

The logo for UC Irvine, featuring the letters "UCIRVINE" in a large, black, serif font. The "U" and "C" are connected, and the "I" is a thin vertical line. The "R" and "V" are also connected. The "I" and "R" are connected, and the "V" and "I" are connected. The "N" and "E" are connected. The logo is set against a light beige background.

UCIRVINE

The logo for Internal Audit Services, featuring the words "INTERNAL" and "AUDIT SERVICES" in a black, serif font, stacked vertically. The logo is set against a light beige background.

INTERNAL
AUDIT SERVICES

Division of Continuing Education

Internal Audit Report No. I2023-110

October 6, 2023

Prepared By

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Reviewed By

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Approved By

Mike Bathke, Director

October 6, 2023

**KRISTINE COLLINS
DEAN
DIVISION OF CONTINUING EDUCATION**

**RE: Division of Continuing Education Audit
Report No. I2023-110**

Internal Audit Services has completed the audit of the Division of Continuing Education 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
Drew Chesen, Chief Financial Officer – Division of Continuing Education
Krissyvan Truong, Associate Dean – Division of Continuing Education

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2022-23 audit plan, Internal Audit Services (IAS) performed an audit of the UC Irvine (UCI) Division of Continuing Education (DCE). Specifically, IAS verified that adequate internal controls are in place over key administrative processes, including certain financial activities and business operations. The following concerns were noted.

Main Cashiering Operations (MCO) – Certain internal controls involving security measures in DCE cash handling processes are weak and need improvement. Additional internal control concerns were noted. Further discussion is provided in Section V.1.

Inventorial Equipment Management – Several concerns were noted with DCE inventorial equipment management. Some equipment items were lacking University identification tags. DCE’s certified list for inventorial equipment failed to accurately document the names of responsible employees and serial numbers for some equipment items. Equipment items were not always found in their designated location. Discarded equipment items were insufficiently documented, thereby hindering accountability over the equipment. Further details are provided in Section V.2.

II. BACKGROUND

The UC Irvine DCE was established in 1962 and continues to serve the lifelong learning and career development needs of individuals, organizations, and the community on a local, regional, and global scale. Through a wide range of educational opportunities including certificates and specialized studies programs, short courses and strategic partnerships, DCE provides learning pathways for those seeking career advancement or personal enrichment. Today, DCE offers 60+ industry-relevant certificates and specialized studies programs on campus, online, and at corporate sites. DCE also serves as a gateway for its students to reach other UC Extensions and campus amenities such as the UCI Alumni Association and the Chancellor’s Club.

The mission of DCE is to serve the global student community by providing highly valued, innovative and practical learning experiences that promote personal and professional success at any stage of life. With a commitment to integrity, quality, accountability, and personal leadership, DCE fosters an inclusive, collaborative environment to empower and transform the lives of its students.

From a financial and operational point of view, it is important to note that DCE is a self-supporting, non-state funded entity that maintains its own financial reserves. Prior to the recent COVID pandemic, between 30% and 50% of students enrolled in various DCE programs were international students. However, during the pandemic, many international students faced severe travel restrictions to the United States. As

a result, DCE suffered a dramatic decline in international student enrollment. To make matters worse, UC's "no lay-off" policies during the pandemic prevented DCE from taking immediate and decisive action to limit the financial drain. As a result, DCE's considerable pre-pandemic financial reserves were decimated. Now that the COVID public health emergency has subsided, DCE is slowly rebuilding its financial reserves. DCE has also undertaken measures to further diversify its student population to reduce its financial dependency on international student enrollment.

III. PURPOSE, SCOPE, AND OBJECTIVES

The purpose of the audit was to verify the adequacy of DCE internal controls over key administrative processes, including certain financial activities and business operations. The audit scope included DCE business processes and financial activities in FY 2023 and prior fiscal years, as necessary.

The audit included the following key objectives.

1. Main Cashiering Operations (MCO): Verify that internal controls within the DCE MCO are adequate and functioning satisfactorily.
 - Accountability for Cash
 - Collection and Receipting Processes
 - Deposit Preparation and Review Processes
 - Deposit Accounting Processes
 - Proper Safeguarding of Employees and Cash/Equivalents
2. Non-payroll Expenditures: Verify that internal controls surrounding non-payroll expenditures are functioning adequately and DCE is compliant with relevant UC/UCI policies and procedures. Verify that purchases and related expenditures are pre-authorized, reconciled and approved for payment in a timely manner.
3. Inventorial Equipment: Verify that internal controls surrounding equipment management processes are adequate and compliant with UC/UCI policies and procedures, and best business practices.
4. Account-Fund Structure and Reconciliation: Verify that internal controls over general ledger account/fund reconciliation processes and account-fund structure are compliant with University policies and procedures and best business practices.

IV. CONCLUSION

Many internal controls over DCE's key financial activities and business operations appear to be in place and operating satisfactorily. However, certain internal control

measures pertaining to main cashiering operations and inventorial equipment management need to be strengthened to ensure compliance with UC/UCI policies and/or best business practices.

The following observations were discussed with DCE management who formulated management action plans to address the noted issues. These details are presented below.

V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Main Cashiering Operations

Background

DCE operates a dedicated MCO that provides various financial services on behalf of the DCE. The primary function of the MCO is to receive cash/equivalents collected by the DCE and deposit them fully, accurately and in a timely manner into a University bank account. The DCE MCO is also responsible for ensuring that deposited cash/equivalents are recorded fully, accurately and timely in the general ledger.

Observation

IAS performed a review of the DCE MCO to verify that key internal controls surrounding the MCO are in place and functioning adequately. DCE compliance with applicable UC/UCI cash handling policies and best practices was also reviewed. The following observations were noted.

1. Mailed-in Remittances: DCE mail is not opened under joint custody as required by UC policy. Furthermore, a check log is not utilized, which is a best practice to assist in ensuring that all payments received by mail are reconciled to the log before they are deposited.

DCE does not receive a sufficient number of mailed-in payments to justify the cost of a lockbox. However, *UC Business and Finance Bulletin BUS-49 "Policy for Cash and Cash Equivalents Received" (BUS-49) Section VIII A.1.3* states that "Mailed remittances shall be verified and processed by two employees."¹ Verification by joint custody is the key internal control for this type of remittance.

2. Access to the MCO Safe: Currently, there are five employees that have access to the MCO safe. Best practice suggests that DCE revert to pre-COVID practices

¹ "Number BUS-49: Policy for Cash and Cash Equivalents Received." *University of California Business and Finance Bulletin*, revised Sept 2008, www.policy.ucop.edu/doc/3420337/BFB-BUS-49

whereby fewer employees have knowledge of, or access to, the safe combination.

3. MCO Safe Combination Changes: Discussions with DCE management disclosed that the combination lock on the MCO safe has never been changed since the safe was installed. Furthermore, DCE does not maintain documentation regarding how often the combination on the safe is changed. In addition, the combination number is self-changing, so the MCO manager has sole discretion and control as to when the safe combination is changed.

DCE management should require that future safe combination changes be completed by two employees under joint custody with written documentation evidencing signatures and dates of both parties witnessing the combination change. *BUS-49 Section IX.11* states that, "A safe's combination must be changed whenever a person who knows the combination leaves the employ of a cash handling unit. In addition, the combination must be changed at least once a year. Documentation must be maintained showing the date and the reason for the combination changes."²

4. Credit Card Information via Telephone: As a best practice, IAS encourages DCE to continue to move away from this process. Risk is elevated when customers' credit card information is retained on paper forms that are secured in the MCO for long periods of time.
5. Credit Card Pin Entry Pads: The Director of Student Services is the custodian of all credit card pin pads; the pin pads are not individually assigned to the employees who utilize the pads. Issuing pin pads to each employee required to have one appears to be a best practice that is followed by other UCI MCOs. This process may be more efficient than one manager taking sole responsibility for daily issuance, return, and safeguarding of all pin pad devices.

Management Action Plan

1. Mailed-in Remittances:
 - a. Any mail that is not addressed to a specific department at DCE, will be opened by our staff in the cashiering room under security of a camera.
 - b. DCE accepts the risk associated with not maintaining a check log or the risk when mail is not opened under joint custody.
2. Access to the MCO Safe:
 - a. We will reduce the number employees who have access from five to three.
 - b. Implemented this change July 21, 2023. No further follow-up by IAS necessary.

² Ibid

3. MCO Safe Combination Changes:
 - a. We have created a log of when the safe combination is changed either annually or whenever a staff member who had the combo leaves our unit.
 - b. Combination has been changed under joint custody with written documentation.
 - c. Implemented on July 7, 2023. No further follow-up by IAS necessary.
4. Credit Card Information Via Telephone:
 - a. We are moving away from accepting credit cards by phone.
 - b. Implement by June 30, 2024 and accept the risk when credit cards are taken over the telephone.
5. Credit Card Pin Entry Pads:
 - a. We are not able to assign pin pads to each employee. We will however reduce the current terminals from four to two.
 - b. Credit cards are rarely processed manually and each cashier has to login to the terminal with their unique login and password.
 - c. Implemented the reduction to two terminals on July 31 and accept the risk of not assigning pin pads to every cashier. No further follow-up by IAS necessary.

2. Inventorial Equipment Management

Background

UC Irvine inventorial equipment is defined as any tangible asset with an acquisition cost of \$5,000 or more and a useful life of one year or more. UC/UCI policies require a uniform property control system that includes property identification through assigned numbers documented on tags that are attached to the equipment items. A record of inventorial assets must be maintained by each UC campus and must be updated biennially with input from each campus unit that has inventorial equipment.

DCE's current FY 2021 certified list of inventorial equipment indicates 70 inventorial equipment items with a total purchase cost of \$1,471,440. Equipment items on the list were purchased between FYs 1998 through 2021. The purchase price of the equipment items ranges from \$5,168 to \$92,769. The median dollar value of the 70 equipment items is \$14,471.

Observation

Eighteen equipment items were sampled for review from DCE's FY 2021 certified list of inventorial equipment. In total, inventorial equipment items making up 31% of the purchase cost of all DCE inventorial equipment were reviewed. Information reflected on each sampled equipment item (property tags and serial numbers) was verified for presence and agreement with DCE's certified inventorial equipment list. Additional attributes, such as recorded building and

room locations for sampled equipment items were also verified. The following concerns were noted.

1. Equipment Items with Missing Inventorial Property Tags

Two equipment items (cost: \$10,674 and \$10,757, respectively) did not have equipment tags, as required by UC policy. One equipment “item” actually represented several network storage hard drives, none of which had a property tag. Normally, a property tag is assigned to one (and only one) equipment item.

2. Equipment Serial Numbers Not Documented on the Equipment List

Equipment serial numbers for six equipment items were not documented on the inventorial equipment list. Serial numbers are critical in the accurate identification of equipment, especially when property tags are missing.

3. Serial Numbers Could Not Be Verified on the Equipment Item

Serial numbers for two equipment items could not be verified on the equipment item (hidden from view). A management corrective action may involve adding visible tags to the equipment items that document the serial number.

4. Actual Equipment Locations Differ from the Inventorial Equipment List

Four equipment items that were found and verified were not in the assigned room location indicated on the certified equipment list. In addition, two of the four equipment items were not in the assigned building location. Furthermore, one of the equipment items did not have any assigned location on the certified equipment list.

On occasion, inventorial equipment items are moved from their assigned locations without the Asset Manager/Equipment Custodian being notified by the person(s) moving the equipment. As a result, the list of inventorial equipment is not updated with the new equipment locations. Then, the equipment items that were moved cannot be found when the entire equipment inventory is verified during the biennial certification process. Consequently, the moved equipment is written off as “lost” and removed from the certified inventorial equipment list.

5. Employees Responsible for Equipment Not Named on the Equipment List

For five equipment items, the responsible employee was not named on the certified inventorial equipment list. For two additional equipment items, one or more employees documented as responsible for the equipment items were, in fact, no longer employed at the DCE. Accountability over inventorial

equipment is weakened when there is a lack of clarity as to which DCE employee(s) have day-to-day responsibility for each equipment item.

6. Limited Communication/Accountability over Lost or Discarded Equipment

One sampled equipment item, valued at \$6,344, could not be found. Furthermore, DCE staff members disclosed that three equipment items had been salvaged and an additional equipment item had been traded-in. However, the staff members could not immediately provide supporting documentation.

Subsequent discussions with the UCI Equipment, Surplus Property, and KFS Asset Manager disclosed that only one of the salvaged equipment items and the traded-in equipment item had been retired from service by Equipment Management. The other two salvaged equipment items and the missing equipment item continue to be listed as “active.”

Management Action Plan

1. Equipment Items with Missing Inventorial Property Tags

By October 31, 2023, DCE will verify all items on the current equipment inventory list. The Asset Manager/Equipment Custodian will ensure all items have UCI property tags and will affix tags as required.

2. Equipment Serial Numbers Not Documented on the Equipment List

By October 31, 2023, DCE will verify all items on the current equipment inventory list. DCE’s Asset Manager/Equipment Custodian will enter missing serial numbers into UCI’s Equipment Inventory system.

3. Serial Numbers Could Not Be Verified on the Equipment Item

By October 31, 2023, DCE will verify all items on the current equipment inventory list. DCE’s Asset Manager/Equipment Custodian will attach visible identification with the property number and serial number to all items where the manufacture’s serial number and the UCI property tag are difficult to access.

4. Actual Equipment Locations differ from the Inventorial Equipment List

By October 31, 2023, DCE will verify all items on the current equipment inventory list. The location of each item to be updated in UCI’s Equipment Inventory system to reflect its actual usage or storage location.

5. Employees Responsible for Equipment Not Named on the Equipment List

By October 31, 2023, DCE will verify all items on the current equipment inventory list. The employee responsible for each item will be updated in UCI's Equipment Inventory system.

6. Limited Communication/Accountability over Lost or Discarded Equipment

By October 31, 2023, DCE will clearly identify DCE's Facilities Manager Miguel Villegas as the Asset Manager/Equipment Custodian for the division. Led by Asset Manager/Equipment Custodian, DCE will develop and document a process to ensure clear and timely communication for maintaining the equipment inventory. The policy will be posted on DCE's Administrative SharePoint page with other policies. The policy will include procedures to record new inventorial equipment as it is purchased, ensuring that the responsible employee affixes the property tag and will attach visible identification with the property number and serial number if the installed equipment is in a hard-to-access location. The Asset Manager/Equipment Custodian will be responsible for recording the location, responsible employee, and serial number in UCI's Equipment Management system.

To manage existing equipment, the process will detail procedures to update UCI's Equipment Management system when equipment is moved to a new location or when the responsible employee changes. The Asset Manager/Equipment Custodian will complete the biennial equipment inventory as required by UCI's Equipment Manager, and will update UCI's Equipment Management system as required.

The process will include procedures for the removal of retired equipment in a timely manner. The responsible employee will notify DCE's Asset Manager/Equipment Custodian when equipment is retired from inventory (salvage, trade-in, recycling, etc.), and will secure proper documentation to verify the retirement. DCE's Asset Manager/Equipment Custodian will record the retirement in UCI's Equipment Inventory system to remove it from inventory.