 2015, the audit observations and policy requirements will be communicated to all UCIPD personnel to ensure compliance in documenting reimbursements properly, submitting required supporting documentation, obtaining required approval in advance, and noting justification as needed.

In addition, reimbursement preparers and approvers will review the current University policies, G-28 and BUS-79 to ensure compliance in the future.

4. Lost and Found

Background

Lost and found services are provided by UCIPD. All found and unclaimed properties are to be managed and disposed of in accordance with University policy and California law, Section 2080.8(a) of the Civil Code.

Observation

Internal controls over lost and found properties need improvement to ensure items are properly and accurately tracked and monitored.

Upon receiving lost and unclaimed property, the description of each item is entered on a log, an excel spreadsheet that is saved in an internal shared drive and accessible to all UCIPD employees. Also, a property tag, with the same description fields on the log, is attached to each item and stored in the 'lost and found' room that is kept open to UCIPD employees during business hours. Valuables such as wallets, jewelry, cell phones are further secured in a lock file cabinet, but the cabinet keys are accessible to all UCIPD employees during business hours. Although camera recorded movement in and out of the storage room, theft may go undetected because control numbers required to cross reference the log to the property tag and vice versa were not used to properly track and monitor items or perform an inventory of lost and found items if necessary.

Failure to establish basic internal controls reduces the ability to detect inaccuracies and theft.

Management Action Plan

By June 30, 2015, property control numbers will be noted sequentially on each tag used to record and identify all lost and unclaimed properties. In addition, each tag will be used sequentially and the control numbers will be cross referenced on the intake log immediately.

5. Risk Assessment and Security Plan

Background

IS-3 requires that a risk assessment be formally documented to identify vulnerabilities and threats to departmental informational resources, as well as major enterprise systems. Risk assessments should take into account and prioritize potential adverse impact on the University's reputation, operations, and assets. Additionally, it should be conducted by units or departments on a periodic basis by teams composed of appropriate campus administrators, managers, faculty, IT, and other personnel associated with the activities subject to the assessment. Also, an information security plan should be developed based on the risk assessment.

Observation

UCIPD has not completed a comprehensive or periodic IT risk assessment and a security plan for their IT environment. Performing a comprehensive and periodic formal risk assessment as part of an ongoing operational process will help detect unidentified or unmanaged risk to UCIPD informational resources. Without a comprehensive IT risk assessment, management may not have a full understanding of the risks associated with their critical systems to ensure appropriate strategies and adequate controls. Also, a security plan helps lay out a path for addressing identified risks and document the controls that are in place or planned to ensure an acceptable level of risk for systems, processes, and the IT environment.

Management Action Plan

UCIPD will partner with the OIT security team to complete an IT risk assessment and security plan for the UCIPD IT environment. The anticipated completion date is by the end of April 2015. The risk assessment will be used as a basis to create appropriate strategies and controls to protect UCIPD systems and IT environment adequately.