January 23, 2013

AMANDA DATNOW
Chair, Department of Education Studies
0070

Subject: ***Department of Education Studies***
Audit Project 2013-06

The final audit report for the above referenced audit is attached. We would like to thank all members of the department for their cooperation and assistance during the audit.

Because we were able to reach agreement regarding corrective actions to be taken in response to the audit recommendations, a formal response to the report is not requested.

The findings included in this report will be added to our follow-up system. While management corrective actions have been included in the audit report, we may determine that additional audit procedures to validate the actions agreed to or implemented are warranted. We will contact you to schedule a review of the corrective actions at the appropriate time.

UC wide policy requires that all draft audit reports, both printed (copied on tan paper for ease of identification) and electronic, be destroyed after the final report is issued. Because draft reports can contain sensitive information, please either return these documents to AMAS or destroy them at this time.

David Meier
Assistant Vice Chancellor
Audit & Management Advisory Services

Attachment

cc: J. Elman
P. Frugé
D. Larson
J. Mancusi
G. Matthews
D. McGraw
S. Subramani
S. Vacca

UC San Diego

AUDIT & MANAGEMENT ADVISORY SERVICES

Department of Education Studies
January 2013

Performed By:

Aparna Handa, Auditor

Approved By:

David Meier, Assistant Vice Chancellor

Project Number: 2013-06

Department of Education Studies
Audit & Management Advisory Services Project 2013-06

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Department of Education Studies
Audit & Management Advisory Services Project 2013-06

I. Background

Audit & Management Advisory Services (AMAS) has completed a review of the Department of Education Studies as part of the approved audit plan for Fiscal Year 2012-13. This report summarizes the results of our review.

Effective September 2011, the Education Studies Program officially transitioned to the Department of Education Studies (Department), after its nearly forty-year history as a campus academic program in the Division of Social Sciences. The Department offers several undergraduate, masters and professional programs for those interested in beginning careers in education or in furthering their studies in the field of education. The primary focus of the department is to achieve the goal of being a preeminent center for the linking of theory, research, and practice in education by increasing enrollment in its programs, strategically evaluating whether it is positioned to launch new programs, and by attracting increased external funding to enhance research activities.

The Department recently hired additional faculty, bringing the total this year to 22 faculty members who are supported by eight administrative staff. For Fiscal Year 2011-12, the Department had a total budget of approximately $7.7M including $3.8M (49%) in general funds, $1.8M (23%) in federal funds, and the remaining $2.1M (28%) in other funds. Actual expenses for the year approximated $4.7M, with 85% attributable to salaries, 24% to supplies and expenses, and 3% to travel.

II. Audit Objective, Scope, and Procedures

The objective of our audit was to review key internal controls for Department financial activity, and evaluate whether these internal controls provided reasonable assurance that financial activity was conducted in accordance with University and campus policies and procedures.

This was not a full scope audit using a broad-based preliminary survey approach to evaluating department risk as prescribed by the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing. Rather, this was a limited scope review of key department internal controls for financial activities based on department management's assertions, and AMAS testing performed to validate those assertions. The scope of our review included Department financial activities in Fiscal Years 2011 and 2012.

In order to achieve our objectives we completed the following procedures:

- Interviewed the Management Services Officer (MSO);
- Discussed internal control questionnaires with the MSO;
- Interviewed the Financial Manager and Timekeeper to understand processes;

- Reviewed payroll, purchasing, travel, entertainment, and contracts and grants management processes;
- Examined financial reports, files, and documents; and
- Performed limited transaction testing for selected financial activities ***(Attachment A)***.

III. Conclusion

Based on our review procedures, we concluded that in general, the key financial internal controls evaluated provided reasonable assurance that financial activities were conducted in accordance with University and campus policies and procedures. However, we noted opportunities for improvement in some internal control processes, and these are discussed in the balance of this report.

IV. Observations and Management Corrective Actions

A. Effort Reporting

Required quarterly certifications of effort charged to federal sponsored research fund sources were not completed for one quarter in Fiscal Year 2012.

For the quarter July through September, 2011, four of five effort reports had not been certified (80%) as of October 17, 2012. The Department advised that one of the effort reports was incorrectly generated because the fund had been incorrectly classified as a federal award instead of a private grant.

Quarterly effort reporting is the method of certifying that the effort expended on federally sponsored research projects was materially consistent with the payroll costs charged to the awards during the period. All employee salaries charged directly to federal and federal flow-through funds must be certified according to Office of Management and Budget (OMB) Circular A-21 and University policy.

Allowing effort reports to remain uncertified increases the risk for potential disallowances in the event of a federal audit, and reduced federal funding.

Management Corrective Actions:

1. Three of the four required effort reports for the quarter have been certified.

2. The Department has taken steps to correct the classification of the private grant to eliminate the overdue effort report.

B. Department Transaction Approval Processes

Expense approval hierarchies and processes were not established to ensure compliance with University policy.

Upon review of the Department's approval hierarchies, we noted that the Department Chair's expenses were approved by the MSO, and the MSO's expenses were approved by the Financial Manager who reported to her. University policy states that expenses should not be approved by personnel that report, directly or indirectly, to the person incurring (claiming) the expenditure. The Chair and MSO expenses should therefore be approved at a higher administrative level.

We also found that the transactions initiated by the Financial Manager for entertainment, mileage and reimbursements listed the Manager as the alternate reviewer to the MSO which is inappropriate as the Manager is in a position to approve his own transactions.

We also noted that the MSO was an Express Cardholder and the Financial Manager was designated as the reviewer of the MSO's transactions. This is in conflict with *UC policy Business and Finance Bulletin BUS-43* which defines a reviewer as: "An individual(s) who is responsible for reviewing purchases made by the cardholder. Reviewers may not be in a subordinate relationship to the cardholder." While it may have been helpful for the MSO to have a procurement card, the practice increased the risk that the Financial Manager would not perceive he had the requisite authority to question transactions, if the need arose.

The establishment of appropriate approval hierarchies helps ensure segregation of responsibilities within the procurement processes, and increase assurance that purchase transactions are bona fide University expenses that comply with University policy.

Management Corrective Action:

Department management will ensure that expense approval hierarchies and processes are modified to ensure that expenses are not reviewed and approved by personnel that report, directly or indirectly, to the personnel incurring the expenses.

C. Review of Distribution of Payroll Expense (DOPE) Reports

We noted that DOPEs were not being reviewed monthly as required by UC Policy.

UC Policy, IA-101, Internal Control Standards: Department Payroll, requires DOPE reviews to be performed monthly and requires that this DOPE review be adequately documented. Furthermore, the Department was not up-to-date on the review of the

Personnel and Payroll System (PPS) Post Authorization Notices (PANs) which increased the risk of PPS input errors not being timely detected.

Management Corrective Action:

Department management will ensure that DOPE reviews are performed and documented on a monthly basis, and that all PANs are reviewed timely.

D. Transactional Sampling

Transactions selected for focused review by the campus Transaction Sampling system were not reviewed and reconciled by staff for one Department organization code.

The campus Transaction Sampling process in Financial Link randomly selects a sample of Department financial transactions to be evaluated during the monthly ledger reconciliation and account validation process. After the review is completed, transaction processing errors are identified by error type, and corrected. To qualify for participation in this process, Department fund managers are required to complete training, and the Department fiscal officer is required to periodically monitor and review the transaction queue.

Our review of the Transactional Sampling Report and Ledger Reviewer for FY2011-12 indicated that transactions for selected indexes under organization code number 786285 had not been reviewed. The Financial Manager had not included this organization code in his review.

The campus Transaction Sampling process provides reasonable assurance that transaction errors are timely identified and corrected. Because only a percentage of total transactions are selected for focused review, Department resources are used more effectively. If selected transactions are not timely reviewed, there could be increased risk of non-compliance with policy.

Management Corrective Action:

The Financial Manager will ensure that all transactions sampled for the Department are included in the monthly review, including all indices associated with organization code 786285.

E. APM-025 Compliance

The department was not in full compliance with Academic Personnel Manual (APM) 025 requirements.

APM 025: *Conflict of Commitment and Outside Activities of Faculty Members*, addresses the processes for reporting and evaluating faculty compensated and uncompensated outside professional and non-professional activities to determine whether reported activities create a conflict of commitment. APM 025 requires that all faculty members file a *Report on the Category of I and II Compensated and Outside Professional Activities and additional Teaching Activities* annually. The disclosure form is due by November 1 of the following Fiscal Year.

AMAS was informed by the Department that APM-025 disclosure forms had not been received for the last Fiscal Year. The Department estimated that 12 faculty needed to submit this form. Timely collection and review of the disclosure forms assists in identifying potential conflicts of commitment that could potentially interfere with the performance of their University obligations.

Management Corrective Action:

The Department will take steps to collect the APM-025 forms as required by University Policy.

F. Staff Performance Evaluations

Performance evaluations were not up-to-date for selected staff.

We reviewed eight staff personnel files to verify that performance evaluations had been completed. Our review identified five staff without current evaluations on file. UC Policy requires career employees to receive a written performance appraisal annually. Performance appraisals are an important vehicle to provide objective feedback to employees on their performance, and provide an objective basis for personnel and payroll actions.

Management Corrective Action:

Department management will ensure that performance evaluations are completed on an annual basis.

Department of Education Studies
Audit Results by Business Office Functional Process
Audit & Management Advisory Services Project 2013-06

Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion[1]	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)			
Effort Reporting	√	√		Reviewed Effort Reporting Overdue reports for FY11-12.	No	Improvement Needed	Four of five effort reports for July-September 2011 quarter had not been certified (***Audit Report Finding A).***
Travel and Entertainment	√	√	√	Reviewed selected transactions; traced to vouchers (TEV's) & supporting documents.	No	Improvement Needed	Transactions appeared valid and reasonable. One travel transaction was approved by a subordinate ***(Audit Report Finding B).***
Express Card	√	√	√	Reviewed judgmentally selected transactions; traced to supporting documentation.	No	Improvement Needed	The Express Card Reviewer reported directly to the Express Cardholder (***Audit Report Finding B***).
Timekeeping & Payroll, HR	√	√	√	Reviewed selected timesheets, input verification and key controls documentation.	No	Improvement Needed	DOPE reviews had not been performed in accordance with UC Policy ***(Audit Report Finding C).*** Staff had not received annual written performance evaluations (***Audit Report Finding F).***

[1] Scale: Satisfactory - Improvement Suggested - Improvement Needed - Unsatisfactory

Department of Education Studies
Audit Results by Business Office Functional Process
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Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion[1]	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)			
Operating Ledger Review & Financial Reporting	√	√	√	Examined selected operating ledgers and financial reports.	No	Improvement Needed	Operating ledgers were reviewed monthly, however, one organization code was overlooked in the transactional sampling review ***(Audit Report Finding D).***
APM-025 Reporting		√	√	Interviewed the Human Resources Administrative Analyst	No	Improvement Needed	Faculty APM-025 disclosure forms were not completed ***(Audit Report Finding E).***
Transaction Processing - Non-Payroll Expenditures	√	√	√	Reviewed selected transactions; traced to supporting documents.	Yes	Satisfactory	Transactions appeared valid and reasonable.
Expense Transfers	√	√	√	Reviewed selected transfers.	Yes	Satisfactory	Transfer explanations appeared reasonable. No exceptions were noted.
Contracts and grant activity	√	√	√	Reviewed three awards totaling $5.9M and evaluated selected expenses	Yes	Satisfactory	Contract expenses appeared reasonable.

[1] Scale: Satisfactory - Improvement Suggested - Improvement Needed - Unsatisfactory