UNIVERSITY OF CALIFORNIA, IRVINE
ADMINISTRATIVE AND BUSINESS SERVICES
INTERNAL AUDIT SERVICES

BREN EVENTS CENTER
Report No. 2012-101

September 30, 2011

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September 30, 2011

DANIEL SPITZER
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BREN EVENTS CENTER

RE: Bren Events Center
Report No. 2012-101

Internal Audit Services has completed the review of the Bren Events Center 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.

Bent Nielsen
Director
UC Irvine Internal Audit Services

Attachment

C: Phil Wang, Senior Associate Athletic Director - Business Affairs
   Paul Hope, Senior Associate Athletic Director - Facilities & Operations
   Audit Committee

I. **EXECUTIVE SUMMARY**

In accordance with the fiscal year 2011-12 audit plan, Internal Audit Services (IAS) reviewed the adequacy of internal controls, policy compliance, and information technology (IT) operations for the Bren Events Center located on the campus of the University of California, Irvine (UCI). Business risks and control concerns were identified. Specifically, the following issues were noted.

Cash Handling Procedures – Refunded and voided transactions are not adequately documented and reviewed. Control procedures to ensure an adequate separation of duties was not maintained. Adequate physical security measures were not implemented. These observations are discussed in section V.1.

Budget and Accounting Control – The general ledgers were not adequately reviewed and reconciled. Adequate business practices were not established to ensure that recharges and event settlements were properly documented, reviewed, and reconciled for accuracy. These observations are discussed in section V.2.

Payroll – The student payroll hours were incorrectly entered into the Personnel Payroll System. The incorrect pay rate was selected for student overtime pay. The incorrect quadri-weekly pay cycles were used to calculate the holiday hours. As a result, many students were under- and overpaid. Furthermore, the payroll ledgers are not reconciled. These observations are discussed in section V.3.

Non-Payroll Expenditures – Proper supporting documentation was not maintained for purchases. Transactions were not authorized/approved prior to purchase. The Interim Director's purchases were reviewed/approved by a subordinate. Invoices were not paid on a timely basis. These observations are discussed in sections V.4 and V.5.

Human Resources – Personnel files were incomplete and not maintained as required per policy. Central Human Resources (HR) background check clearance emails were not filed in the employees' personnel files to document background check clearance. Written performance evaluations were not completed on an annual basis for all staff employees and the performance evaluation code was not entered into the Payroll Personnel System (PPS). These observations are discussed in section V.6.

IT Operations – To strengthen their IT environment, IAS suggests developing and implementing a formal physical and environmental security process as well as documenting business continuity and disaster recovery plans. These observations are discussed in sections V.7 and V.8.

II. BACKGROUND

The Bren Events Center (Bren) is a modern arena located on the campus of UCI. The arena floor covers 22,000 square feet of useable space and has a seating capacity up to 5,682 for concerts and 4,952 for sporting events. In fiscal year 2010-11, over 100 events ranging from concerts, lectures, large meetings, banquets, exhibitions, sporting, and other public events were held at the center.

The Bren has nine full time equivalent staff along with many student workers and contractors who work together to provide various services (selling tickets, ushering, setting up lighting and sound, etc.) for events. The ticket office in the Bren handles ticket sales either in person, by mail, or telephone. In addition, tickets are also sold online through a system linked directly with Paciolan, which replaced Ticketmaster in July 2011.

III. PURPOSE, SCOPE AND OBJECTIVES

The purpose of the audit was to review internal controls, policy compliance, and IT operations from January 2010 to present. Based on the assessed risks in the Bren, the following objectives were established:

1. Verify if the required general, confidential, payroll, and medical documents are properly maintained and filed in personnel records;

2. Determine whether the following aspects of employee time reporting: overtime approval, payroll ledger reconciliations, as well as sick and vacation balance tracking comply with University policy;

3. Review non-payroll expenditures for proper approval and supporting documentation in compliance with University policy;

4. Evaluate inventory tracking procedures and sample inventorial items to ensure appropriate UCI tagging and location;

5. Evaluate whether there are adequate controls over budgeting and accounting;

6. Review cash handling procedures to determine evidence of controls and that assets are properly safeguarded; and

7. Review selected IT operations.

IV. CONCLUSION

In general, the department processes reviewed appear to be functioning as intended. However, business risks and control concerns were identified in cash handling procedures, ledger reconciliation, payroll expenditures, non-payroll expenditures, personnel records, and IT operations.

Observation detail and recommendations 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

University departments that handle cash must comply with financial policies that comply with state and federal law, and that incorporate recognized best practices for prudent oversight of the University's financial assets. The policies related to handling and processing cash and cash equivalents, and defined roles and responsibilities related to receipt, safeguarding, reporting and recordkeeping for all University cash and cash equivalents is established in Business and Financial Bulletin Section 49: Policy for Cash and Cash Equivalents Received (BUS-49). Compliance to this policy helps ensure that University assets are protected, accurately and timely processed, and properly reported.

Observation

Refunds/Voids

Refunded and voided transactions are not adequately documented. IAS reviewed a sample of transactions and noted that refunded/voided ticket documentation was missing and the transactions had not been adequately reviewed/approved in writing by the supervisor.

University policy requires voids and refunds to be fully documented and explained as well as approved in writing by the supervisor. Inadequate management of refunded/voided transactions increases the risks of fraudulent transactions being processed subjecting the University to unnecessary financial loss.

Separation of Duties

Control procedures that ensure an adequate separation of duties is maintained over Bren cash handling processes need improvement. The person authorized to process refunds/voids also processes cash transactions and prepares deposits. In addition, prepayments and deposits mailed to the department are not handled by two employees in accordance with policy.

BUS-49 states that the business unit head is responsible for establishing procedures that ensure that no single individual is responsible for 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 a diversion of University funds.

Physical Security

IAS noted the following issues related to the physical security of cash.

1. The vault room door was not locked and secured, but instead propped open during business hours.

2. The key to the inner box of the safe, where cash is locked, was not safely secured. This key is maintained in a key box located in the vault room. However, the key box was not locked at all times.

3. The safe combination was not changed when a person who knew the combination left the unit. In addition, the combination has not been changed at least annually as per policy.

4. A record of the combination, sealed and opened only under double-custody to prevent undetected access, was not maintained.

5. Although a department key log is maintained, the log does not document the dates when keys were issued or returned. Also, the log is not a historical record that documents all current and past employees who had access to secured areas.

6. Cash handling training was not provided as required per policy at least once per year for all cash handling employees to refresh knowledge concerning policies, procedures and techniques and to provide updated information on internal and external policies.

Adequate security procedures are critical to safeguarding assets as well as preventing unauthorized access and protecting employee safety.

Management Action Plan

Refunds/Voids

All void and refund transactions will be properly accounted for in a timely manner with supporting documentation including the tickets stamped "void" or "refund", detailed Paciolan system report, an explanation noting the reason for the transaction, and the signature and date of the person performing the transaction. The supervisor will review the transactions for appropriateness and document the transaction review and approval with a signature and date. In addition, all void and refund transaction documentation will be stored in the vault.

Separation of Duties

Proper separation of duties will be implemented by November 1, 2011. Daily deposits will be prepared by personnel who have not handled cash transactions including voids and refunds on the same day. In addition, deposits will be prepared in dual custody and reviewed by the supervisor.

Physical Security

Prior to December 1, 2011, the following business practices will be implemented to further secure University funds:

1. The vault room door is now locked and secured during business hours;
2. The safe combination was changed on September 9, 2011;
3. A record of combination is now maintained and sealed, and in the future will only be opened under dual custody;
4. The key box is now locked at all times;
5. The key log has been modified to include the dates when keys are issued and returned by authorized personnel; and
6. Annual cash handling training for continuing employees will be required as a refresher course.

2. Budget and Accounting Control

General Ledger Reconciliation

Background

University policy states that each manager, who is directly responsible for the financial affairs of a school, department/unit, or office, is required to monitor and verify transactions in order to reconcile balances monthly to the general ledger. This procedural requirement ensures the appropriateness and accuracy of all financial transactions applied to the ledger. In addition, the unit has the obligation of maintaining signed documentation of this review to ensure that they adhere to internal control procedures.

Observation

After discussions with management and staff and reviews of various ledgers, it was determined that the ledgers were not adequately reviewed and reconciled. IAS noted that none of the ledgers reviewed contained documentation such as initials, dates, or tick marks to substantiate that reconciliations were performed.

Department Recharges and Event Settlements

Background

A recharge is the cost charged to a University department, unit, activity, or project for specific goods or services provided by another University department, unit, activity or project. A recharge transaction is appropriate when a department has incurred expenses to make available a product or service which is sold to another department for an established price, or at a price based on an established standard pricing method.

For events held at the Bren, an agreement is signed between the event promoter and the University. The financial terms of the agreement calls for the promoter to submit rent payments and the estimated expense deposit for use of the Bren prior to the event date. In addition to the use of the Bren, the University provides all personnel and services, such as administrative staffing, ticket sellers, ushers, emergency medical technician, sound and lighting technicians, etc., in connection with the event held at the Bren. At the conclusion of the event, an event settlement is calculated by applying the rent and all event expenses against the deposited payment amount and ticket sales receipts, if applicable, and any remainder amount will be returned to the promoter.

Observation

After discussions with management and staff and detailed reviews, it was determined that the unit did not have an adequate process to document, review, and reconcile recharges and event settlements to ensure accuracy. IAS found multiple errors related to custodial recharges when invoices were reconciled to custodial sign-in sheets. In addition, IAS compared pre-established Bren staffing hourly rates to event settlement documentation and noted several differences in the hourly rates that were assessed.

Reconciliations are integral to ensure that financial information is complete, accurate, and valid. Failure to perform reconciliations may result in undetected errors or unauthorized use of University funds.

Management Action Plan

General Ledger Reconciliation

As of December 1, 2011, the general ledger for the Bren will be reconciled as appropriate within University policies and procedures. The following procedures will be performed:

1. The Assistant Director will reconcile all general ledger entries on a monthly basis. The review will be documented with initials and the review date;

2. The Interim Director or Director will review and approve the reconciliation. The approval will be documented with initials and the review date.

Department Recharges and Event Settlements

As of December 1, 2011, all event staffing charges will be supported with appropriate documents and later reviewed and reconciled. The following procedures will be performed:

1. The event manager will properly support, document, and review all event staffing charges for each event. The review will be documented with initials and the review date;

2. The Assistant Director will review and reconcile the event staffing charges for final event settlement. The review and reconciliation will be documented with initials and the review date;

3. The Director will review and approve the final event settlement and document the approval with initials and review date.

In addition, a secondary review will also be performed for the monthly staff payroll expenses entered into the Payroll System.

4. PALCard Purchases

Background

The UCI purchasing card (PALCard) is used by faculty and staff who have buying responsibilities to purchase equipment, supplies and services. UCI PALCard policies require supporting documentation for each transaction. UC purchasing policies require purchases to be pre-authorized either through a purchase requisition or some other form of documentation, such as an email. In addition, a reviewer must review the PALCard supporting documentation and account/fund for appropriateness in a timely manner and attach appropriate reviewer documentation.

Observation

IAS analyzed PALCard processes from January 2010 to June 2011 and selected a sample of 13 transactions for review, and noted the following:

- Two of 13 were not supported with a receipt;

- Three of 13 transactions did not have an internal requisition or some other form of pre-approval for the purchase;

- All of the Interim Director's PALCard purchases were reviewed/approved by a subordinate.

Proper authorization, documentation, and approval of transactions reduces the risk of inappropriate expenses or unauthorized use of University funds.

Management Action Plan

As of December 1, 2011, all PALCard holders will be required to obtain approval from their supervisors prior to purchases. The Bren Director will be required to obtain approval from the Senior Associate Athletic Director prior to all PALCard purchases. All PALCard holders will be required to submit receipts to the Bren Assistant Director within three days of the purchase. The Assistant Director will continue to review all PALCard transactions.

5. PayQuest Reimbursements

Background

PayQuest is UCI's on-line check request system that is used to reimburse expenses to employees incurred during University business, including but not limited to business meetings, supplies and materials, and travel. To insure compliance with University policies, required supporting documentation must be submitted with the reimbursement claim form. In addition to the University policies, the reimbursements must also comply with University of California Office of the President (UCOP) Business and Finance Bulletins 79, Expenditures for Business Meetings, Entertainment, and Other Occasions and G-28, Policy and Regulations Governing Travel. IAS reviewed a sample of PayQuest reimbursements to determine compliance with the above local and UCOP polices.

Observation

IAS reviewed ten PayQuest reimbursements from July 1, 2010 to June 30, 2011 for appropriateness and compliance with policy. The following is a summary of the observations:

- One of ten transactions reviewed was not properly approved. The Bren Interim Director's travel reimbursement was approved by his subordinate;

- One of ten transactions reviewed were not properly supported. An exceptional justification for lodging and meal was not provided where the travel destination was not more than 50 miles from where the traveler began the trip;

- Two of ten reimbursements reviewed were not submitted on a timely basis (more than six weeks after the invoice date).

For all ten reimbursements reviewed, the preparer was also the approver or payee. Allowing the preparer to also be the approver or payee weakens the control structure and increases the potential for errors/inaccuracies and fraud to go undetected.

Management Action Plan

As of December 1, 2011, the Bren Director will obtain approvals from the Senior Associate Athletic Director for all PayQuest reimbursements. All transactions will be properly documented with notes and justification as required. All expenses paid through PayQuest will be processed in a timely manner, within four weeks of the invoice date. In addition, the Assistant Director will continue to

prepare and reconcile all PayQuest transactions, but in the future, approvals will be obtained from the Director.

6. Human Resources

Background

UCI departments are responsible for ensuring compliance with personnel records management requirements. The requirements include that all required personnel documents are complete and placed into the four separate and distinct files: general employee, payroll, medical, and confidential.

UCI Administrative Policy Sec. 300-10 states that background checks be completed on critical positions. UCI policy on performance appraisal states that the performance of each employee shall be appraised at least annually in writing by the employee's immediate supervisor.

Observation

Personnel Files

IAS reviewed four of seven Bren Events Center personnel records to determine if the records are complete and appropriate. The following is a summary of the observations:

- Two of four personnel records reviewed did not include an Oath & Patent;
- None of the job descriptions were signed;
- Two of four personnel files reviewed did not include a signed application;
- None of the I-9 forms were maintained in a confidential file as required; and
- None of personnel records reviewed were organized into separate files as required by policy.

Background Checks

Two of the four personnel files sampled did not have a copy of Central Human Resources (HR) background check clearance email. The email should be filed in the employee's personnel file to acknowledge background check clearance. IAS discussed the issue with HR, who was unable to determine if the employees had cleared background checks. The University believes that background checks provide a safer environment for people, property, and information at the University.

Performance Evaluations

Written performance evaluations were not completed on an annual basis for all staff employees. Two of the six staff employees reviewed did not have a performance evaluation code documented in the EVAL field in PPS to record departmental compliance with this policy. After discussions with Bren HR, it was determined that performance evaluations for three staff employees had not been performed. Failure to conduct performance evaluations may result in unimproved productivity and performance.

Management Action Plan

Personnel Files

As of December 1, 2011, all personnel files for the Bren will be organized as required and corrected to include the identified missing personnel records.

Background Checks

As of September 30, 2011, background checks will be completed for all required staff and supporting documentation will be filed in the personnel files.

Performance Evaluations

As of September 30, 2011, performance evaluations will be completed for each employee and filed in the personnel files. In addition, the performance evaluation codes will be entered into PPS.

7. **Physical and Environmental Security**

Background

Protection for computer equipment and personnel requires well-designed and well-managed physical facilities. The process of managing the physical environment includes defining the physical site requirements, selecting appropriate facilities, and designing effective processes for monitoring environmental factors and managing physical access. Effective management of the physical environment reduces business interruptions from damage to computer equipment and personnel. Such controls include guards, video surveillance, gates, and locks, and also environmental controls such as smoke detectors, fire alarms and extinguishers, and uninterruptible power supplies.

Observation

Discussions with the Technical and Events Manager of the Bren indicate that a formally documented process to maintain restricted access to the server room for authorized individuals does not exist.

During a walkthrough of the server room at the Bren we noted that while the servers were behind two locked doors, proper access and environmental controls were not in place to detect and contain environmental threats. For example, the following controls were not in place: access mechanisms to log access, intruder alarm, smoke and fire alarm, water and moisture alarm, video surveillance and UPS. The server room also needed to be cleaned and organized.

Management Action Plan

Bren Events Center management agrees to implement the following:

Bren management will relocate the three servers from the Bren computer room to the Central Plant server room. The target date is February 2012. Meanwhile, Bren management has cleaned and organized the current computer room and installed a hand held fire extinguisher.

8. **Business Continuity and Disaster Recovery**

Background

Business continuity and disaster recovery plans involve the identification, selection, implementation, testing, and updating of processes and specific actions necessary to prudently protect critical business process from the effect of major system and network disruptions and ensure the timely restoration of business operations if significant disruptions occur.

Observation

Bren does not have a documented business continuity plan. In addition, while there was a documented disaster recovery plan, the plan had not been update to reflect the current environment and lacked some key elements necessary for a successful recovery in the event of a major disruption.

Management Action Plan

Bren management agrees to implement the following:

- Create a UC Ready plan for the Bren;

- Update the current disaster recovery plan for the Bren primary systems, including coordinating the plan with Paciolan's for the recovery of the Paciolan Ticketing system;
- Periodically (Quarterly) test the ability to restore primary systems as planned should a disaster occur; and
- Date to complete implementation of all action items: December 1, 2011.