

The logo for UC Irvine, featuring the letters "UCIRVINE" in a large, black, serif font. A vertical line is positioned to the right of the text, separating it from the "INTERNAL AUDIT SERVICES" text.

INTERNAL
AUDIT SERVICES

Campus Organizations
Internal Audit Report No. I2020-105
April 30, 2020

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April 30, 2020

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Re: Campus Organizations Audit
No. I2020-105

Internal Audit Services has completed the review of campus organizations maintained through the Office of Campus Organizations and Volunteer Programs 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

Mike Bathke
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee
Darlene Esparza, Director – Campus Organizations and Volunteer Programs

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2019-2020 audit plan, Internal Audit Services (IAS) reviewed the procedures and processes for cash handling as well as campus organization registration reviews and approvals in the Office of Campus Organizations and Volunteer Programs (COVP). The review identified that some policy required procedures, processes, and internal controls were not established and implemented and that recently implemented internal controls were not performed daily as required or monitored to minimize business risks, promote best business practices, or ensure compliance with University policies. The following observations were noted.

Cash Handling Review – The review disclosed missing cash in fiscal years 2017 - 2020. Also, several key policy requirements including, but not limited to, separation of duties, weekly deposits of cash collections, and background checks were not established and implemented. In addition, internal controls that were recently established and purportedly implemented in July 2019 to reconcile cash on a daily basis were not performed until October/November 2019 during the preparation of deposits for cash collected in July, August, and September 2019. Further details related to these observations are provided in section V.1.

Registration Review – For the sample of registered campus organizations (RCOs), IAS noted that review and approval processes were not complete, consistent, or timely. In addition, IAS performed a limited review of the access controls to the online registration system and noted appropriate controls were not properly established, implemented, and monitored. These observations are discussed in section V.2.

II. BACKGROUND

In fiscal year 2019-2020, COVP reviewed and approved the registrations of over 660 campus organizations. As part of the registration process, COVP ensures that all required documents have been completed and submitted, registration fees have been paid, and that all required online and/or in-person trainings have been completed. Once registered and recognized as a campus organization, COVP provides resources to RCOs such as assisting with the administration of the RCOs,

helping plan their activities, etc. In addition, COVP facilitates the UCI student population to find and connect with RCOs.

III. PURPOSE, SCOPE, AND OBJECTIVES

The purpose of this audit was to review the current established practices and processes for club cash handling and registration as well as assess the internal controls that have been recently implemented to reconcile cash receipts on a daily basis. For testing purposes, the following objectives and scope were established.

1. Determine if proper cash handling procedures and processes for club registration fees 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 policy requirements for registrations and perform test work on a sample of RCOs to determine if their registrations were properly and consistently reviewed and approved as required.

IV. CONCLUSION

IAS noted that cash handling procedures were not properly and fully established and implemented in COVP to reconcile cash on a daily basis and ensure compliance with University policy. In addition, key internal controls that were recently established to reconcile cash on a daily basis in COVP were not adequately implemented, which allowed cash to be misappropriated. Consequently, opportunities for improvement were noted in the areas of cash handling procedures as well as club registration processes.

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 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 regards to collecting and accounting for cash and cash equivalents.

Observation

The current cash handling processes for registration fee payments were reviewed to determine if the unit complied with the established 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

A reconciliation of all cash and cash equivalents collected in July, August, and September 2019 disclosed missing cash in each month. Cash and check collections for the three months, which are documented as payments received in the receipt books, were reconciled to the corresponding deposits made on November 4, 2019 and supporting documents which included the deposit slips completed for each collection month. The reconciliation disclosed missing cash in July (\$150), August (\$350), and September (\$50) 2019, for a total of \$550. The unaccounted for cash was reported to the Whistleblower Office for further investigation.

b) Deposits

Cash and check collections are not deposited at least weekly or whenever collections exceed \$500 as required by policy. For example, the collections for July 2019 (\$15,800), August 2019 (\$6,750), and September 2019 (\$2,700) were all deposited on November 4, 2019. Also, two checks received in July 2019 were deposited six months later on January 22, 2020. Furthermore, it should be noted that although IAS had informed the unit management of policy requirements in December 2019, the October 2019 collections, totaling \$2,650, were not deposited until January 22, 2020 and the November 2019 collections, totaling \$850, as well as the December 2019 collections, totaling \$400, were both deposited on February 5, 2020.

Also, checks were not immediately endorsed upon receipt, but several months later at the time of deposit. In addition, deposits were not validated and prepared in dual custody.

IAS was not able to verify if deposits were reconciled in a timely manner since the reconciliations were not documented.

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

An internal control procedure requirement in policy that ensures an adequate separation of duties was not maintained. For example, one staff cash handler, who also supervised the student cash handlers, (1) received cash and issued receipts; (2) prepared the deposit slips by herself and not in dual custody; (3) performed cash reconciliations; and (4) maintained/supervised accounts receivable records.

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) Securing Collections

The unit did not provide a cash register drawer, a cash drawer insert, or other secure cash receptacle, to each cash handler as required by policy. Instead, a desk drawer, located at the front desk, which is also left open during business hours, is shared by one or more cash handlers to store daily cash collections.

In addition, at the close of business, cash was not secured as described in policy. The unit had collected more than \$25,250 in cash and checks from July to November 2019 and stored the collections in a desk drawer instead of a steel-door safe, with a door thickness of not less than 1 inch and wall thickness of not less than ½ inch, as required by policy.

Policy states that cash “is the most liquid form of payment; that is, it is the most easily misappropriated. Cash must be protected against loss upon receipt and at all points thereafter. Physical security is the most important aspect of cash handling.”

e) Receipts/Invoices

Cash and check collections were not always recorded sequentially by date as required by policy. Also, periodic reviews were not performed to verify that there were no missing or lost receipts and that all receipts were accounted for sequentially.

University policy 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.” Also, 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.

f) Voids/Refunds

Proper procedures in the handling of voids and refunds had not been established that requires documenting the justification for voids and refunds

and approvals by the supervisor. Receipts that were voided as well as refunds were not properly documented, dated, or approved in writing 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 at the time of occurrence where practical, but no later than the end of the day. Inadequate management of voided and refunded transactions increases the risks of fraudulent transactions being processed, subjecting the University to unnecessary financial loss.

g) Background Checks

For all four staff and six student cash handlers, required background checks were not performed prior to them assuming cash handling duties. It should also be noted that two staff members held cash handling responsibilities as far back as 2015.

University policy 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.

h) Change Fund Verification

Unannounced cash counts and verification of a \$60 change fund were not performed and documented for which cash handling employees are accountable. Unannounced cash counts and verifications are required on a periodic basis, at least quarterly, by someone other than the fund custodian to comply with policy.

In addition, IAS noted that the change fund was not properly established and issued by the Accounting office. Instead, the unit established the change fund itself but did not document how and when the change fund was established.

i) Training

None of the cash handlers knew the University cash handling policies, procedures, and techniques in accordance with policy. In addition, the cash handlers were not trained on what to do in the event of an emergency.

Management Action Plan

To eliminate risk of further unaccounted for cash, the unit will no longer accept cash or checks paid directly by campus organizations in person or by mail, effective in February 2020. Instead, only payments of registration fees with ASUCI funds will be accepted. In the next fiscal year, the unit will transition to a new registration platform and utilize a campus resource, TouchNet, to accept online credit card payments for registration fees. In addition, the sale of supplies, such as poster paper, tape, etc., will be eliminated.

Furthermore, to comply with University policies on cash handling, the unit will adhere to the following procedures for all cash and cash equivalent collections including, but not limited to, payments received for registration fees, sales of supplies, and volunteer program deposits:

a) Deposits

All cash and check collections will be deposited at least weekly or whenever collections exceed \$500 as required by policy. Also, checks will be immediately endorsed upon receipt.

In addition, all deposits will be validated and prepared under dual custody at all times in a safe and secure area.

Furthermore, reconciliation of deposits will be performed in a timely manner and documented.

b) Separation of Duties

To comply with separation of duties, the cash handlers, who have been designated to validate and prepare deposits, will no longer be allowed to accept or receive cash or cash equivalents. In addition, the same cash handlers

will not be allowed to perform the reconciliation of the deposits to the general ledger.

c) Receipts/Invoices

All collections of cash and cash equivalents will be recorded on a pre-numbered, multiple-part cash receipt and will be used sequentially. In addition, a copy of the receipt will be provided to payers making an in-person payment and only to payers making payments through the mail when a receipt is requested. Lastly, the office end of day procedures will be performed daily to verify that all daily collections were submitted.

d) Voids and Refunds

Voids and refunds will be properly documented and explained as well as approved in writing by the supervisor at the time of occurrence. In addition, all refunds will require the signature and printed names of individuals receiving refunds.

e) Background Checks

Background checks will be scheduled as soon as possible for all required cash handlers that handle cash or cash equivalents where there is no record of a background check on file.

f) Change Fund and Verifications

If the unit will no longer accept cash payments for the sale of supplies, volunteer program deposits, etc., the current change fund of \$60 will be deposited. If a change fund is deemed necessary, the unit's authorized change fund custodian will contact the Accounting office to ensure that the change fund is properly established and issued. In addition, unannounced cash counts and verification of the change fund will be performed and documented at least quarterly, by someone other than the change fund custodian.

g) Training

In fiscal year 2020-2021, all cash handlers will be required to review the University policies on cash handling annually and an appropriate log will be maintained to document each cash handler's review. In addition, appropriate cash handling procedures will be established and implemented for adverse events such as natural disasters, other emergencies, etc.

The management action plan for cash handling will be completed by September 30, 2020.

2. Club Registration

Background

For several years, campus organizations have registered online through the Campus Organizations Administration System to submit required registration information and agreements. In addition, the system also tracks the registration progress from initiation to approval, time stamps the status of mandatory as well as optional training courses, and provides additional registration fee payment details.

Observation

During the course of this audit, IAS was given view access to the system in order to review the registration process for completeness, consistency, and timeliness. In addition, IAS performed a limited review of the controls to access the system. In this review, 33 club registrations were reviewed and the following is a summary of the observations.

Registration Review

IAS reviewed the registration process from initiation to approval and noted that six of 33 club registrations were not reviewed and approved in a timely manner. IAS noted that registration for the six clubs was reviewed and approved five to 12 weeks after they had submitted and completed the registration requirements.

Registration Requirements

Three club registrations were not properly reviewed and approved in July 2019. The clubs did not properly pay their registration fees or the fees were paid with checks that were not made payable to UC Regents. Therefore, at the time of deposit, the unit realized that the payments were unacceptable and returned the checks to the clubs. The clubs then properly paid the registration fees with checks made payable to UC Regents in November 2019.

Also, although all organizations are required to upload their constitution to the system, club registrations were approved without proper documentation. IAS noted that 22 of the 33 reviewed club registrations were approved as RCOs even though those clubs did not upload their constitution.

Access Controls

In addition to the above review, IAS reviewed the list of personnel with access to the system and noted controls were not properly established. The review disclosed that of the 92 individuals who currently have access to the system, 14 user accounts should have been deactivated due to non-employment at UCI and that one employee's last pay period was dated August 2016. Furthermore, IAS was unable to determine if 19 additional individuals with access still worked at UCI because only their UCInetIDs were noted on the list, not their first and last names.

Management Action Plan

A new platform, CampusGroups, will replace the system currently used for registration and will be utilized in the registration, review, and approval of campus organizations in fiscal year 2020-2021. CampusGroups will provide staff with better system tools allowing for improvements throughout the registration process. In addition, errors in registration approvals that existed with registration fee payments with cash and cash equivalents will be eliminated with the implementation of a proper workflow process and the ability to pay for registration fees with credit cards via TouchNet, which will be enabled with the new platform.

For the 2020-2021 registrations, although constitutions will be a required registration field, it will not be a factor for recognition. This will allow staff to review the constitution requirement at a later date, provide feedback, and give the campus organizations the opportunity to be intentional about their constitution decisions.

Also, in preparation for transitioning to the new platform, CampusGroups, the access level and status of all individuals in the current system will be reviewed and updated to ensure that only appropriate personnel are authorized to access CampusGroups. In addition, in future, the list of individuals granted access to CampusGroups will be reviewed and maintained in a timely manner as deemed appropriate.

By September 30, 2020, this management action plan will be completely implemented.