

October 25, 2018

Sharon Van Bruggen
DIRECTOR, UNIVERSITY CENTERS
0076

**Subject: *University Centers Operations
Report 2018-05***

The final report for University Centers Operations Report 2018-05, is attached. We would like to thank all members of the department for their cooperation and assistance during the review.

Because we were able to reach agreement regarding all management action plans 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. We will contact you at the appropriate time to evaluate the status of the management action plans.

UC wide policy requires that all draft reports be destroyed after the final report is issued. We also request that draft reports not be photocopied or otherwise redistributed.

David Meier
Director
Audit & Management Advisory Services

Attachment

cc: Judy Bruner
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UC San Diego

AUDIT & MANAGEMENT ADVISORY SERVICES

University Centers Operations
Report No. 2018-05
October 2018

FINAL REPORT

Performed By:

Tessa Melendez, Senior Auditor

Approved By:

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ATTACHMENT A – Audit Results by Student Life Business Office and Retail Operations Functional Process

I. EXECUTIVE SUMMARY

Audit & Management Advisory Services (AMAS) has completed a review of University Centers Operations as part of the approved audit plan for Fiscal Year 2017-18.

The objective of our review was to evaluate whether internal controls and sound business practices are in place to mitigate financial and compliance risk. The scope of our review included activities and business practices for Fiscal Year 2016-17 and for the period July 1, 2017 through January 31, 2018.

We concluded that improvement is needed to provide assurance that business operations were effective, performed in compliance with University policies and procedures, and resulted in accurate financial reporting. We identified areas for improvement related to procurement, timekeeping and payroll, documentation of key internal controls, and background checks. Management Action Plans to address our findings are summarized briefly below.

A. Procurement Practices

Department Management has:

1. Made adjustments to their Marketplace procurement practices to ensure purchase orders (PO) are requested prior to services being rendered.
2. Assigned and required all Express Card holders to complete a refresher training by August 10, 2018. Regular refreshers will be offered by the Student Life Business Office as part of their summer training series.

The Student Business Office:

3. Will ensure Express Card transactions are reviewed with more scrutiny to ensure purchases \$5,000 and over are not split and that every transaction is accompanied by a receipt. Approved exceptions to restricted purchases will be documented.
4. Has reviewed the approval hierarchy for Marketplace and ensured there are no subordinates with approval authority for their supervisors.

B. Timekeeping Practices

Department Management:

1. Is in the process of implementing the Kronos Time Keeping system for Starbucks¹ employees, which is an electronic system that requires both supervisor and employee review of biweekly timecards. Implementation roll out is expected fall 2018.
2. Has reminded staff of the deadlines for submitting and reviewing timecards for MyTime² employees and has added auto reminders to staff Outlook calendars.
3. Has credited the employee's vacation leave balances for the erroneous time charged in November 2017 and January 2018.
4. Provided a refresher training to all supervisors on pre-approving and documenting

¹ University Centers entered into a license agreement with Starbucks in July 2014. Unlike other food and drink vendors operating under a lease, Starbucks is run by University Centers employees and student workers.

² MyTime is a web-based application used by exception-time reporting employees to report payroll time records. These are salary roll employees who only submit time for overtime, leave without pay, compensatory time used, and leave (vacation and sick).

overtime.

C. Internal Controls

1. The Student Life Business Office has implemented a process to document supervisor approval of their monthly comparison of staff and general assistance salaries to budgeted amounts.

D. Background Checks

1. The Department has initiated a process for performing background checks on all future career employees.
2. The Student Life Business Office will initiate a process for performing background checks on all students with cash handling responsibilities.

Observations and related management action plans and recommendations are described in greater detail in section V. of this report.

II. BACKGROUND

Audit & Management Advisory Services (AMAS) has completed a review of University Centers Operations as part of the approved audit plan for Fiscal Year 2017-18. This report summarizes the results of our review.

University Centers operates under the Assistant Vice Chancellor (AVC) for Student Life, a division of Student Affairs and consists of the Price Center and Student Center. It is a student-centered organization whose mission “supports the UCSD community with quality facilities, services, and programs that foster and enrich the campus experience and student learning.” Through its University Centers Advisory Board (UCAB), it seeks student input in determining its policies, facilities, and services. University Centers is comprised of multi-use spaces including, but not limited to, ballrooms and performance spaces, meeting rooms, a game room, lounges, study rooms and computer labs, a learning center, a bank and ATMs, numerous quick-serve restaurants, a campus bike and skate shop, a movie theater, and student organization offices. In 2014, University Centers entered into a ten year licensing agreement with Starbucks. It is operated by University Centers and Student Life staff as well as student employees.

The Student Life Business Office serves University Centers and consists of the Business Officer for Student Life and Chief Financial Officer for University Centers and a number of support staff who serve both Student Life and University Centers including a Human Resources Manager and Coordinators, Performing Arts Event Business Manager, Financial Analyst, Business Manager, and Accounts Receivable. The Business Officer and Director for University Centers both report directly to the AVC for Student Life.

University Centers received the majority of its income from student fees, with the remainder comprised primarily of rent and overhead recovery:

| Facility Fee and Business Income FY 2016-17³ | Amount | Percent |
|--|---------------------|----------------|
| University Centers Fee Income | \$9,397,327 | 70% |
| Rent | 2,325,264 | 17% |
| Overhead Recovery | 866,120 | 7% |
| Reservations, Services, Tickets & Miscellaneous | 647,128 | 5% |
| Operation & Maintenance of Plant | 95,578 | 1% |
| Total | \$13,331,417 | 100% |

In FY 2016-17, salaries and benefits (including staff and student employees) made up the highest percentage of expenditures:

| FY 2016-17 Expenditures⁴ | Amount | Percent |
|--|---------------|----------------|
| Staff Salaries | \$2,750,898 | 22% |

³ From University Centers’ approved FY 2016-17 Budget.

⁴ Integrated Financial Information System

| | | |
|-----------------------------|---------------------|-------------|
| General Assistance Salaries | 1,155,513 | 9% |
| Benefits | 1,700,940 | 13% |
| Supplies and Expenses | 4,518,777 | 36% |
| Equipment | 36,833 | .29% |
| Travel | 41,476 | .33% |
| Transfers | 2,400,831 | 19% |
| Total | \$12,605,268 | 100% |

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

The objective of our review was to evaluate whether internal controls and sound business practices were in place to mitigate financial and compliance risk. The scope of our review included activities and business practices for FY 2016-17, and for the period July 1, 2017 through January 31, 2018. In order to achieve our objective, we performed the following:

- Reviewed the Department website, organizational structure, and financial information;
- Reviewed University policies including, but not limited to:
 - UC Accounting Manual,
 - UCSD Policy & Records Administration (PPM) 395.41: *Timekeeping: Attendance Records*,
 - UCSD PPM 523 Purchasing,
 - UC Personnel Policies for Staff Members 21: *Selection and Appointment*,
 - UC Business Finance Bulletin (BFB) BUS 29: *Management and Control of University Equipment*,
 - BFB BUS 43: *Purchases of Goods and Services; Supply Chain Management*,
 - BFB BUS 49: *Policy for Cash and Cash Equivalents Received*, and
 - BFB IA-101: *Internal Control Standards: Departmental Payrolls*;
- Reviewed UCSD BLINK guidance including, but not limited to:
 - Express card practices, purchasing, equipment, approval hierarchies, and internal control compliance;
- Interviewed management and key personnel to discuss business processes and potential areas of concern;
- Discussed background check policies and procedures for student workers with the Director of Business and Financial Services – General Accounting,
- Evaluated the following:
 - IFIS electronic financial approval hierarchies,
 - Business Unit Management Tool roles,
 - Express Card roles and responsibilities, and
 - Delegations of Authority;
- Evaluated business process controls utilizing internal control questionnaires and segregation of duties matrices;
- Reviewed custody and accountability over equipment;
- Verified the financial status of department funds and indices for the audit scope;

- Reviewed procedures for CANRA⁵ compliance; and
- Analyzed procedures and performed detailed transaction testing in the following areas to verify that internal controls were adequate and functioning in compliance with University policy:
 - Cash handling at Starbucks and the Bike & Skate Shop,
 - SAS 112 compliance,
 - Purchasing practices
 - Non-payroll expenditures,
 - Lease management, and
 - Timekeeping and Payroll.

The scope of our review did not include analysis of the information systems as there are no homegrown financial applications managed by the Department; all financial transactions are routed through Student Life to Student Affairs using ISIS⁶ and IFIS.

IV. CONCLUSION

Based on our review, we concluded that improvement is needed to provide assurance that business operations were effective, performed in compliance with University policies and procedures, and resulted in accurate financial reporting. We identified areas for improvement related to procurement, timekeeping and payroll, documentation of key internal controls, and background checks. These items are addressed in the remainder of this report.

Attachment A provides the results of the business and retail process review. Specific recommendations are noted for those areas that were rated “improvement needed” or “unsatisfactory,” as noted in the attachment. Our results are provided in more detail in the remainder of the report.

V. OBSERVATIONS REQUIRING MANAGEMENT ACTION

| | |
|--|------------------------------|
| A. | Procurement Practices |
| The Department did not always follow University policies regarding purchasing and procurement. | |
| Risk Statement/Effect | |
| Circumventing policies may lead to unauthorized or improper charges, excessive costs, fraudulent work or unauthorized work performed by suppliers. | |
| Management Action Plan | |

⁵ Child Abuse and Neglect Reporting Act

⁶ Integrated Student Information Systems

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|-----|--|
| | Department Management has: |
| A.1 | Made adjustments to their Marketplace procurement practices to ensure purchase orders (PO) are requested prior to services being rendered. |
| A.2 | Assigned and required all Express Card holders to complete a refresher training by August 10, 2018. Regular refreshers will be offered by the Student Life Business Office as part of their summer training series. |
| | The Student Life Business Office: |
| A.3 | Will ensure Express Card transactions are reviewed with more scrutiny to ensure purchases \$5,000 and over are not split and that every transaction is accompanied by a receipt. Approved exceptions to restricted purchases will be documented. |
| A.4 | Has reviewed the approval hierarchy for Marketplace and ensured there are no subordinates with approval authority for their supervisors. |

A. Procurement Practices – Detailed Discussion

Marketplace

During the scope of this audit, the Department submitted 22 payments for service from two vendors prior to placing a purchase order requisition and obtaining price quotes. University policy, which is based on California Public Contract Code, allowed negotiation for “transactions where the expenditures with a specific supplier does not exceed \$100,000 annually.” Transactions for both vendors did not exceed \$100,000 annually. However, the Department repeatedly, over a period of years, made commitments to vendors prior to determining that the price was reasonable, confirming that costs could reach the annual competitive bid threshold, or following University policy and processes. The vendors had provided quarterly janitorial cleaning services for floors and carpets in University Centers. In June 2018, after notification by UCSD Procurement, the Department began following University policy and submitting POs prior to the services being rendered.

Further, the Associate Director stated that the Department had recently been notified by Procurement that some vendors had been used for too long a period a time and that competitive bid policies would need to be utilized in future instances of needed-services. While competitive bids are not required when annual expenditures do not exceed \$100,000 annually, University Policy gives Procurement the authority to determine that “competition is necessary to develop a source, validate prices, or for other compelling business reasons.”

Our review also noted one instance in which a subordinate approved an expenditure for the Business Officer. In order to ensure an independent review, the person responsible for approving purchases orders should not be subordinate to the purchaser. A review of this transaction did not reveal that it was inappropriate or unjustified.

Express Cards

Express Card cardholders did not always provide proper and complete documentation. University policy requires cardholders to attach receipts to each transaction using the Express Card Attachment

Tool. We tested 25 transactions to review in detail. Of those, five did not have receipts attached. During our review, the Department provided receipts for four transactions, and they appeared to be reasonable purchases. The fifth transaction was related to an employee's home internet service provided as part of a previous work-from-home agreement. The Business Officer indicated that the Department had approved this monthly payment many years prior to this review to provide services for the employee to work from home and had ceased this practice in fall 2016. Our testing confirmed the last charge of this recurring payment occurred in August 2016.

We also noted one Express Cardholder who made a purchase of more than \$4,999 by splitting the invoice total of \$6,321.71 into two transactions. Express Card transactions of \$5,000 or more are restricted unless an exception is granted by UCSD's Business & Financial Services Disbursements unit based on certain parameters. An exception was not requested or granted for this purchase.

Our review noted one transaction where sales tax was charged to the purchase total. The financial system then charged use tax to the amount, resulting in a double charge of sales tax. The Department should have noted this error during monthly transaction reviews and applied for a use tax credit from Disbursements. However, we noted that no credit was requested.

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| B. | Timekeeping Practices |
| Payroll time records were not always approved by the employee's supervisor, and leave entries for one employee were not always accurate. Additionally, we noted that approval for overtime was not always documented. | |
| Risk Statement/Effect | |
| A lack of internal controls may allow unauthorized and inaccurate payroll and timekeeping transactions to be processed and overpayments to be made resulting in a loss of funds. | |
| Management Action Plan | |
| | Department Management: |
| B.1 | Is in the process of implementing the Kronos Time Keeping system for Starbucks ⁷ employees, which is an electronic system that requires both supervisor and employee review of biweekly timecards. Implementation roll out is expected fall 2018. |
| B.2 | Has reminded staff of the deadlines for submitting and reviewing timecards for MyTime ⁸ employees and has added auto reminders to staff Outlook calendars. |
| B.3 | Has credited the employee's vacation leave balances for the erroneous time charged in November 2017 and January 2018. |

⁷ University Centers entered into a license agreement with Starbucks in July 2014. Unlike other food and drink vendors operating under a lease, Starbucks is run by University Centers employees and student workers.

⁸ MyTime is a web-based application used by exception-time reporting employees to report payroll time records. These are salary roll employees who only submit time for overtime, leave without pay, compensatory time used, and leave (vacation and sick).

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| B.4 | Provided a refresher training to all supervisors on pre-approving and documenting overtime. |
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B. Finding Title – Detailed Discussion

Time Records

Timesheets for Starbucks employees were not signed by the employee or supervisor. University policy required that a Payroll Time Record (PTR) be distributed to employees and that employees submit the PTR to their respective supervisor for review and approving signature. At the end of each two-week pay period, the Supervisor printed out an Employee Time Card Detail report that listed all employees and their clock in and clock out times. The supervisor reviewed the report. However, the report was not signed by the employee or supervisor. The report was then submitted to HR who made handwritten notes to adjust the hours to the nearest quarter hour and notate instances of time off and overtime.

A review of timesheets for eight MyTime-reporting employees disclosed timesheets were not always submitted by the employee and approved by the supervisor for three employees. Further review revealed that one of these timesheets had vacation hours reported that exceeded daily limitations. The employee reported 16 hours of vacation leave on January 3, 2018 and 16 hours of vacation leave on January 4, 2018 for a total of 32 hours taken for two days. Each day should have only been reported as eight hours of vacation, totaling 16 hours. This employee had another timesheet where this occurred, and the timesheet was approved by his supervisor. His biweekly timesheet ending December 2, 2017 disclosed vacation leave taken of 24 hours on each of the following days: November 20, 21, and 22, 2017, totaling 72 hours of vacation taken for three days. Each day should have only been reported as 8 hours leave, totaling 24 hours.

Timesheets should be thoroughly reviewed for accuracy and approved by supervisors in accordance with policy and pay period deadlines.

Overtime Approval

The Department did not always document pre-approval for overtime for MyTime-reporting employees. University policy stipulates, “normally advance approval is required” and should be documented prior to an absence or overtime in the form of a Departmental Approval of Absence or Overtime (DAAO) or via alternate media. When it is not practical to submit the request prior to the event, “the form must be completed and submitted to the supervisor immediately after the absence or overtime worked and forwarded to the department timekeeper weekly.”

During detailed testing, we reviewed time records for 15 employees over a three month period. We noted two overtime events when approval was not documented. The employee indicated prior approval was not possible due to unforeseen circumstances. However, the department did not provide documentation to confirm the overtime was reported to the supervisor immediately following the overtime worked.

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| C. | Internal Controls |
| We noted the Student Life Business Office documented performance and certification of key internal control activities when they were not being performed. | |
| Risk Statement/Effect | |
| Internal controls that have been certified as performed, when they have not, indicates an absence of accountability in the Student Life Business Office. | |
| Management Corrective Action | |
| C.1 | The Student Life Business Office has implemented a process to document supervisor approval of their monthly comparison of staff and general assistance salaries to budgeted amounts. |

C. Internal Controls – Detailed Discussion

The Student Life Business Office was certifying tasks that had been performed in Control Tracker when they had not been performed. Statement of Auditing Standards No. 112 (SAS 112), "Communicating Internal Control Related Matters Identified in an Audit," is an accounting standard that establishes guidelines for classifying reportable internal control issues. SAS No. 115 supersedes SAS No.112 of the same title. University policy and prescribed guidelines from SAS 112/115 require departments to provide documented evidence that internal control activities are being performed on a regular basis as prescribed by SAS 112. Blink guidance outlines required key controls that a department must perform and certify, when applicable:

- Fiscal Operations Review
- Ledger Transaction Verification
- Overdraft Funds Review
- Effort Reporting⁹
- Payroll Expense Verification
- Reconciliation of Permanent Staffing List¹⁰
- Petty Cash and Change Fund¹¹
- Credit Card Activity
- Physical Inventory
- Individual Security Access

⁹ Not applicable to University Centers as they do not manage federally sponsored projects.

¹⁰ Not applicable as University Centers employees are non-core funded.

¹¹ Not applicable to University Centers as they do not maintain any petty cash or change funds.

Distribution of Payroll Expense (DOPE) Review

The Department did not document a monthly review of DOPE Reports. University policy requires that a staff member be assigned the task of reconciling payroll expenditures and must document that the monthly review has been performed by signing and dating the DOPE report or a reconciliation log (or similar record) maintained for this purpose. We noted the department did perform a monthly comparison of staff and general assistance salaries to budgeted amounts, but this process was not Documented, and supervisory approval was therefore not evident.

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| D. | Background Checks |
| Background checks were not performed for all employees, including students, in cash handling positions. | |
| Risk Statement/Effect | |
| The absence of background checks for critical positions impacts the University’s ability to provide security and safety for the campus population. | |
| Management Corrective Action | |
| D.1 | The Department has initiated a process for performing background checks on all future career employees. |
| D.2 | The Student Life Business Office will initiate a process for performing background checks on all students with cash handling responsibilities. |

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| D. Background Checks – Detailed Discussion |
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During our review, we noted that there were approximately 80 students with cash handling responsibilities, and that the students were hired without background checks. Additionally, the Department had not identified all critical positions of permanent staff with cash and cash equivalent handling responsibilities. The University performs background checks on potential employees in order to ensure a safe work environment and the protection of key organizational assets, including people, property, and information. UC Policy PPSM 21, Appointment, provides that job-related background checks are required for new-hires of critical positions. The policy offers examples of essential elements of critical positions that stipulate the need for a background check. Direct access to or responsibility for cash, cash equivalents, checks, credit/debit cards are defined as essential elements of a critical position. Further, BFB BUS 49 stipulates, “the campus must perform background checks prior to employing cashiers, cash handlers and individuals in other critical positions.” The Human Resources Manager and MSO confirmed that the unit did not perform background checks on students who handle cash. The Department did have a number of compensating controls regarding students who handle cash, including small cash tills, counting of cash drawers, reconciliations against the daily Point of Sales report, and verifications by both the employee and supervisor. However, there are no policy exceptions for temporary, casual and student employees, and the policy does not allow for department discretion in determining which employees receive background checks.

During our review, we also noted three employees involved in vendor rent check collection process who had not been identified by the Department as critical positions and had also not had background checks.

University Centers Operations
 Audit Results by Student Life Business Office and Retail Operations Functional Process
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| Student Life Business Office or Retail Operations ¹² Process | AMAS Audit Review Procedure | | | | Risk & Controls Balance Reasonable (Yes or No) | Audit Conclusion ¹³ | Comments |
|---|-------------------------------------|---|--|---|--|--------------------------------|---|
| | Analytical Review of Financial Data | Internal Control Questionnaire/ Separation of Duties Matrix | Process Walk-through (Ltd Document Review) | Transaction Testing (Sample Basis) | | | |
| Timekeeping & Payroll | √ | √ | √ | Reviewed timesheets, attendance records, and payroll information for a judgmentally selected sample of 15 employees. | No | Improvement Needed | Timesheets were not always signed/approved by the supervisor. Overtime approval was not always documented. |
| Purchasing Processes - Marketplace and Pay Authorizations | √ | √ | √ | Reviewed 25 judgmentally selected transactions; traced to supporting documents. Reviewed transactions for two janitorial vendors | No | Unsatisfactory | Separation of duties appeared adequate. However, our review disclosed past Marketplace procurement practices that circumvented University policy on vendor negotiation and competitive bids. Additionally, we noted one instance of a subordinate approving their supervisor's purchase was noted. |

¹² For Lease Management only

¹³ Scale: Satisfactory - Improvement Suggested - Improvement Needed - Unsatisfactory

University Centers Operations
 Audit Results by Student Life Business Office and Retail Operations Functional Process
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| Student Life Business Office or Retail Operations ¹² Process | AMAS Audit Review Procedure | | | | Risk & Controls Balance Reasonable (Yes or No) | Audit Conclusion ¹³ | Comments |
|---|-------------------------------------|---|--|--|--|--------------------------------|--|
| | Analytical Review of Financial Data | Internal Control Questionnaire/ Separation of Duties Matrix | Process Walk-through (Ltd Document Review) | Transaction Testing (Sample Basis) | | | |
| Purchasing Processes – Express Card | √ | √ | √ | Reviewed process and division management of express cards. Reviewed 25 judgmentally selected transactions; traced to supporting documents. | No | Unsatisfactory | Express card transactions were not always supported by supporting documentation. We noted one instance when a transaction was split to circumvent the \$4,999 limit, and an employee was paying for home internet charges based on an outdated department authorization. |
| Travel & Entertainment | √ | √ | √ | No | Yes | Satisfactory | Internal controls appeared reasonable. Low risk due to low number of travel and entertainment expenditures. |
| Operating Ledger Review & Financial Reporting | √ | √ | √ | Examined operating ledgers and financial reports. | Yes | Satisfactory | Department Managers complete a monthly ledger review for their unit. |

University Centers Operations
 Audit Results by Student Life Business Office and Retail Operations Functional Process
 Audit & Management Advisory Services Project #2018-05

| Student Life Business Office or Retail Operations ¹² Process | AMAS Audit Review Procedure | | | | Risk & Controls Balance Reasonable (Yes or No) | Audit Conclusion ¹³ | Comments |
|---|-------------------------------------|---|--|---|--|--------------------------------|--|
| | Analytical Review of Financial Data | Internal Control Questionnaire/ Separation of Duties Matrix | Process Walk-through (Ltd Document Review) | Transaction Testing (Sample Basis) | | | |
| Equipment Management | √ | √ | √ | Reviewed inventory listing and most recently completed campus inventory. | Yes | Satisfactory | The financial controls over purchases appeared adequate. A physical inventory is completed every two years in accordance with policy. |
| Cash and Recharge | √ | √ | √ | Tested cash handling procedures for Starbucks and the Bike & Skate Shop including observance of cash count, safe review, and cash handling processes. | Yes | Improvement Needed | Internal controls and separation of duties appear adequate. However, background checks are not being completed. |
| Third-party Lease Management | √ | n/a | √ | Reviewed five leases, FY17 rent payments and deposits, and aging reports. | Yes | Satisfactory | Separation of duties appeared adequate. There were few instances of late rent receipts, and departmental procedures were followed in response. |