

October 10, 2016

DENISE DARLING
Manager, SIO Department
0208

**Subject: *SIO Department Business Processes
 Report 2016-11***

The final report for SIO Department Business Processes 2016-11, 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 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

SIO Department Business Processes

Report No. 2016-11

October 2016

FINAL REPORT

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TABLE OF CONTENTS

I. EXECUTIVE SUMMARY 3

II. BACKGROUND..... 5

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES 5

IV. CONCLUSION..... 6

V. OBSERVATIONS REQUIRING MANAGEMENT ACTION 7

 A. Expense Approval Hierarchies 7

 B. Separation of Duties 8

 C. Timekeeping Practices 8

 D. Travel 9

 E. Expense Transfers 10

 F. Transaction Sampling..... 11

 G. CANRA Reporting 12

I. EXECUTIVE SUMMARY

Audit & Management Advisory Services has completed a review of Scripps Institution of Oceanography (SIO) Department (Department) Business Processes. The objective of our review was to determine whether internal controls and sound business practices were in place to mitigate financial and compliance risk. The scope of our review included activities for Fiscal Year (FY) 2014-15, and for the period July 1 through April 30, 2016.

We concluded that key internal controls were generally adequate and provided reasonable assurance that operations were effective, performed in compliance with University policies and procedures, and resulted in accurate financial reporting. However, we did observe a number of instances in which limited staffing resources in the Department impacted control and oversight in the areas of expense approvals and separation of duties. For example, the Financial Analyst was responsible for preparing procurement documents, receiving materials, matching purchase order information to receiving documentation and invoices, and verifying invoice accuracy. During detailed testing, we noted five instances of purchase orders that were prepared by the same employee who received the materials. Additionally, we noted that approval templates for a number of high risk transactions were not in place, including travel and entertainment expenditures. Other department templates allowed approval by an employee who reports directly to the Manager, due to the limited Department staffing resources. We identified additional opportunities for increased compliance in expense transfers, transaction sampling, timekeeping, travel expenditures, and CANRA¹ reporting.

Issues noted in our review and staffing resources needed to effect internal controls will be evaluated in the context of a department reorganization. Following are specific internal control improvements.

Management Action Plan

A. Expense Approval Hierarchies

The Department will:

1. Update approval templates to include secondary department approval for high risk items.
2. Update approval templates to ensure approving authority is at the supervisor of (or at a higher classification than) the person claiming the expenditure.
3. Remove approval templates and Marketplace shopper roles for former department employees and regularly review the approval templates and shopper roles to ensure that information is accurate and up to date.

B. Separation of Duties

The Department will review staffing responsibilities and evaluate ways to improve separation of duties.

¹ The Child Abuse and Neglect Reporting Act.

C. Timekeeping Practices

The Department will incorporate an email process to document preapprovals for time off and overtime.

D. Travel

The Department will remind all persons traveling on University business that travel should be pre-authorized, reimbursements submitted timely, and supported by the required receipts.

E. Expense Transfers

The Department will ensure that expense transfers are conducted timely and are appropriately documented.

F. Transaction Sampling

The Department will ensure that all sampled transactions are appropriately reviewed and documented on a timely basis.

G. CANRA Reporting

The Department will ensure that all staff interacting with minors are classified as mandated reporters. In addition, the Department should provide its staff with additional educational opportunities regarding CANRA compliance.

Observations 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 Scripps Institution of Oceanography (SIO) Department (Department) Business Processes as part of the approved audit plan for FY 2015-16. This report summarizes the results of our review.

SIO is an academic department of the University of California San Diego (UCSD) with a focus on marine and earth science research and education. SIO offers three Doctoral programs, two Master of Advanced Studies (MAS) programs, three Master Science programs, and an Undergraduate program that includes both degrees and minors. The Department operates under the Vice Chancellor of Marine Sciences and provides administrative support to SIO academics and more than 700 students.

The Department receives more than 90% of their revenue from MAS program fees, with conference income and laboratory course fees making up the difference. The revenue is used to support the Department's operational activity including fiscal management of the departmental budgets, faculty and staff recruitment, gift management, graduate and undergraduate student affairs, and academic/staff/student human resources.

The Department business office includes a small staff of eight: a Manager, a Student Affairs Supervisor, a Lead Graduate Coordinator, a Graduate Coordinator, a Human Resources/Academic Personnel (HR/AP) Specialist, a Student Affairs Assistant, a Financial Analyst, and a Graduate Program Coordinator. There are also two staff in undergraduate education who split their time between the Department and the Physical Sciences Department: the Assistant Director-Undergraduate Education and a Student Affairs Assistant. Due to the small number of employees in the Department, responsibilities for internal controls and business activities are handled primarily by the Manager and Financial Analyst. Issues noted in our review and staffing resources needed to effect internal controls will be evaluated in the context of a department reorganization.

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

The objective of our review was to review the Department's business office practices and determine 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 2014-15, and for the period July 1, 2015 through April 30, 2016. In order to achieve our objective, we performed the following procedures to date:

- Reviewed system-wide and local policies, including, but not limited to:
 - University of California (UC) Business and Finance Bulletin (BFB) BUS-29: *Management and Control of University Equipment*,
 - UC BFB BUS-49: *Policy for Cash and Cash Equivalents Received*,
 - UC BFB BUS-43: *Materiel Management*,
 - UC BFB G-28: *Travel Regulations*,
 - UC BFB IA-101: *Internal Control Standards: Department Payroll*,
 - UCSD PPM: *Overdraft Policy*,

- UCSD Blink guidance and links to policies including but not limited to Express Card practices, Travel, Purchasing, and Meetings and Entertainment,
- Interviewed the following SIO personnel:
 - Assistant Vice Chancellor for Administration, and
 - Director of Budget and Finance for the VCMS Business Office,
- Interviewed the following Department employees to discuss business processes and potential areas of concern:
 - Manager,
 - Financial Analyst,
 - Student Affairs Supervisor, and
 - HR/AP Specialist;
- With assistance from the Manager and Financial Analyst, completed and reviewed the separation of duties matrix and internal control questionnaires for key business activities;
- Analyzed departmental organizational and financial information and reports, including the Transaction Sampling Management Report, Control Tracker activity, overdraft reports, operating ledgers and expanded budget summaries;
- Analyzed procedures and performed limited transaction testing in the following areas to verify that internal controls were adequate and functioning in compliance with University policy:
 - Transaction Processing – Non-Payroll Expenditures,
 - Timekeeping & Payroll,
 - Travel,
 - Payroll Expenditure Transfers (EPETs),
 - Non-Payroll Expenditure Transfers (ENPETs),
 - Operating Ledger Review & Financial Reporting, and
 - Equipment Management.

Academic personnel functions are primarily managed within SIO's Associate Dean of Academic Affairs (ADAA) office. Academic personnel processes for both the Department and the ADAA office are covered within audit report 2017-28 and are not included within the scope of this review.

IV. CONCLUSION

Based on our review, we concluded that the Department internal controls were generally adequate and provided reasonable assurance that operations were effective, performed in compliance with University policies and procedures, and resulted in accurate financial reporting.

We observed that the Department Manager and Financial Analyst worked diligently to ensure business processes were as efficient as possible considering their limited staff resources. However, we did identify opportunities for improvement in expense approvals, separation of duties, time reporting, travel, expense transfers, transaction sampling, and CANRA² reporting. These issues are discussed in more detail below.

² The Child Abuse and Neglect Reporting Act.

V. OBSERVATIONS REQUIRING MANAGEMENT ACTION

A.	Expense Approval Hierarchies
Expense approval hierarchies were not established to ensure compliance with University policy.	
Risk Statement/Effect	
The establishment of appropriate approval hierarchies helps to ensure segregation of responsibilities and increased probability that transactions comply with University policy.	
Management Action Plan	
	In conjunction with the Department reorganization effort, the Department will:
A.1	Update approval templates to include secondary department approval for high risk items.
A.2	Update approval templates to ensure approving authority is at the supervisor of (or at a higher classification than) the person claiming the expenditure.
A.3	Remove approval templates and Marketplace shopper roles for former department employees and regularly review the approval templates and shopper roles to ensure that information is accurate and up to date.

A. Expense Approval Hierarchies – Detailed Discussion

University policy provides that approving authority should be the supervisor of (or at a higher classification than) the person claiming the expenditure. While reviewing Integrated Financial Information System (IFIS) approval templates for the Manager, we noted there was not a designated secondary departmental approval for a number of high risk transactions including purchase orders, travel authorizations, and entertainment. This created a condition where the document preparer could complete a transaction without a second department member reviewing the transaction. In addition, we noted that the travel template and Express Card approval authority for the Manager allowed a subordinate to approve her expenses.

Our review of Department approval templates also disclosed one employee, who transferred out of the Department, had not yet been removed from the template. IFIS document approval templates should reflect current Department personnel to ensure that transactions are initiated and approved appropriately.

During our testing of purchasing transactions, we identified one purchase order initiated by the Manager in FY 2014-15 that was approved by a staff member who reported directly to the Manager. Additionally, we identified two expenditures by the Department Chair in FY 2015-16 that were approved by the Manager who reported directly to him. Expenses should be approved by the employee's supervisor or someone at a higher administrative level.

The Business Unit Management Tool (BUMT) manages certain roles including Marketplace shoppers and approvers. Our review of the Department’s Marketplace BUMT roles revealed persons assigned as shoppers who were no longer affiliated with the department as either an employee or student. BUMT roles need to be updated timely to ensure all transactions are appropriate.

B.	Separation of Duties
During our review we noted inadequate separation of duties.	
Risk Statement/Effect	
Inadequate separation of responsibilities may result in increased opportunities for fraud and errors.	
Management Action Plan	
B.1	In conjunction with the reorganization effort, the Department will review staffing responsibilities and evaluate ways to ensure the separation of duties.

B. Separation of Duties – Detailed Discussion

Separation of duties is a key internal control for ensuring that individual employees do not complete transactions in their entirety. This provides some assurance that activities are bona fide University transactions.

During our review we noted that one employee was responsible for preparing procurement documents, receiving materials, matching purchase order information to receiving documentation and invoices, and verifying invoice accuracy. During detailed testing, we noted five instances of purchase orders that were prepared by the same employee who received the materials. Adequate separation of responsibilities provides assurance that one individual does not control all components of a transaction cycle.

C.	Timekeeping Practices
During our review of timekeeping practices, we noted that pre-approval for overtime and time off was not consistently documented.	
Risk Statement/Effect	
A lack of internal controls for time keeping may allow unauthorized payroll transactions to be processed and overpayments to be made resulting in a loss of funds.	
Management Action Plan	

C.1	As a best practice, the Department will incorporate an email process to document pre-approvals for overtime and time off.
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C. Timekeeping Practices – Detailed Discussion

University policy requires pre-approval by an employee’s supervisor for both overtime and vacation leave. While policy does not specify that pre-approval be documented, UCSD’s Administrative Responsibilities Handbook (Administrative Handbook) offers additional guidance on administrative responsibilities. Specifically, “each administrative official is accountable for ensuring that appropriate controls are in place in their respective areas of responsibility, and that their areas are operating effectively.” Control activities are described as those “activities performed by the organization to ensure compliance with sound business practices.” The Administrative Handbook further stipulates that control activities be documented.

Overtime

During our review of reported overtime, the Department was not always able to provide documentation to support pre-approval. Employee timesheets reflected overtime worked and were approved by the Supervisor after the fact.

The Department Manager indicated overtime procedures for the Department required all overtime be pre-approved, but stated that they did not require supporting documentation for pre-approvals. She noted several instances where overtime pre-approval was given verbally.

Time off

According to the Manager, the Department also requires all time off to be pre-approved. In instances of unscheduled sick leave, employees are required to make contact with a supervisor. Similar to the Department overtime policy, pre-approval for leave may be given verbally, by email, or via text message in some cases. During our review, we were unable to verify pre-approval had been given for time off documented on employee timesheets. In one instance, the employee notified the Manager that 34 hours of time off he reported on his timesheet for the sampled period had been approved verbally.

In order to validate pre-approval for time off and overtime and ensure compliance with sound business practices, the Department should update its procedures to include obtaining written pre-approvals.

D. Travel

Our detailed review of travel transactions disclosed that some travel was not always pre-authorized and reimbursements were not submitted in a timely manner. In addition, supporting documentation for an airfare-related service fee was not available.

Risk Statement/Effect	
Inadequate controls for travel expenses increase the risk of inappropriate reimbursements.	
Management Action Plan	
D.1	The Department will remind travelers that all University travel should be pre-authorized, reimbursements submitted timely, and supported by the required receipts.

D. Travel – Detailed Discussion

University policy governing travel requires all official UCSD travel to be preauthorized, submitted timely (within 21 days of travel), and to be properly supported³. During our review, we sampled 10 travel reimbursements totaling approximately \$67,000, and noted three of the ten trips were not preauthorized. In addition, we noted six of the trips were submitted after 21 days of the end of the trip, and two of the six trips were submitted greater than 45 days after the trip end date, which could impact the employee's taxable income. In one instance, we noted an airfare-related charge of \$34 that was not supported with a receipt.

The Department's travel population includes students and outside speakers in addition to staff and faculty. Student travel is typically approved at the time the funds are awarded, although specific trip details are not known at the time of the award. Pre-authorization in MyTravel is processed when a trip destination and date estimates have been identified; therefore, the pre-approval can not always be documented within MyTravel. The Department does track pre-approval for student travel outside MyTravel via a shadow system. Further, the Department indicated it has been difficult to induce adherence to policy among student travelers who may not request reimbursement until the end of the quarter after all travel has been completed.

Additionally, outside speakers are not familiar with University policy, and may not always adhere to preauthorization and deadline requirements.

In order to ensure all travel-related reimbursements are for official University business and compliant with policy, travel should be pre-authorized, submitted timely, and properly supported.

E.	Expense Transfers
Expense transfers were not always conducted timely or appropriately documented.	
Risk Statement/Effect	
Untimely expense transfers may indicate reconciliation issues or other potential internal control	

³ Receipts are required in all instances for airfare, lodging, registration fees, rental cars, and any expense greater than \$75.

weaknesses. Additionally, incomplete explanations do not provide a detailed audit trail.

Management Action Plan

E.1	The Department will ensure that expense transfers are conducted timely and are appropriately documented.
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E. Expense Transfers – Detailed Discussion

A cost (expense) transfer occurs when expenses are moved from one accounting distribution to another after they have been recorded in the operating ledger. Blink guidance states that when processing cost transfers, specific procedures must be followed to fulfill federal, state, and University requirements. In addition, a complete explanation for all cost transfers must be provided to include how the error occurred, specific descriptions of items being transferred, explanation for the untimeliness, and preventative measures to mitigate recurrence.

During our review, we sampled 10 electronic ENPETs and four EPETs, and noted that one ENPET was not completed in a timely manner (120 days from the date of the original expense) and did not include a reason for the untimeliness. In addition, we noted two EPETs and nine ENPETs did not include complete explanations including preventative measures taken to mitigate recurrence.

Expense transfers should be conducted timely, when possible, and include detailed explanations to satisfy all policy requirements.

F. Transaction Sampling

The Department had not completed a review of all sampled transaction as part of their recurring reconciliation activities.

Risk Statement/Effect

Failure to review the full sample of transactions increases the risk of not detecting erroneous or inappropriate transactions in a timely manner.

Management Action Plan

F.1	The Department will ensure that all sampled transactions are appropriately reviewed and documented on a timely basis.
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F. Transaction Sampling – Detailed Discussion

On a monthly basis, departments are required to validate transactions posted to the operating ledger to ensure expenditures, liens, and revenues are correct, accurate and reasonable. Departments must

also ensure that evidence of this review is adequately documented via Control Tracker. The transaction sampling process includes verifying amounts to supporting documentation, resolving exceptions, and ensuring that corrective actions are taken in a timely manner. The Department has adopted the use of Ledger Reviewer to document their validation of financial transaction sampling. The Ledger Reviewer system samples transactions, reducing the administrative burden of reviewing a high volume of transactions during reconciliation activities. The characteristics of the sample can be attributed to the population to provide assurance that transactions are being appropriately processed. Departments should complete the transaction sampling process on a monthly basis, prior to the closing of the following month's ledger.

We reviewed transaction sampling reports for activity that occurred from July 1, 2014 through April 30, 2016. Transaction sampling had been completed for all transactions occurring through January 31, 2016. However, as of May 25, 2016, transactions had not yet been reviewed for the period February 1, 2016 through March 31, 2016. In order for the transaction sampling process to be regarded as a valid method of ledger review, all sampled transactions should be reviewed on a monthly basis.

G.	CANRA Reporting
Two staff identified during the review were not identified as CANRA mandated reporters as required by policy.	
Risk Statement/Effect	
The absence of CANRA reporting education, and activities may place the University at risk of employees being unaware of their CANRA responsibilities.	
Management Action Plan	
G.1	The Department will ensure that all staff interacting with minors become mandated reporters. In addition, the Department will provide its staff with additional educational opportunities regarding CANRA compliance.

G. CANRA Reporting – Detailed Discussion

CANRA is a set of laws that was passed in 1980 to provide definitions and procedures for mandated reporting of child abuse. The Act was revised and expanded in 2013 to include postsecondary institutions, in which the University of California, Office of the President published a University policy for CANRA compliance, effective January 1, 2013. The policy provides that a mandated reporter is a “University Employee, Official or Volunteer who is required under the ACT due to their licensure or profession, or otherwise by virtue of their University position or activities to report child abuse and neglect to specified authorities.”

During our review, it was noted that the Department primarily worked with graduate students and faculty. However, the Director and Assistant Director of Undergraduate Education (UE) may at times

come into contact with minors during the course of their work. The Department indicated that they were aware of the campus requirement for mandated reporting and the current reporters were the Student Affairs Supervisor and the Graduate Coordinator. However, the Director and Assistant Director of UE were not currently mandated reporters as required by policy.