



AUDIT AND ADVISORY SERVICES
SANTA BARBARA, CALIFORNIA 93106-5140
Tel: (805) 893-2829
Fax: (805) 893-5423

October 20, 2023

To: Matthew Gordon, Department Chair
Lauren Kerr, South Hall Administrative Support Center Director
Department of Linguistics

Re: **Humanities and Fine Arts - Department of Linguistics – Limited Internal Control Review**
Audit Report No. 08-24-0001-2

We have completed a limited review of internal controls in two departments of the Division of Humanities and Fine Arts as part of the 2023-24 annual audit services plan. For administrative purposes we have presented our results in two audit reports. This report presents our conclusions of our limited internal control review in the Department of Linguistics. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Enclosed is the report detailing the results of our work.

We sincerely appreciate the cooperation and assistance provided by the Department of Linguistics personnel during the review. If you have any questions, please contact me.

Respectfully submitted,

Ashley Andersen
Director
Audit and Advisory Services

Enclosure

cc:

Chancellor Henry Yang
Chuck Haines, Vice Chancellor, Chief Financial Officer
Daina Ramey Berry, Dean, Division of Humanities and Fine Arts
UCSB Audit Committee
Alexander Bustamante, Senior Vice President and Chief Compliance and Audit Officer

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UC **SANTA BARBARA**
Audit & Advisory Services

Audit Report

Humanities and Fine Arts -
Department of Linguistics -
Limited Internal Control Review

October 20, 2023

Performed by:

Antonio Mañas Meléndez, Associate Audit Director
Irene Camargo, Senior Auditor

Approved by:

Ashley Andersen, Audit Director

Report No. 08-24-0001-2

EXECUTIVE SUMMARY

OBJECTIVE

The primary purpose of the audit was to perform a limited review of selected internal controls and procedures established by the Division of Humanities and Fine Arts in the Department of Linguistics to ensure best business practices are in place to support operational effectiveness and efficiency, including compliance with University policies.

The objective of our limited review was to determine whether:

- Adequate financial oversight is in place to prevent overdrafts.
- Financial General Ledger (GL) reconciliations, including payroll, are timely prepared, reviewed, and approved by management.
- FlexCard transactions include adequate purchasing support documentation and are properly and timely approved.

CONCLUSION

Based on the results of the work performed within the scope of the audit, our review highlighted opportunities for improvement in the following areas:

- Improving financial oversight to prevent overdrafts.
- Reconciliation process documentation, including description of the process, roles and responsibilities, and evidence to support that reconciliations were approved and performed in a timely manner.
- Documentation and retention of adequate receipt confirmation of FlexCard purchases.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. FINANCIAL OVERSIGHT - OVERDRAFTS

OBSERVATION

Our work found opportunities to improve financial oversight to prevent overdrafts.

We identified and quantified the account strings in overdraft at the end of fiscal year 2022-23 and inquired about the causes of overdrafts and plans for addressing deficits. We found that the department had approximately \$6,800 in overdraft in four account strings.¹ See Table 1 for more details.

Table 1		Account Strings in Overdraft - FY 2022-23
Account Strings	Fund Title	Overdraft
403642-19900	State General Funds	(\$985)
403686-19900	State General Funds	(\$1,216)
404042-19941	Non-Resident Tuition	(\$1,319)
404042-20095	Tuition	(\$3,277)
Total Amount		(\$6,797)

Source: UCSB Department of Linguistics fiscal year 2022-23.

Based on the results of our review, we found that the department needs to better manage and project future costs in order to ensure that funds are transferred prior to an expected debt being incurred on account strings with low balances. Funding allocations at the account string level have not been properly overseen to prevent overdrafts. Specifically, we found:

- One overdraft was related to multiple work-study² transactions throughout fiscal years 2006 to 2017. According to the department, the cause was an administrative error shared between South Hall Administrative Support Center³ (SASC) and Humanities and Fine Arts (HFA).
- One account in deficit was for an interpreter. The Department of Linguistics, the Disabled Student Program (DSP), and Student Affairs agreed to share the expense. However, funds were not processed prior to fiscal close.
- Balances in one account were to be transferred to another account to cover an overdraft related to Concur⁴ expenses. The cause resulted from an administrative oversight.

¹ Account strings: The accounting string is a combination of account number, fund source, sub-account, and object code.

² Work-Study is a need-based form of Financial Aid that students earn through on-or-off campus employment and receive a paycheck.

³ South Hall Administrative Support Center: Provides administrative services for the departments of English, English for Multi-Lingual Students, Linguistics, Philosophy, and the Writing Program.

⁴ Concur is a system that streamlines the travel/entertainment/business expense reimbursement process.

- One overdraft was due to a system error that caused duplicated transactions to be posted.

In addition, we were informed that the English for Multilingual Students (ESL) Program account string (403686-19900) remained in overdraft until the end of each fiscal year when the Office of the Executive Vice Chancellor (EVC) processed a Transfer of Funds⁵ (TOF). As referenced in Table 1 above, this account string was in overdraft at the end of fiscal year 2022-23 by approximately \$1,200, while the previous month, May 2023, the account fund was temporarily in overdraft for approximately \$204,000. Funds should be transferred on a timely basis to avoid or reduce elevated deficit balances.

During our audit, we verified that the Department of Linguistics has cleared all four funds in overdraft for approximately \$6,800. In addition, as part of the monthly reconciliations the department will routinely track low balances to help prevent overspending and avoid overdrafts. We verified that the department has documented in a procedure the monthly reviews of account string balances. Adequately managing balances and monitoring expenditures is imperative to limit accounts in overdraft. Overdrafts should be resolved as quickly as possible by transferring funds to cover the cost.

2. FINANCIAL REPORTING AND OTHER BUSINESS PROCESSES

OBSERVATION

Reconciliations

Overall, our review of the current GL reconciliation process, including the reconciliation of payroll transactions, found that there is a monthly reconciliation process in place. However, we found the need to formally document the workflow process in a procedure and maintain evidence to support that monthly reconciliations are reviewed by management.

We inquired about the current GL reconciliation process, including the reconciliation of payroll transactions with annual payroll allocations. We found that the Financial Coordinator reconciles general and payroll expenses tracked in the shadow system (GUS)⁶ with expenses reported in the GL monthly. For payroll transactions, the Distribution of Payroll Expense⁷ (DOPE) report is used to reconcile against GUS. Discrepancies in GUS are individually investigated and resolved. In addition, a summary spreadsheet reconciliation is performed comparing monthly GL and GUS allocations, expenditures, and balances for each accounting string. The SASC Director reviews the reconciliation generated in GUS and the monthly summary spreadsheet.

We found there was not a documented reconciliation procedure in place to support the steps and the workflow process described above. In addition, our review of five consecutive monthly reconciliations, from February 2023 to June 2023, found that there was no evidence maintained to support the review of expenses and management's timely approval.

⁵ Transfer of Funds: Allows transfers of funds from one chart string to another.

⁶ GUS has a functionality to identify discrepancies with the GL.

⁷ Distribution of Payroll Expenses: Detailed payroll expense report of monthly transactions reported in the GL.

During our audit, the SASC Director documented the reconciliation procedure that included a description of roles and responsibilities in the monthly reconciliation process. Processes included detailed payroll and general ledger reconciliation steps, preparation of summary fiscal year allocations, expenses, and balances spreadsheet, and a sign-off sheet to capture signatures and dates of the preparation, review, and approval of monthly reconciled general ledger balances.

FlexCard⁸ Transactions

FlexCard transactions have been processed and approved consistently with separation of duties principles and the support documentation was overall adequate. However, we found opportunities to improve confirmation of items received.

We selected a sample of 15 out of 35 total FlexCard transactions processed during fiscal year 2022-23. We reviewed documentation to support the expense and found that all cases were pre-approved and justified. However, we found:

- Eight tangible items did not include a packing slip upon receipt or any other evidence to acknowledge receipt of the purchase. In addition, electronic confirmation of subscription renewals is not always sent by the merchant. We reached out to the FlexCard Coordinator in Business and Financial Services (BFS) and were advised that in cases that a packing slip is not available or confirmation of subscription renewals are not sent by the merchant, an email confirmation of receipt from someone other than the cardholder can be used to provide adequate proof of receipt.
- One purchase was missing a receipt.

Additionally, we reviewed whether the allocation of all FlexCard purchases processed during fiscal year 2022-23 were properly reviewed. We found that FlexCard purchases were made by cardholders and the allocation of these expenses were approved by someone other than the cardholder. In addition, we found that two of 35 FlexCard transactions were not timely reviewed and approved within the 14-day posting period. These transactions were allocated within two to three days after the posting period. Efforts should be made to allocate transactions within the posting period.

During our audit, the SASC Director updated the checklist used by the department to verify that the FlexCard purchasing process includes the appropriate support documentation. Specifically, addressing the need to provide evidence that purchases have been received, including cases when the vendor does not provide a packing slip or delivery receipt. These changes were communicated to all FlexCard administrators in the department.

GENERAL INFORMATION

BACKGROUND⁹

The Department of Linguistics at the University of California, Santa Barbara (UCSB), under the Division of Humanities and Fine Arts, was founded in 1989. UCSB Linguistics was created to realize a vision of linguistics as a field that would seek explanations for language as a

⁸ FlexCard: Procurement credit card for low value purchases. See background section for full description.

⁹ UCSB Department of Linguistics website.

fundamental human activity, through an understanding of how languages are used by their speakers. From the beginning, the department committed itself to maintaining a focus on the theoretical and methodological tools that would be needed to realize this vision, and to developing a broad empirical base for the work via a typologically diverse sampling of the world's languages. As more and more researchers across all fields of linguistics are seeking well-motivated explanations and firmly grounded empirical evidence for claims about the nature of language, UCSB's longstanding leadership in this enterprise puts the department at the cutting edge of linguistic scholarship, developing ideas, and methods that are critical for moving the field of linguistics into a new era.

UC Procurement Card Program (FlexCard)¹⁰

A procurement card is a credit card authorized by the University of California and provided to designated employees to enable the timely purchase of low-value goods or services. The card is routinely accepted by merchants who accept VISA or MasterCard for payment. The card is a corporate liability card, issued to an employee only for university purposes. Its use is subject to strict cardholder purchasing controls which cannot be exceeded without authorization. A settlement is executed electronically on the settlement date providing the opportunity for the University to eliminate costs for processing purchase orders, supplier invoices and for issuing checks, for each supplier.

There is only one type of procurement card at UCSB, which is referred to as a FlexCard. The FlexCard is issued to an individual, not to a department, and the card and account number cannot be used by anyone other than the cardholder. Separation of duties is critical in order to reduce the risk of errors, intentional or unintentional, that cannot be made by separating functional responsibilities. Payment liability rests with the University, not the cardholder.

FlexCard allocators are responsible for ensuring that FlexCard transactions are charged to the appropriate account fund within a 14-day posting period and usage tax is omitted for specific purchases that does not incur taxes. Adequately monitoring and verifying expenses provides assurance that financial transactions are complete and accurate.

SCOPE

The scope of our review was focused on the Department of Linguistics' business processes and internal controls during fiscal year 2022-23. To accomplish our objectives, our work included interviews, observations, review of support documentation, testing, and other steps. Specifically, we:

- Researched UC and UCSB policies, best practices, and other guidance relevant to the Department of Linguistics.
- Conducted interviews with Department of Linguistics personnel to gain an understanding of core business processes, policies, and procedures for administering and managing University assets.
- Performed a risk analysis that considered business related policy and procedures, financial reporting, and procurement using FlexCard.

¹⁰ BFS BUS-43: *Purchases of Goods and Services*.

- Evaluated the Department of Linguistics' business best practices and procedures to determine whether they incorporated adequate internal controls and reviewed opportunities to enhance and improve operational efficiency.
- Reviewed and analyzed financial administration of overdrafts in the department and plans to oversee low balances to avoid deficits.
- Assessed the financial reconciliations process for accuracy, timeliness, and completeness between the campus general ledger and the department shadow system, GUS.
- Tested FlexCard procurement transactions to determine if purchases were approved by someone other than the cardholder, support documentation was maintained, and approvals were timely reviewed.

CRITERIA

Our audit was based upon standards as set forth in UC and UCSB policies, best practices, and other guidance relevant to the scope of the audit. This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

This review emphasized, but was not limited to, compliance with:

- UC Business and Finance Bulletin BUS-43, *Purchases of Goods and Services* (UC Policy BUS-43)
- UCSB FlexCard Management Procedures

AUDIT TEAM

Ashley Andersen, Audit Director
Antonio Mañas Meléndez, Associate Audit Director
Irene Camargo, Senior Auditor