October 8, 2012

J. E. LUCO  
Chair, Department of Structural Engineering  
0085

Subject: Department of Structural Engineering  
Audit and Management Advisory Services Project #2012-03

The final audit report for the Department of Structural Engineering, Audit Report 2012-03, is attached. We would like to thank all members of the Department for their cooperation and assistance during the audit. Because we were able to reach agreement regarding corrective actions to be taken 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 schedule a review of the corrective actions.

UC wide policy requires that all draft audit reports, both printed (copied on tan paper for ease of identification) and electronic, be destroyed after the final report is issued. Because draft reports can contain sensitive information, please either return these documents to mail code 0919 or destroy them at this time.

Terri Buchanan  
Interim Assistant Vice Chancellor  
Audit & Management Advisory Services

Attachment

cc: G. Hegemier  
D. Larson  
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S. Vacca  
J. Vo
Department of Structural Engineering
October, 2012

Performed By:
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Approved By:
Stephanie Burke, Assistant Vice Chancellor

Project Number: 2012-03
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I. Executive Summary

Audit & Management Advisory Services (AMAS) completed a review of the Department of Structural Engineering as part of the approved audit plan for Fiscal Year 2011-12.

The objective of our review was to evaluate whether internal control procedures in the Department were adequate to provide reasonable assurance that operations were effective, in compliance with University policies and procedures, and resulted in accurate financial reporting. The scope of the review was limited to activities and business practices within the current and prior fiscal years.

We concluded that Department internal controls were adequate to provide reasonable assurance that operations were effective, performed in compliance with University policy, and resulted in accurate financial reporting. The Department has a seasoned business office leadership team that is focused on ensuring that appropriate internal controls are incorporated into business processes and is committed to providing specialized training to staff and faculty.

However, we noted opportunity for improvement in the following areas: effort reporting; financial overdraft management; outside professional activity reporting; Express Card oversight; travel hierarchies and approvals; timesheet controls; performance evaluations; and equipment management. Department management has agreed to appropriate corrective actions for all of the issues noted during our review.
II. Background

Audit & Management Advisory Services (AMAS) completed a review of the Department of Structural Engineering as part of the approved audit plan for Fiscal Year 2011-12. This report summarizes the results of our review.

The Department of Structural Engineering (the Department) is one of six academic departments of the Jacobs School of Engineering (JSOE). Today, the Jacobs School ranks among the top 15 engineering schools in the nation, and the Department is ranked 16th in the specialty of civil engineering (published March 2012). The Department was founded as the first department of its kind in 1999, and has become the world's leading program for large-scale structural testing and earthquake safety engineering. The Department’s instructional and research programs are grouped into four programmatic focus areas: civil structures, aerospace, renewal of structures, and earthquake engineering.

The Department has a unique set of laboratories including the Charles Lee Powell Laboratories that are multiple-location, multi-million-dollar facilities dedicated to research at the materials, component, assembly, and systems levels. The Powell Labs feature one of the largest assemblies of reaction-wall/strong floor systems in the world. Additional facilities have been added as the scope and nature of Powell Labs research has expanded. In 2005, the Englekirk Structural Engineering Center opened as an expansion of Powell Labs (located eight miles from the UCSD campus), and is equipped with the world’s first outdoor shake table, and is adjacent to the country’s largest soil foundation-structure interaction facility.

A central administrative business office provides oversight for the Department in addition to an onsite administrative manager at the off-campus Englekirk lab location. The business office staff support critical department business processes including academic and staff personnel management, payroll, information systems, contract and grant administration, recharge activities, and financial analysis and reporting. The Department has approximately 23 faculty and researchers, 600 undergraduate students and 116 graduate students. The Department incurred approximately five million dollars in research expenditures in Fiscal Year 2010-11.

III. Audit Objective, Scope, and Procedures

The objective of our review was to evaluate whether internal control procedures in the Department were adequate to provide reasonable assurance that operations were effective, in compliance with University policies and procedures, and resulted in accurate financial reporting. The scope of the review was limited to activities and business practices within the current and prior fiscal years.
In order to fulfill our objective, we performed the following procedures:

- Reviewed departmental organizational and financial information;
- Met with management to discuss any potential areas of concern;
- Requested and reviewed departmental responses to internal control questionnaires and separation of duties matrices;
- Reviewed departmental policies and procedures for key business processes including:
  - Timekeeping and payroll,
  - Transaction sampling reports,
  - Payroll and non-payroll expenditure transactions and expense transfers,
  - Sponsored research activities (e.g. effort reporting),
  - Travel and entertainment expenses,
  - Express Card purchases,
  - Operating ledger review and financial reporting,
  - Cash handling,
  - Service agreements,
  - Equipment inventory,
  - Gift processing, and
  - Recharge activities.
- Interviewed Department managers (including Laboratory and Safety, sponsored projects, and recharge facilities) to gain an understanding of the process(es) that each one oversees;
- Performed detailed testing of selected key business processes to verify that internal controls were adequate and functioning in compliance with University policy; and
- Performed a focused review of the Powell Laboratory, Englekirk Recharge Unit.

The scope of our review did not include a detailed examination of information systems security and controls because this topic is currently being evaluated in AMAS audit project number 2012-02, Academic Affairs Distributed Network Security.

IV. Conclusion

We concluded that Department internal controls were adequate to provide reasonable assurance that operations were effective, performed in compliance with University policy, and resulted in accurate financial reporting. The Department has a seasoned business office leadership team that is focused on ensuring that appropriate internal controls are incorporated into business processes and is committed to providing specialized training to staff and faculty. However, we did note several areas of opportunity for improvement, which are noted in the balance of this report. Our summary of results by business office functional area is provided as Attachment A.
V. Observations and Management Corrective Actions

A. Effort Reporting

Required quarterly certifications of effort charged to federal sponsored research fund sources were not completed in a timely manner.

We generated an Effort Reporting Query in the ECERT reports menu for the Department for the period April 2011 through June 2011, and the period July 2011 through September 2011. As of February 2, 2012 for the first period 32 of 67 (or 48%) of required certifications were certified late. An additional six of 67 (or 9%) of certifications were not certified at all. In the second period, we determined 11 of the 79 (or 14%) of required certifications were not completed as of the time of our review.

Quarterly effort reporting is the method of certifying for federal agencies that the effort expended on federally sponsored research projects is materially consistent with the payroll costs charged to the awards during the period. All employee salaries charged directly to federal and federal flow-through funds must be certified according to OMB Circular A-21 and University policy. The UC Contract and Grant Manual provides that effort reports should be issued for certification no more than 45 days after close of the reporting period and certified within 30 days of their issuance to ensure federal compliance (section 7-330).

As a result of non-compliance with University policy and federal requirements, the Department is at increased risk for potential disallowances in the event of a federal audit, and reduced federal funding.

Management Corrective Action:

Department management has implemented a formal plan effective September 1, 2012 to complete all incomplete effort reports, and improve the monitoring process to ensure that all effort reports are certified within the prescribed time frame.

B. Financial Overdraft Management

Additional focus on overdraft monitoring and resolution was needed.

The campus Overdraft Policy requires that departments monitor financial balances and initiate corrective action in a timely manner to eliminate overdrafts for expenditures exceeding the related allocation/budget. The policy also requires that deficit balances exceeding $10,000 or greater than 60 days in duration be
documented in writing, and be approved by the cognizant Vice Chancellor or Dean. The Principal Investigator (PI) named in the award is the primary person responsible for the financial management and control of project funds in accordance with University and sponsor policies and procedures. The PI should follow the Overdraft Resolution Guidelines, Attachment 1 of the Overdraft Policy.

During our audit, we noted six Department funds that were in overdraft longer than 60 days and more than ($8,000) as of May 7, 2012. Two of these funds were in deficit because of private contracts with companies that became bankrupt. One in particular was incurred in 1997 under prior management. We were advised that this overdraft occurred because of a promised continuation of funding from a Federally-funded private contractor that was never received by the University. The following are the six funds that need to be resolved.

<table>
<thead>
<tr>
<th>Fund</th>
<th>Overdraft Balance</th>
<th>Agency</th>
<th>Award Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 85105A</td>
<td>($67,300)</td>
<td>RESTREPO</td>
<td>1/15/2009 -12/31/2010</td>
</tr>
<tr>
<td>2 79574A</td>
<td>($61,815)</td>
<td>XXSYS</td>
<td>9/1/1997 – 2/28/1999</td>
</tr>
<tr>
<td>3 41439N</td>
<td>($39,223)</td>
<td>CAL – (IT)2 Academic Professionals</td>
<td>Indefinite</td>
</tr>
<tr>
<td>4 81415A</td>
<td>($25,209)</td>
<td>CH2MHILL</td>
<td>2/14/2005 – 9/30/2005</td>
</tr>
<tr>
<td>5 78169A</td>
<td>($10,721)</td>
<td>Blue Road Research</td>
<td>2/15/2002 – 1/31/2005</td>
</tr>
<tr>
<td>6 05397A</td>
<td>($8,087)</td>
<td>Educational Fund</td>
<td>Indefinite</td>
</tr>
</tbody>
</table>

Unresolved deficit spending may be interpreted as poor stewardship for public funding. While the current Department management was not involved in incurring these deficits, they are fully aware of the need to closely monitor fund balances and have been doing so regularly. However, a specific deficit reduction corrective action plan demonstrating a commitment to resolve each deficit, regardless of its cause and inception date, has not been documented. Ongoing unresolved financial deficits could result in delays in final expense reporting for federal awards, and this could jeopardize future federal research funding. One possible approach for resolving old deficits is to cover the balance with differential income from service agreements.
Management Corrective Actions:

The deficit for fund number 05397A (number six on the table) has been cleared. The Department will formally develop and document a corrective action plan for each of the other five deficits, and submit it to the cognizant Vice Chancellor or Dean for approval as required by campus policy.

C. Outside Professional Activity Reporting

Department faculty members were not in strict compliance with the annual conflict of commitment reporting requirement (Academic Personnel Manual section 025).

APM 025 requires that participants prepare an annual report to the Department Chair that summarizes any outside professional services from which the participant retained income.

There were 23 faculty members appointed in the Department as of November 1, 2011. We reviewed the Outside Professional Activity Reporting process and forms that had been collected for Fiscal Year 2010/11, due by November 1, 2011. Four forms (or 17%) were not submitted, and one form was turned in late. Forms submitted were complete and appropriately reviewed by management in compliance with University policy.

Receipt and review of the annual outside Professional Activity Reports can alert Department management to situations that may require additional monitoring or education to ensure compliance with University policy, and appropriate campus oversight for potential conflicts.

Management Corrective Actions:

The Department Chair will require all faculty to complete the Outside Professional Activity Reports by the expected due date of November 1st following the end of each fiscal year, as required by policy. Instances of non-compliance will be elevated to the Dean’s Office for discussion. In addition, those forms currently overdue will be addressed.

D. Express Card Transaction Reviewer

The Department Administrator assigned for one of the Department Express Cards was not appropriate.
For one of the seventeen Express Cards, the Cardholder was designated as the Department Administrator which is inappropriate as it would result in the Cardholder being formally designated as having responsibility for reviewing his/her own transactions. Department management acknowledged that although the electronic hierarchy was set up that way, the Management Service Officer (MSO) reviewed and manually approved all the Express Card expenditures for this Cardholder. System hierarchies should be formally established that are consistent with the actual workflow, to ensure effectiveness of the internal controls. Specifically, an employee other than the Cardholder should be designated as Express Card Administrator to ensure accountability for review of the activity by a person other than the Cardholder (and not reporting to the Cardholder).

UC policy Business and Finance Bulletin BUS-43 states that the responsibilities of a Cardholder, who is authorized to make purchases with a procurement card, must be separate from the individual assigned to conduct an administrative review of the purchase. In addition the policy defines a Reviewer as: “An individual(s) who is responsible for reviewing purchases made by the cardholder. Reviewers may not be in a subordinate relationship to the cardholder.” The reviewer is responsible for making sure the purchase is appropriate and authorized. They are required to complete training and refresh their training every year.

Even though the appropriate approval was documented on paper in the one instance AMAS reviewed, it would appear to an outsider that the Cardholder is approving their own purchases and the department is relying on the Cardholder to submit everything through the paper approval process. Failure to properly maintain the Express Card Approval Templates and to comply with University policy increases the risk that errors or irregularities could occur and go undetected.

**Management Corrective Actions:**

The Express Card Administrator at the time of our review is no longer with the Department. The Department has designated another employee as the Department Administrator for Express Cards, and that employee does not have their own Express Card.

**E. Travel Hierarchies and Approvals**

Approval hierarchies for travel were not set up correctly in the campus Integrated Financial Information System (IFIS). As a result, one of ten expenditures was not approved in compliance with policy.
Section IV, Approval of Travel, in Business and Finance Bulletin G-28: *Policy and Regulations Governing Travel* provides: “In order to ensure that travel is approved in an impartial manner, travelers may not approve the reimbursement of their own travel expenses. In addition, an employee shall not approve the travel expenses of an individual to whom he or she reports either directly or indirectly.”

We performed a review of the Department’s IFIS document approval hierarchy templates, and reviewed a random sample of ten travel expense vouchers and ten non-payroll transactions. We noted the following issues:

- Travel expense for the Department Chair was being reviewed and approved by Department Business Office managers who reported to the Department Chair.
- In one of ten travel events reviewed, a fiscal manager was set up in the hierarchy to review and approve her own travel transactions.

The appropriate approval hierarchies were not set up for the Chair and the MSO due to the lack of utilization of the on-line system and perceived burden of the email administration. In order to avoid any issues in the future, system hierarchies should be established and utilized so that the controls provide an accountability structure that ensures adequate separation of duties and transaction review. Failure to properly maintain the IFIS Approval Templates and to comply with University policy increases the risk that errors or irregularities could occur and go undetected.

**Management Corrective Actions:**

Department management will:

1. Revise the IFIS approval templates, as needed.

2. Submit travel reimbursement claims for the Department Chair to the JSOE Dean’s Office for approval to ensure compliance with the UC Travel policy.

3. Add the Department Chair’s approver to the IFIS approval hierarchies for travel and entertainment transactions.

4. Periodically validate that templates have been modified to reflect personnel changes.
F. Timesheet Controls

Internal control practices for timekeeping were not consistently implemented in conformance with policy.

Our review of Department timesheets indicated that six of 22 employees’ timesheets for two time periods (January 8, 2012 to January 21, 2012, and January 22, 2012 to February 4, 2012) did not have the supervisor’s original signature, or the date the supervisor approved the timesheet.

Good business practices ensure that all employees attest to the time they worked, as well as leave taken, and that supervisors approve the timekeeping records to demonstrate effective stewardship for public funds. For this reason, University policy requires that departmental records be maintained to support all payments through the University’s Payroll/Personnel System (Accounting Manual Section P-196-13), and that all payroll time records be approved by the employee’s supervisor (Business & Finance Bulletin IA-101).

Management Corrective Action:

Department management will make sure that all timesheets are signed and dated by employees’ direct supervisors, as required by University policy.

G. Performance Evaluations

Employee performance appraisals were not on file for 14 of 26 employees (54%) for Fiscal Year 2009-10, and 15 of 26 employees (58%) for Fiscal Year 2010-11.

UC Personnel Policies for Staff Members state that, “The performance of each employee shall be appraised annually in writing by the employee’s immediate supervisor, or more frequently, in accordance with local procedures”. The appraisals serve to foster communication between supervisors and employees and to establish agreed upon performance expectations, while promoting a correlation between pay and performance. Audit fieldwork indicated that appraisals were not on file for 14 of 26 employees (54%) for Fiscal Year 2009-10 and 15 of 26 employees (58%) for Fiscal Year 2010-11. As a result, employee work objectives, progress, goals and feedback did not appear to be adequately communicated within the department.
Management Corrective Action:

Department management will develop a plan to ensure that all supervisors conduct, document, and file performance evaluations for all personnel on an annual basis, as required by University policy.

H. Equipment Management

Equipment inventory practices were incomplete, and in some cases inaccurate.

Our review of processes and records indicated the following issues with Department equipment management:

- Accessories in excess of $100,000 were not capitalized in the Campus Asset Management System (CAMS).
- A new engine for a 12 year old vehicle was categorized as an accessory and, consequently, was not capitalized in the CAMS system.
- Fabrication projects were not actively managed or reported to Campus Equipment Management.
- Fabrication costs were recorded in incorrect accounts.
- The Department’s physical validation of equipment inventory was in progress at the time of our review.

Equipment management requirements are outlined in UC Business and Finance Bulletin (BUS) 29: Management and Control of University Equipment. The standard requires that accessory items acquired after the basic unit, and with an item cost of $5,000 or more and with a normal life of greater than one year, must be capitalized and inventoried. The value of component parts and enhancements, with cost of $5,000 or greater, which permanently increase the value of the equipment, should be added to the value of that unit of equipment. The difference between an accessory and a component part is that the former is separable from the equipment without effecting functionality, whereas the later is essential. Accordingly, the new engine for the equipment is a component, and should have been capitalized in CAMS. We were advised by the department that in the case of the 12 year old vehicle they received advice from Equipment Management and then recorded the new engine as an accessory.

The University policy also provides that equipment under fabrication must be monitored and tracked throughout the fabrication cycle. At least annually, the progress of fabrications-in-process must be reported to Equipment Management. The reported information should include a complete description of the item, the location, name, or account number of the custodial department, and the cost of the
equipment. We noted one fabrication that was ongoing for 18 months without operating ledger activity and without management being aware of reporting requirement. In another instance, unknown to management, a PI had accumulated fabrication charges on an expense account.

As stated in Contract and Grant Manual, Part 15-310, the head of the custodial department and the Principal Investigator have the primary responsibility for the care, maintenance, records, physical inventory, and control of inventoriable equipment and other University or extramurally-funded property. Policy requires that at least every two years, the custodial department must make a physical inventory of all University Inventorial Equipment, Government Inventorial Equipment, Other Government Property, and Other Inventorial Items. The individual who performs the inventory may not also be responsible for ordering or purchasing of the property, maintaining the property records for that unit, or maintaining direct custody of the property.

The Department’s research activities are very equipment-intensive and consequently, the tracking and monitoring of all equipment is essential, including both purchased and fabricated equipment. An incomplete inventory may lead to equipment not being capitalized (or being capitalized inaccurately), and may also result in inaccurate recharge rates. Further, inaccurate equipment inventory practices could potentially result in sub-optimal equipment decision making.

Management Corrective Actions:

1. Department Management is currently completing the physical inventory of all Department equipment.

2. Department management will correct the equipment exceptions noted above:
   - Accessories in excess of $100,000 will be capitalized in CAMS.
   - The new engine for the Department’s 12 year old vehicle will be re-categorized and capitalized in the CAMS system.
   - Fabrication costs will be recorded in the correct accounts.
### Department of Structural Engineering

**Audit Results by Business Office Functional Process**

Audit & Management Advisory Services Project #2012-03

<table>
<thead>
<tr>
<th>Business Office Process</th>
<th>AMAS Audit Review Procedure</th>
<th>Risk &amp; Controls Balance Reasonable (Yes or No)</th>
<th>Audit Conclusion¹</th>
<th>Comments</th>
</tr>
</thead>
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<tr>
<td>Effort Reporting (ECERT)</td>
<td>[√] Analytical Review of Financial Data</td>
<td>[√] Internal Control Questionnaire/Separation of Duties Matrix</td>
<td>[√] Process Walk-through (Ltd Document Review)</td>
<td>[√] Transaction Testing (Sample Basis)</td>
</tr>
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<td>Operating Ledger Review &amp; Financial Reporting</td>
<td>[√] Analytical Review of Financial Data</td>
<td>[√] Internal Control Questionnaire/Separation of Duties Matrix</td>
<td>[√] Process Walk-through (Ltd Document Review)</td>
<td>[√] Transaction Testing (Sample Basis)</td>
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</table>

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¹ Audit conclusions used in this report included the following four levels from highest to lowest; Satisfactory, Satisfactory/Improvement Suggested, Satisfactory/Improvement Needed, and Improvement Needed.
### Department of Structural Engineering
**Audit Results by Business Office Functional Process**
**Audit & Management Advisory Services Project #2012-03**

<table>
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¹ Improvement Needed:
- There were 23 Department faculty members as of November 1, 2011. Of these, four forms were missing, and one was turned in after the due date.

*(Audit Report Finding C)*

- Purchases were reasonable and appropriately authorized. However, one Express Card had an inappropriate Department Administrator assigned.

*(Audit Report Finding D)*

- Travel activity in general was compliant. Department Chair’s travel expenses were not appropriately set up for review in the IFIS approval hierarchy templates, and they were
## AMAS Audit Review Procedure

<table>
<thead>
<tr>
<th>Business Office Process</th>
<th>AMAS Audit Review Procedure</th>
<th>Risk &amp; Controls Balance Reasonable (Yes or No)</th>
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<tr>
<td></td>
<td>Transaction Testing (Sample Basis)</td>
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</table>

### Timekeeping, Payroll, and Human Resources

- **√** Analytical Review of Financial Data
- **√** Internal Control Questionnaire/ Separation of Duties Matrix
- **√** Process Walk-through (Ltd Document Review)

- **Reviewed timesheets, absence slips, Timekeeper Audit Report, payroll check distribution log, and employee performance evaluations.**
- **No** Satisfactory / Improvement Needed

In general, timekeeping and employee payroll records were documented and supported. However, timesheets did not consistently have supervisor’s original signature and date of approval.

*(Audit Report Finding F)*

Performance evaluations were not completed timely.

*(Audit Report Finding G)*

### Equipment Management

- **√** Analytical Review of Financial Data
- **√** Internal Control Questionnaire/ Separation of Duties Matrix
- **√** Process Walk-through (Ltd Document Review)

- **Reviewed equipment acquisitions and fabrications.**
- **No** Satisfactory / Improvement Needed

Equipment accessories were not entered into CAMS, and not capitalized. Significant enhancements were charged as accessories. Fabrications were not reported annually to Equipment Management.

*(Audit Report Finding H)*
<table>
<thead>
<tr>
<th>Business Office Process</th>
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<th>Audit Conclusion(^1)</th>
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<tr>
<td>Cash Handling</td>
<td>√</td>
<td></td>
<td>Yes Satisfactory</td>
<td>In general, cash handling processes and internal controls appeared reasonable and compliant with policy.</td>
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<tr>
<td>Contract &amp; Grant Activity (Post Award Admin.)</td>
<td>√</td>
<td></td>
<td>Yes Satisfactory</td>
<td>Invoices were authorized and promptly paid. No exceptions were noted.</td>
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<td>Payroll Expenditure Transfers</td>
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<td></td>
<td>Yes Satisfactory</td>
<td>Transfer explanations appeared reasonable and approved by appropriate department or campus management.</td>
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<td>Business Office Process</td>
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<td>Internal Control Questionnaire/ Separation of Duties Matrix</td>
<td>Process Walk-through (Ltd Document Review)</td>
<td>Transaction Testing (Sample Basis)</td>
<td>Yes</td>
</tr>
<tr>
<td>Entertainment</td>
<td>Analytical Review of Financial Data</td>
<td>Internal Control Questionnaire/ Separation of Duties Matrix</td>
<td>Process Walk-through (Ltd Document Review)</td>
<td>Transaction Testing (Sample Basis)</td>
</tr>
</tbody>
</table>

¹Audit Conclusion: Yes (Satisfactory)
## Department of Structural Engineering
### Audit Results by Business Office Functional Process
### Audit & Management Advisory Services Project #2012-03

<table>
<thead>
<tr>
<th>Business Office Process</th>
<th>AMAS Audit Review Procedure</th>
<th>Risk &amp; Controls Balance Reasonable (Yes or No)</th>
<th>Audit Conclusion¹</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction Processing - Non-Payroll Expenditures</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td></td>
</tr>
</tbody>
</table>

*¹Audit Conclusion: Yes Satisfactory for the periods reviewed, all transactions had been reconciled.