UCIRVINE | INTERNAL AUDIT SERVICES

Transportation Services
Internal Audit Report No. I2015-106
November 17, 2015

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INTERNAL AUDIT SERVICES
IRVINE, CALIFORNIA 92697-3625

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RON FLEMING
DIRECTOR
TRANSPORTATION AND DISTRIBUTION SERVICES

Re:Transportation Services Audit
    Audit No. 2015-106

Internal Audit Services has completed the review of Transportation Services 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
    Nancy Mazmanian, Senior Manager, Transportation Services

I.   MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2014-2015 audit plan, Internal Audit Services (IAS) reviewed the primary revenue-producing operations of the Transportation Services (TS) and Guest and Event Services (G&ES) divisions within Transportation and Distribution Services (T&DS). Based on the audit work performed, certain internal controls need improvement and should be strengthened to minimize risks, ensure compliance with University policies and procedures and best business practices. Specifically, the following concerns were noted.

Ledger Review and Reconciliations – General ledger (G/L) reconciliations were not being performed. Review and reconciliations had not been performed since January 2015. Details related to this issue are provided in Section V.1.

Citation Management – Collection efforts on pending and aging citations is not always completed in a timely manner. Details related to this issue are provided in Section V.2**.**

Parking Permit Management – An adequate separation of duties is not always maintained in parking permit inventory processes. In addition, controls over parking permit inventory reconciliations performed by TS and G&ES employees need improvement. These issues are outlined in section V.3.

Accountability of Change and Sales Funds – Accountability over TS and G&ES change and sales funds is not always maintained. These issues are discussed in section V.4.

II.   BACKGROUND

UC Irvine Transportation and Distribution Services consists of three divisions, Transportation Services, Guest and Event Services, and Distribution Services (DS). Combined, TS and G&ES (approximately $18 million in projected FY 2014-15 revenue) include the following revenue-producing service units:

• Permit Sales (TS main office) – $11.5 million, 64 percent of total revenue;
• Guest/Event Services – $4.5 million, 25 percent of total revenue;

- Enforcement – $1.7 million; 10 percent of total revenue;
- Sustainable Transportation – $.3 million, 1 percent of total revenue.

TS is responsible for depositing cash/equivalents collected at the TS main office for parking permits, citations, and sustainable transportation. G&ES is responsible for collecting and depositing cash/equivalents for parking permits sold at campus events, kiosks, and electronic permit dispensers. TS and G&ES employ between 150 and 200 part-time students during the fiscal year. Student employees work in the TS main office, parking kiosks, and/or at the events.

Together, TS and G&ES manage approximately 15,000 parking spaces, 6 kiosks, 19 electronic permit dispensers, 12 coin meters, and 50 different types of parking permits. TS and G&ES employ 39 full time equivalent employees and are managed by an Associate Director, an Operations and Customer Relations Manager, and an Assistant Director, Operations, who report to the Director of Transportation and Distribution Services.

III. PURPOSE, SCOPE AND OBJECTIVES

The primary purpose of the audit was to assess TS's and G&ES's abilities to capture revenue, manage cash/equivalents, administer parking permit inventories and manage issued citations and collection efforts. The review was designed to verify whether sufficient internal controls are in place to prevent and/or detect improper, non-compliant and/or fraudulent transactions, while ensuring efficiency and effectiveness in operations and compliance with University policies and procedures and best business practices. The scope of the audit focused on FY 2014-15 key revenue-producing operations of TS and G&ES.

The audit included the following objectives:

1. Cash Management, Collections, and Deposits - Verify that change and sales funds are properly managed; verify the adequacy of internal controls surrounding collection and depositing processes; verify compliance with UC/UCI policies and best business practices;

2. Parking Permit Management - Verify that physical inventories of parking permits are periodically reconciled to perpetual inventory records, and the

reconciliations are documented; verify that all parking permits are accounted for; verify that revenue is recorded and cash/equivalents received and deposited for all sold parking permits;

3. <u>Citations Management</u> - Verify that all issued citations are accounted for; verify that revenue is recorded and cash/equivalents received and deposited for paid citations; verify that accounts receivable and collections processes are well-managed and revenue is collected in a timely manner; verify that revenue and accounts receivable balances are fairly reported;

4. <u>Ledger Reconciliation and Budget Variance Reporting</u>– Verify the status of TS and G&ES account/funds and their timely reconciliation in accordance with University policy; verify that budget variance reporting is accurate, timely, and useful in management control and decision-making;

5. <u>Information Technology (IT) Operations</u> - Verify access privileges for key systems utilized by TS and G&ES are appropriate;

6. <u>General Requirements</u> - Verify that TS and G&ES are meeting UC/UCI policy requirements and sound business practices for auxiliary enterprises.

IV.   CONCLUSION

Overall, many of the internal controls and processes within TS and G&ES revenue-producing operations appear to be functioning satisfactorily. However, internal control concerns were identified in the areas of ledger review and reconciliation; citation management; parking permit management; and cash management, collections, and deposits. Lack of adequate control measures in these areas make it difficult to prevent or detect unauthorized and fraudulent transactions.

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. Ledger Review and Reconciliation

Background

UC Irvine policy states that managers who are directly responsible for the financial affairs of an activity should maintain procedures that verify transactions and reconcile balances monthly to the G/L.

Observation

Discussions with TS employees and observations disclosed that G/L reconciliations for revenue and expenditure account/funds are not being performed.   Previously, a financial analyst had performed all G/L reconciliations. However, this position has been vacant since January 2015.

Reconciliations are an integral part of the internal control structure to ensure that financial information is complete, accurate, timely, and valid. Without a timely review of the G/L, incomplete, inaccurate, unauthorized, and/or fraudulent transactions may go undetected.

Management Action Plan

The general ledger reconciliation of revenue and expenditure accounts is one of the top priorities for the individual filling the role of Financial Analyst for this department. Having lost our Financial Analyst to retirement in January, we have actively tried to hire a replacement but have not found any suitable candidates and thus the position has been vacant for the past six months.

Effective immediately the Support Services Specialist will serve as the Financial Analyst backup and will perform the monthly reconciliations, and document the results, with oversight by the senior manager of business services. Additionally, it is our understanding that, as an added backup, the workflow process in the Kuali Financial System has been designed to provide checks and balances as well as approval points to ensure financial transactions are complete, accurate and valid.

2. Citation Management

Background

Parking citations are manually written by TS enforcement officers who then transfer citation information electronically into a Citation Management database. The database is used to manage the life-cycle of issued citations and maintain an aged accounts receivable report for unpaid citations. Citation payments are made in person at the TS main office, by mail, or on-line. TS also adjudicates appeals at three different levels for individuals who believe their citations were issued in error.

Observation

Ten paid or pending citations were sampled to verify TS's efforts to collect payments in a timely manner. The review disclosed that collection efforts were adequate; however, they were not always timely. The following results were obtained:

1. A pending citation was determined to be uncollectible due to an incorrect license plate number. However, the citation remained open 15 months after the citation issuance date;
2. For three paid citations, TS took more than 15 days from the dates that the citations were contested to review them and send out the final decisions.

Failure to follow-up on pending citations in a timely manner may negatively impact citation revenue. In addition, uncollectible citations that remain open unnecessarily inflate accounts receivable balances.

Management Action Plan

During the stated time period, TS had turnover in staff (an adjudication supervisor on a lengthy leave of absence and an adjudicator who resigned unexpectedly) leaving the department without adequate staffing to make adjudication decisions and run monthly reports. Beginning in December 2014, temporary adjudication staff was put in place and the Assistant Director of Operations assumed supervision and oversight of adjudication. By February 17, 2015, the time to adjudicate the backlog of citation appeals was reduced below 15 days and, since that time, the current response to citation appeals, on

average, is within three days. Effective immediately, monthly reports will be reviewed regularly and documented to ensure that all citations, including pending and appealed are monitored to ensure timely decisions and closure.

3. Parking Permit Management

Background

UC policy states that employees should not have responsibility for more than one of the following duties: maintaining physical inventory, maintaining inventory records, and reconciling physical inventory to inventory records. UC policy also requires that adequate safeguards be provided to protect University inventories from loss. Inventories are to be verified by physical count at least annually.

Observation

Separation of Duties - TS and G&ES Parking Permit Inventories

1. The TS front counter supervisor manages parking permit inventories. However, the supervisor also reconciles the permit inventories to inventory records;

2. G&ES supervisors manage permit inventories. However, the supervisors also reconcile permit inventories to perpetual inventory records.

Reconciliation of TS and G&ES Parking Permit Inventories

A review of inventory and reconciliation processes disclosed the following:

1. Reconciliations for some permit types need to increase. For example, indefinite permits are reconciled monthly. However, motorcycle permits are reconciled infrequently and are not adequately documented. For example, one motorcycle parking permit could not be accounted for and management was unaware of the missing permit and could not provide documentation for any previous motorcycle permit reconciliations.

2. G&ES supervisors reconcile permit inventories to perpetual inventory records. However, management could not provide documentation for any G&ES permit reconciliations.

Management Action Plan

Separation of Duties - TS and G&ES Parking Permit Inventories

The Transportation Services front counter supervisor and Guest and Event Services supervisors will no longer be responsible for the inventory management process. The inventory management process will be reassigned to the Senior Manager of Business Services and the Operations and Customer Relations Manager, respectively.

Reconciliation of TS and G&ES Parking Permit Inventories

TS Parking Permit Inventories – The frequency of the parking permit inventory reconciliation has been increased to once a quarter, and the findings will be documented. In regards to the missing motorcycle permit, the permit has been placed on the enforcement "lost" list and field searches to track down the missing permit have already commenced.

G&ES Parking Permit Inventories - The Operations and Customer Relations Manager will conduct a verification and reconciliation of Guest and Event Services parking permits on a quarterly basis and the findings will be documented. We will work with OIT to enable EPICS to document quarterly verification and reconciliation of G&ES physical permit inventories. This enhancement will be requested within one week of IAS approval of our MAP with completion based upon OIT's schedule. The Event Coordinator will serve in a backup capacity for physical permit inventory.

4. **Accountability of Change and Sales Funds**

    Background

    UC policy requires that individual accountability be maintained and documented for all cash handling procedures. In addition, cashiers are required to lock all cash in a drawer or secure receptacle whenever leaving the immediate area.

    Observation

    Accountability over TS and G&ES change and sales funds is not always maintained. A review of cash handling processes disclosed the following concerns.

    1. TS cashiers, when finishing their shift, may sometimes transfer the key to their workstation cash drawer directly to the oncoming cashier, instead of returning the key to the electronic key nest. The key nest is designed to track keys that are signed out, thereby documenting accountability;

    2. The cash drawer in one of the campus kiosks was observed to have a key lock, however the key to the lock could not be located by the kiosk attendant.

    Failure to maintain accountability in cash handling processes may increase the risk for financial loss.

    Management Action Plan

    1. Front counter cashiers will be retrained to return keys to the key nest system at the end of their shifts. It will be made clear to front counter staff that they are not to give their checked-out key to any other employee and failure to adhere to this policy may result in disciplinary action. This will also be discussed at quarterly meetings with the front counter staff.

    2. In regards to the missing kiosk key, we will contact Facilities Management or a vendor to acquire a new lock set and key. We will also inspect all other cash drawers to ensure that they are fully functional. It will also be made

clear to cashier staff that they are to lock all cash in the drawer whenever leaving their work area during a shift.