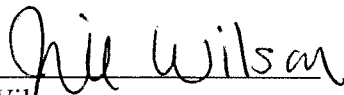


UNIVERSITY OF CALIFORNIA, IRVINE
ADMINISTRATIVE AND BUSINESS SERVICES
INTERNAL AUDIT SERVICES

HUMANITIES
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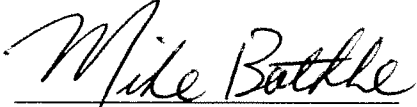
June 28, 2011

Prepared by:



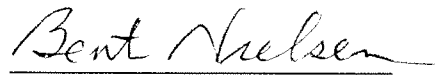
Jill Wilson
Senior Auditor

Reviewed by:



Mike Bathke
Campus Audit Manager

Reviewed by:



Bent Nielsen
Director

June 28, 2011

**VICKI RUIZ
DEAN
HUMANITIES**

**RE: Humanities
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Internal Audit Services has completed the review of Humanities 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: Audit Committee
Kathy Haines, Assistant Dean

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I. EXECUTIVE SUMMARY

In accordance with the fiscal year 2010-11 audit plan, Internal Audit Services (IAS) reviewed the adequacy of internal controls, policy compliance, and information technology (IT) operations for the School of Humanities (Humanities) within the University of California, Irvine (UCI) campus. Business risks and control concerns were identified. Specifically, we noted the following.

Ledger Reconciliation - Ledger review and reconciliation is not being performed for all departments. Reconciliations are integral to ensure financial information is complete, accurate, and valid. The observation is discussed in section V.1.

IT – To strengthen their IT environment, IAS suggests developing and implementing a formal change management process and documenting business continuity and disaster recovery plans. The observation is discussed in section V.2.

Separation of Duties – One person receives checks or cash, secures them, prepares for deposit, deposits and reconciles deposits to revenue ledgers. IAS recommends that at least one other person be involved in the process. The observation is discussed in section V.3.

Non-Payroll Expenditures – The internal controls over authorizing, documenting, and processing PALCard transactions needs improvement. The observations included lack of proper approval, lack of internet confirmation or credit card receipts, lack of packing slips, and lack of appropriate reviewer documentation. The PayQuest reimbursement observation included untimely submittal to Accounting, lack of adequate proof of payment, overpayments and missing and incomplete documentation. Additional details are discussed in sections V.4 and V.6.

Human Resources – One employee sampled was not given a background check and performance evaluations were not completed on an annual basis for all staff employees. The observation is discussed in section V.5.

II. BACKGROUND

Humanities enrolls approximately 2,650 students, including 400 graduate students. With 12 departments and nearly 30 majors and interdisciplinary programs, Humanities offers a diverse curriculum. Humanities students develop understanding of local and global cultures through courses in 16 languages. A humanities education provides a deep knowledge of history, language, literature, philosophy and the visual arts, and an understanding of the contributions of influential thinkers, writers and artists from many cultures.

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Humanities employs approximately 58 staff and 155 faculty with an annual operating budget of approximately \$41 million.

III. PURPOSE, SCOPE AND OBJECTIVES

The purpose of the audit was to review internal controls, policy compliance, and IT operations from July 2009 to present. Based on IAS's risk assessment of Humanities, the following objectives were established:

1. Evaluate the following aspects of employee management: personnel files, background checks, overtime approval, payroll ledger reconciliations, and sick and vacation balance tracking for appropriateness and completeness;
2. Review PayQuest reimbursements and PalCard transactions for approval and appropriate documentation to determine compliance with University policy;
3. Review contracts and grants for overdrafts, personnel activity reports, and cost transfers made after 120 days;
4. Evaluate inventory tracking procedures and sample inventoried items to ensure UCI tagging and location;
5. Evaluate budget and accounting control;
6. Review cash handling, cash advance, and cash receipt procedures to determine evidence of controls and that assets are properly safeguarded;
7. Review selected IT operations.

IV. CONCLUSION

In general, the selected Humanities processes reviewed appear to be functioning as intended. However, business risks and control concerns were identified in ledger reconciliations, IT controls, separation of duties, non-payroll expenditures, human resources and performance evaluations.

Observation detail and recommendations were discussed with management, who formulated action plans to address the issues. These details are presented below.

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V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Ledger Reconciliation

Background

UCI policy states that each manager, who is directly responsible for the financial affairs of that activity, should maintain procedures that monitor and verify transactions in order to reconcile balances monthly to the general ledger. Departments have a responsibility to ensure the appropriateness and accuracy of all financial transactions applied to their ledger. In addition, the department 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 it was determined that the ledgers were not being reconciled on a monthly basis for all departments within Humanities. Reconciliations should take place at either the department level or centrally in Humanities. The Director of Finance would like both the general ledger and the payroll ledger to be reconciled centrally. Reconciliations are integral to ensure that financial information is complete, accurate, and valid. Failure to perform reconciliations may result in undetected errors.

Management Action Plan

As of July 1, 2011, all general and payroll ledgers for Humanities will be reconciled as appropriate within University and Accounting Policies. This includes the Statement of Accounting Standards 115 (key controls documentation), with respect to a second post-reconciliation review of all general and payroll ledgers. The procedure is as follows:

1. The responsible individual reviews and /or reconciles the accounts assigned to them on a periodic, preferably monthly, basis. They then document the process and sign the reconciliation.
2. The responsible individual's supervisor reviews, approves, and signs the reconciliation.

The Finance unit, within the Dean's Office, will become the office of permanent record for all expense documents within Humanities.

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2. IT Controls Need Strengthening

Background

The goal of the change management process is to ensure that all changes, including emergency maintenance and patches, relating to infrastructure and applications within the production environment are formally managed in a controlled manner. Changes (including those to procedures, processes, system and service parameters) are logged, assessed and authorized prior to implementation and reviewed against planned outcomes following implementation. This assures mitigation of the risks of negatively impacting the stability or integrity of the production environment.

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 processes from the effect of major system and network disruptions and ensure the timely restoration of business operations if significant disruptions occur.

Observation

Humanities computing support has a change management process but it has not been formalized. There are also no documented IT business continuity and disaster recovery plans for departments within Humanities. We suggest that Humanities strengthen their IT environment by:

- Developing and implementing a formal change management process;
- Documenting business continuity and disaster recovery plans.

Management Action Plan

Change Management

Develop and implement formal change management process:

- Phase 1 (July – August 2011):
Identify all areas where improvement is needed, document all current policy and procedures and research what other departments/universities are doing.
- Phase 2 (September – October 2011):
Planning and development of proposal
- Phase 3 (November – June 2012):

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Prepare budget and proposal for review by the Assistant Dean

- Phase 4 (July 2012):
Final implementation

Business Continuity and Disaster Recovery Plan

Document business continuity and disaster recovery plans:

- Phase 1 (July - August 2011):
Identify all areas where improvement is needed and research and meet with other schools on their disaster plans for guidance.
- Phase 2 (September – October 2011):
Work with staff to prepare action plans and distribute work load.
- Phase 3 (November – June 2012):
Preparation of draft modules, review of draft modules, coordination of draft modules, and finalization of plan.
- Phase 4 (July 2012):
Final implementation

3. HIRC Separation of Duties

Background

UC Business and Finance Bulletin BUS-49 is the policy on cash and cash equivalents received. It discusses the importance of separation duties among the collection, handling, depositing and accounting for cash and cash equivalents for a unit. At least two qualified individuals must be assigned to carry out the key duties of the process.

Humanities Instructional Resource Center (HIRC) receives cash for services such as transferring a VHS tape to a CD or other video/recording services. HIRC will also receive checks monthly from the Educational Testing Service (ETS) for payment for the use of UCI's computer room and staff for language tests (TOEFL). Part of this monthly check provides reimbursement to HIRC for payment to the supervisor and proctor for Saturday work and supplies if needed. Supplies would include paper, pencils, etc. The remaining portion of the funds is given to the Humanities Computing Center for use of their unit's computer room and in case one of the computers breaks down they will provide assistance.

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Observation

The Director receives checks or cash, secures them, prepares for deposit, deposits and reconciles deposits to revenue ledgers. She later provides a photocopy of the checks received to the Dean's Office. The current handling of duties has the Director handling the full process from receiving checks to reconciling. IAS recommends that at least one other person be involved in the process. The University believes that separation of duties is important to ensure that assets are protected, accurately and timely processed, and properly recorded.

Management Action Plan

The handling of cash in HIRC has been revised. Cash paid to HIRC for services and use of rooms will be given to the Administrative Assistant who will secure the cash and prepare the deposit forms. The deposit will be reviewed and verified by the Director of the HIRC prior to the deposit being sent to the Cashier's office and copies of the deposit will be provided to the Finance office. The reconciliation of the deposit to the ledger will take place in the finance office and any discrepancies will be reported to the HIRC.

4. PALCARD Review

Background

UCI PALCard policies require supporting documentation for each transaction. UC purchasing policies require purchases to be pre-approved 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.

Appropriate reviewer documentation includes the TOEP (screen print) with user ID and FS send date or a reviewer signature on the PALCard notification email. The cardholder must forward documentation to the reviewer within 4-6 days, so the transaction can be reviewed. The reviewer then has 14 days to review the transaction for appropriateness and make changes, if necessary. If the transaction is not reviewed within 14 days, the transaction will be approved automatically and the default account, fund and taxes, if any, will be sent to the general ledger. After the automatic submission or "auto send" takes place, the reviewer can still provide a signature on the PALCard notification email which can be used when transactions post to FS automatically and an electronic signature is not present. The preferred method is to review the PALCard purchase before the automatic submission so the FS sender field contains the reviewer's name.

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Observation

IAS performed an analysis on a sample of 30 PALCard transactions from July 2009 to April 2011, and noted the following during the review:

- Nineteen of the 30 did not have an approved internal requisition or some other form of pre-approval for the purchase;
- Four of the 30 did not have either an internet confirmation screen or credit card receipt, if applicable;
- Ten of the 30 did not have a packing slip; and
- Five of the 30 did not have appropriate reviewer documentation attached to the PALCard supporting documentation packet.

IAS also compiled a report of PALCard purchases that were automatically approved through the PALCard review system. IAS identified 123 transactions or \$24,094 (seven percent) in PALCard purchases that were not reviewed in a timely manner or not reviewed at all.

Controls over PALCard transactions, such as timely authorization of charges before purchase, needs improvement. Proper approval of transactions reduces the risk of inappropriate costs or unauthorized use of University funds. Retention and review of packing slips helps to ensure that all items that were paid for are received by the University.

Management Action Plan

As of May 25, 2011, all PALCard documentation will be reviewed post-audit by the Director of Finance. Additionally, sample packets (examples) will be sent to all departmental and unit managers that include all of the appropriate documentation and associated notations to further clarify the correct processes. Any deviation from this process will result in the removal of the PALCard by Humanities senior management, after suitable warnings.

5. Human Resources

Background

Once an employee is hired or transferred to Humanities, the Management Services Officer (MSO) is responsible for ensuring that all required documents are placed into the employee's personnel file and that the personnel file is complete. Humanities will request background checks be completed by UCI

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Police (UCIPD) for all staff hires. A background check should be performed for both internal and external hires.

UCI policy on performance appraisal states the Dean has authority and responsibility for coordinating the annual performance evaluation process and shall develop implementation procedures for their units. Furthermore, a written evaluation of each probationary employee shall be conducted at least once prior to completion of the probationary period.

Observation

Five of the six personnel files sampled did not have a copy of Central HR's background check clearance email. The email should be filed in the employee's personnel file to acknowledge background check clearance. IAS was able to later confirm that four of the five employees were given a background check and passed according to Central HR. However, no documentation was found for one employee and it is uncertain if they had cleared a background check.

UCI Administrative Policy Sec. 300-10 states that background checks be completed on critical positions. The University believes that background checks provide a safer environment for people, property, and information at the University.

Written performance evaluations were not completed on an annual basis for all staff employees. Nineteen of the 61 (31 percent) staff employees reviewed did not have a performance evaluation code documented in the EVAL field in the Payroll Personnel System (PPS) to record departmental compliance with this policy. IAS discussed the observation with Humanities Human Resources staff who stated that performance evaluations for the 19 staff employees had not been performed. Failure to conduct performance evaluations may result in unimproved productivity and performance.

Management Action Plan

The hiring manager is expected to initiate the request for the background check. A checklist for the hiring manager will be created that lists each step of the recruitment process and with whom they should consult at various steps. The hiring managers will be instructed that the result of the background check is to be placed in the personnel file.

The Director of Personnel sends out a request for performance evaluations in late May/early June asking for the evaluations to be completed by July 1. The timing of this call is particularly important because many of our faculty supervisors are absent from the campus during the summer months.

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In the past the Director of Personnel has made a second request when evaluations were not received by the established deadline, but continued follow-up has not happened. The Director of Personnel will now track the receipt of performance evaluations and conduct follow-up to ensure completion. If evaluations are not received by the beginning of the Fall quarter, the supervisor and their supervisor will be asked to meet with the Assistant Dean. In addition, the personnel analyst will follow-up with the supervisors of probationary employees to make certain that at least one evaluation is done during the probationary period.

6. PayQuest Reimbursements

Background

UCI PayQuest is used to reimburse others for expenses incurred during University business. The documentation and purpose must be compliant with various policies. BUS-79 UC Expenditures for Business Meetings, Entertainment, and Other Occasions discusses the manner in which the University may provide hospitality. G-28 is a bulletin that discusses the policy and regulations that apply to all official University business travel. UCI's PayQuest guidelines contain documentation requirements for travel, entertainment and other types of reimbursements. IAS reviewed a sample of PayQuest reimbursements to determine compliance with the above local and UCOP policies.

Observation

IAS sampled 31 PayQuest reimbursements for appropriateness and compliance and the results are the following:

- Seven of the 31 (23 percent) PayQuest transactions sampled were not prepared, approved and sent to Accounting within 21 days. G-28 UC Business and Finance Bulletin Policies and Regulations Governing Travel requires the travel expense voucher be submitted within a twenty-one day period after the end of a trip;
- Two of the 31 (6 percent) transactions sampled appear to have been overpaid in lodging per diems. The per diem is an allowance paid for lodging, meals, and incidental expenses incurred when traveling in lieu of paying the actual travel expenses;
- Two of the 31 (6 percent) transactions sampled did not have adequate proof of payment supporting documentation. Proof of payment is a required by UCI PayQuest guidelines;

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- Four of the 31 (13 percent) transactions sampled had either missing or incomplete supporting documentation. This includes lack of attendee list, agenda, and other notes that would more clearly explain the business purpose or events.

Proper review, documentation and compliance with local and UCOP policies for PayQuest reimbursements reduces the risk of improper costs or unauthorized use of University funds.

IAS also reviewed reports for separation of the duties among the preparer and payee for PayQuest reimbursements. IAS noted \$43,261 in PayQuest reimbursements or 200 transactions during a two year period where the preparer and the payee was the same person. The University believes that accountability and separation of duties is necessary to ensure that reimbursements are properly processed.

Management Action Plan

All expense documents are now being reviewed by both the analyst assigned to a particular account as well as the Director of Finance. Having so many units in Humanities makes it difficult to be certain that all individuals who process forms have been fully trained. However, the finance office is attempting to be more diligent in announcing changes in processes and will use the results of vigorous reviews as additional training opportunities.