

The logo for UCIrvine, featuring the letters 'UCI' in a large, bold, serif font, followed by 'RVINE' in a smaller, all-caps, serif font. A vertical line separates the 'UCI' and 'RVINE' parts.

UCIRVINE

The logo for Internal Audit Services, featuring the words 'INTERNAL' and 'AUDIT SERVICES' stacked vertically in an all-caps, serif font.

INTERNAL
AUDIT SERVICES

Mesa Court Housing

Internal Audit Report No. I2016-101

October 15, 2015

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INTERNAL AUDIT SERVICES
IRVINE, CALIFORNIA 92697-3625

October 15, 2015

**LOUIS S. GILL
DIRECTOR
MESA COURT HOUSING**

**RE: Mesa Court Housing Audit
No. I2016-101**

Internal Audit Services has completed the review of the Mesa Court Housing 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.

Mike Bathke

Mike Bathke
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee
Lisa Cornish, Executive Director of Student Housing
Dan Dooros, Associate Vice Chancellor, Student Affairs

I. MANAGEMENT SUMMARY

In accordance with the fiscal year 2015-2016 audit plan, Internal Audit Services (IAS) reviewed the business operations, internal controls, and policy compliance in Mesa Court student housing (MC) within the University of California, Irvine (UCI). In general, the review in MC disclosed internal control/compliance weaknesses that should be improved to minimize risks and ensure compliance with University policies and procedures and/or best business practices. The following concerns were noted.

Payroll – For overtime, internal controls were not established to ensure that overtime pay was appropriate and accurate. Also, prior approvals for overtime were not documented. This observation is discussed in section V.1.a.

Concerns were also noted with all vacation leave accrual (VLA) adjustments made during the review period. Business procedures and processes were not established and implemented to ensure timely updates of vacation leave accrual rates due to changes in employee's years of service. In addition, all VLA adjustments were made without verification of the qualifying years of service or supervisory review and approval. This observation is discussed in section V.1.b.

Cash Handling – Collections were not deposited in a timely manner as required by policy. In addition, proper separation of duties was not established in the cash handling process. Further details related to these issues are provided in section V.2.

Non-payroll Expenditures – For some PALCard purchases, supporting documents were not maintained on file as required by policy. In addition, a lack in separation of duties was noted. These observations are discussed in section V.3.a.

Concerns were also noted with reimbursements selected for review. The review disclosed that entertainment and travel reimbursements as well as disbursement vouchers were not properly documented with supporting records as required by policy. In addition, proper separation of duties was not established for the MC Director's expenses; his subordinate approved two internal requisitions. These observations are discussed in section V.3.b.

Ledger Reconciliations – General ledger reconciliations have not been performed and documented prior to April 2015 to verify that expenditures are valid, and deposits have been accurately recorded. This observation is discussed in section V.4.

Equipment Management – The majority of the inventorial equipment selected for review were not identified with the UCI property tag. Also, information on equipment were not reported or accurately reported to the Equipment Management (EM) office. In addition, the serial numbers for some equipment were not properly or accurately entered for update in the Equipment Management System (EQS). These observations are discussed in section V.5.

Human Resources – Individuals selected for review had not completed background checks as required by policy. Also, documentation of background check clearances were not verified or maintained on file. These observations are discussed in section V.6.

II. BACKGROUND

Mesa Court is one of the 10 student housing communities on the UCI campus tailored to meet the needs of a diverse undergraduate student population. Mesa Court, a first-year housing community with 29 residence halls, ranging in size from 48-85 bed-spaces, is the largest student housing on campus. In addition to offering its students room and board, MC promotes student academic success and individual and community development through a wide array of educational opportunities and support services such as study workshops, peer writing and research tutors, etc.

Currently, MC is undergoing an expansion, which includes a new dining commons, new community spaces, and 750 new beds for freshman, and is due to open in fall 2016.

III. PURPOSE, SCOPE, AND OBJECTIVES

The scope of the audit focused on the business operations during fiscal year 2014-2015 through present. The primary purpose of the audit was to assess whether appropriate internal controls are established and currently in place are adequate and sufficient to prevent or detect fraudulent or non-compliant transactions, while ensuring policy compliance as well as the overall efficiency and effectiveness of business operations.

Based on the assessed risks, the following audit objectives were established.

1. Review non-payroll expenditures for proper accountability and separation of duties, adequate supporting documentation, assurance of valid and pre-authorized transactions, as well as compliance with policies and procedures.
2. Determine whether the following aspects of payroll complied with University policy: overtime approval, payroll ledger reconciliations, and sick and vacation leave accrued adjustments.
3. Review cash handling processes for compliance with policies and procedures and for assurance that collected funds are properly recorded, secured, reconciled, and deposited timely.
4. Evaluate the equipment inventory tracking procedures and sample inventorial items to ensure appropriate tagging, storage, and reporting.
5. Determine whether the general ledgers are reconciled in a timely manner and properly documented.
6. Verify that individuals in positions deemed critical had undergone and passed a background check as required by policy.
7. Assesse and review selected information technology (IT) general controls.

IV. CONCLUSION

During the review of internal controls and processes, concerns were identified in the areas of payroll, cash handling, non-payroll expenditures, general ledger reconciliations, equipment management, and human resources.

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

V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Payroll

a. Overtime

Background

Personnel policy on overtime for staff members requires the department head to approve overtime for non-exempt employees to meet essential operating needs. The department is responsible for ensuring an employee requested advance approval for overtime work and properly report the overtime worked in a timely manner prior to compensation.

Observation

IAS reviewed the overtime paid amounts as well as the approval process. IAS noted that approvals for overtime along with the number of hours approved for overtime and the justifications substantiating the necessity for overtime were not documented and obtained in advance as required by policy.

In addition, the overtime reported on time sheets were not verified for validity or accuracy prior to compensation for regular overtime as well as overtime incurred during on-call hours for two building maintenance workers.

Compliance with the policies and procedures ensures that overtime compensation is not only properly approved in advance and justified, but also appropriate and accurate for compensation.

Management Action Plan

A form has been developed for use in MC to obtain prior approval and documentation of essential operating needs for overtime. The form will also be used to verify the reported overtime before time sheets are approved. Managers and employees have been notified of this new form and its use. The new form will be used starting next quarter, in fall 2015, which is a seasonal business time for overtime.

The two maintenance workers who received overtime for being on call are part of a Student Housing department-wide Non-Office Hours Maintenance program (NOHM). The NOHM process, scheduling and documentation are overseen by a committee comprised of two unit directors and one associate director of operations who do not work in MC but in other housing units. The MC Director will work with this committee and share audit observations so that all scheduling, documentation, and verification of overtime is in compliance with policy.

IAS will follow-up on this action by March 31, 2016.

b. Vacation Leave Accrued Adjustments

Background

Departments are responsible for ensuring compliance with personnel policies which includes maintaining a complete and accurate record of an employee's vacation leave accrual rate. An employee accrues vacation leave based on type of appointment, years of qualifying service, and hours on pay status. Based on an employee's years of qualifying service, the department is responsible for ensuring that all vacation leave accrual rates in the Payroll/Personnel System (PPS) are accurate and updated in a timely manner.

Observation

All six VLA adjustments made during fiscal year 2014-2015 were performed by the Student Housing office. A review of the adjustments disclosed the following:

- Business procedures and processes were not established and implemented to ensure timely updates of VLA rates due to changes in an employee's years of qualifying service. All six VLA adjustments were made due to complaints raised by employees. It should be noted that the effective date for one VLA adjustment was retroactive to one year and ten months;
- The VLA adjustments were not accurate because the actual qualifying years of service were not verified and factors such as leaves, periods of separations, and monthly pay status at less than one-half time were not considered before the adjustments were made; and
- In addition, all VLA adjustments were made without secondary review for accuracy or supervisory approval.

Implementation of proper internal controls, such as service credit verification as well as secondary/supervisory review and authorization, minimizes the risks of error, fraud, waste, and improper use of University funds.

Management Action Plan

Effective immediately, Student Housing will implement the following management actions.

1. An annual review process will be re-established to determine if the vacation leave accrual rate change is appropriate and necessary based on the qualifying years of service for each employee.
2. The annual review process will include the procedures established by Central Payroll to properly calculate the qualifying years of service which takes into account such factors as leaves, periods of separations, and monthly pay status at less than one-half time.

3. The annual review process will also include new procedures requiring a secondary review to check the accuracy of every proposed VLA adjustment in addition to obtaining supervisory approvals prior to any update in PPS.

IAS will follow-up on this action by March 31, 2016.

2. Cash Handling

Background

Business and Finance Bulletin (BFB) BUS-49 establishes the University's policies related to handling and processing cash and cash equivalents, and defines roles and responsibilities related to the receipt, safeguarding, reporting and recordkeeping for all University cash and cash equivalents. Its purpose is to ensure that University assets are protected, accurately and timely processed, and properly reported. The bulletin also establishes basic internal control principles (accountability, separation of duties, security, and reconciliation) in regard to collecting and accounting for cash and cash equivalents.

Observation

The unit has been handling cash and checks mainly for student activities such as purchases of sweatshirts, t-shirts, and mugs as well as events such as ice skating, bake sales, Valentine's grams, etc. The following is a summary of the observations.

- Cash and check collections were not deposited at the designated Main Cashiering Station in a timely manner, not weekly or when collections exceed \$500 as required by policy. For example, a check in the amount of \$325.00 dated October 9, 2014 was deposited on March 25, 2015. Also, a review of the Campus Online Deposit history from January 1, 2014 through August 27, 2015, disclosed instances of large time gaps between deposits. There were no deposits between February 22, 2014 to June 22, 2014 and from June 24, 2014 to March 10, 2015.

Failure to validate deposits and prepare them in a timely manner weakens the control structure and may lead to loss or theft.

- An internal control procedure that ensures an adequate separation of duties was not maintained. For example, during the review period, the business manager reconciled the deposits to the general ledger but also prepared deposit advice forms and transported cash and cash equivalents for deposit.

Policy states that the business unit head is responsible for establishing procedures that ensure that no single individual is responsible for collection, handling, depositing and accounting for cash received by that unit. At least two qualified individuals must be assigned to carry out key duties of the cash handling process. Failure to maintain adequate separation of duties over cash related functions may result in diversion of University funds.

Management Action Plan

Cash Handling

Beginning in March 2015, MC stopped collecting of cash for items such as printing and stamps in the Community Center. The collection of cash for sales of sweatshirts, etc. and fund raising events was also curtailed.

Furthermore, starting in July 2015, management made the decision to stop collecting cash and checks for the sales and services described above in the new fiscal year. Instead, other arrangements will be made.

Deposits

In March of 2015, management reviewed the depositing procedures and made changes to ensure compliance with policy. The new procedures and processes ensure proper separation of duties and timely deposits, at least weekly.

IAS will follow-up on this action by March 31, 2016.

3. Non-Payroll Expenditures

a. PALCard Transactions

Background

The purchasing card (PALCard) is used by staff with purchasing responsibilities to buy equipment, supplies, and services. As a best business practice, PALCard holders should check for authorized signatures/approvals prior to making any purchase. In addition, UCI PALCard policies require an administrative reviewer to review PALCard supporting documentation and account/fund for appropriateness for each transaction in a timely manner.

Observation

The following observations were noted for 16 of the 35 PALCard transactions selected for further review.

- Six transactions were not properly approved and/or lacked proper separation of duties. On one internal requisition, the Director approved his own expense and was not submitted to his supervisor for approval as required by policy. As for the other five transactions, the business manager's responsibilities included monthly ledger reconciliations of all unit expenses including her own PALCard purchases.
- For ten transactions reviewed, the required supporting documents, such as invoices, packing slips, and handling of a gift card received upon purchase, were not maintained on file as appropriate supporting documentation and necessary for administrative review in accordance with policy.

In addition, a review of the internal requisitions disclosed six PALCard and Managed Spend Card transactions where supervisory authorizations for purchases were dated after the purchase dates.

Implementation of internal controls, such as prior approvals, maintaining proper documentation, and timely administrative review minimizes the risks of error, fraud, waste, and improper use of University funds.

Management Action Plan

Separation of Duties

As of March 2015, the interim business manager does not have signature approval authority on any PALCard transactions. The interim business manager's PALCard will be deactivated and will not have any purchasing authority. This practice will be in place until a new business manager is hired.

In future, the Director will submit internal requisitions to his supervisor or designee for approval.

Proper Supporting Documentation

The MC PALCard Purchase Request Form was revised along with complete instructions to ensure approvals are obtained prior to purchase, and that necessary purchasing details and a list of required documentation such as the receipt of gift cards from purchases are recorded and filed for proper and complete reconciliation.

This process is being implemented now and staff is being trained. When all housing units have hired a business manager, these processes will be reviewed so that business processes in all units are consistent.

IAS will follow-up on this action by March 31, 2016.

b. Reimbursement Transactions

Background

As of July 2014, reimbursements for various transactions such as entertainment, travel, and other expenses are processed through the Quali Financial System (KFS), a comprehensive enterprise financial system used to process most of the campus' financial transactions. Reimbursement requests pertaining to travel expenditures must comply with BFB G-28 and expenditures for business meetings, entertainment, and other occasions must comply with BFB BUS-79 in addition to applicable UCI policies.

Observation

A sample of 12 reimbursement transactions (entertainment, travel, and disbursement voucher) was selected for review to determine if the unit complied with policy and procedures. The following is a summary of the observations:

- Two transactions were not properly approved and lacked proper separation of duties. On two internal requisitions, the Director hosted faculty dinners that were approved by his subordinate and not by his supervisor as required by policy. In addition, the Director approved both transactions in KFS.
- Half of the transactions reviewed were not properly substantiated with the required supporting documents. The necessary documentation (such as an explanation on why a PALCard was not used for purchases; required employee agreements and call logs for shared cell phones; properly completed internal requisitions and attendee sign-in sheets; as well as signatures documenting individuals that received prizes) were not obtained and reviewed for propriety as required by policy.

Furthermore, IAS noted that for the majority of transactions reviewed, PALCard was the appropriate method of purchase. Internal controls, such as proper documentation, authorization, and review, reduce the potential for reimbursement of improper expenses as well as errors/inaccuracies, waste, and fraud to go undetected.

Management Action Plan

Separation of Duties

The Director will submit an internal requisition for all his expenses to his immediate supervisor or designee for approval.

Proper Supporting Documentation

Management will work with the appropriate office and train staff to ensure that the necessary supporting documentation, such as employee agreements for shared cell phones, a cell phone log, attendee sign-in sheets, and prize

documentation/log, will be obtained, and properly completed and filed as required by policy. Staff will also be reminded to properly complete internal requisitions and when PALCard is the proper method of purchase.

IAS will follow-up on this action by March 31, 2016.

4. 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

In the past, general ledger reconciliations as well as supervisory reviews of the reconciliations were not documented. Therefore, IAS was not able to verify whether the reconciliations were performed or in a timely manner. However, beginning in April 2015, the Director started documenting his reconciliations of the general ledgers for fiscal year 2014-2015.

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

Management Action Plan

Beginning in April 2015, a new ledger reconciliation process was instituted in MC. This process was adopted from other units in Student Housing. All financial transactions dating back to July 2014 were reviewed and documented under the new process.

Until a business manager is hired this fall, the Director will reconcile the general ledgers monthly and the Director's supervisor in Student Housing will approve the reconciliations.

Also, upon hiring a business manager for MC, Student Housing will establish a uniform budget reconciliation and filing process that will be adopted by all Student Housing units. Therefore, some aspects of the current process in MC may be modified.

IAS will follow-up on this action by March 31, 2016.

5. Equipment Management

Background

For equipment management purposes, UCI equipment is defined as any item with an acquisition cost of \$5,000 or more and a useful life of one year or more. UCI policy requires an acceptable property control system which includes affixing property tags to equipment so that is easily sighted, recording serial numbers, and reporting current equipment information in Equipment Management System (EQS) in a timely manner.

Observation

A sample of 21, almost half of all, inventorial equipment were reviewed to determine if each item was properly managed: identified with the UCI property tag; stored in the reported location; and accurately reported in EQS. During the review, the following observations were noted.

- Two inventorial equipment were replaced or disposed of in 2011, but were not properly managed and reported. For the replacement equipment, an Equipment Inventory Modification Request (EIMR) form was not completed and submitted to the EM office for proper reporting in EQS. For the equipment that was disposed of, an EIMR form with incorrect information was submitted and therefore inaccurately updated in EQS.
- For 70 percent of the total equipment selected for review, University property tags were not affixed to the equipment or property tags were affixed to the wrong equipment.

- The serial numbers for several items were not recorded as soon as possible as required by policy. The serial number fields for equipment purchased from April 2001 to May 2014 were not completed and updated in EQS.

Failure to maintain an accurate equipment inventory weakens the control structure and reduces the ability to detect inaccuracies and theft.

Management Action Plan

Reporting/Update in EQS

The Director met with the EM manager to discuss the two equipment incorrectly reported and updated in EQS. In addition, a physical inventory of all electric carts was conducted and the findings were shared with the EM manager. Based on the findings and discussions, the issues concerning the two inventorial items were sorted, and both items were properly tagged and updated in EQS.

Property Tags

Duplicate property tags were obtained and affixed for all electric carts. In addition, by the end of August 2015, duplicate property tags will be requested and properly affixed to all MC equipment not tagged that were identified by the audit.

Missing Serial Numbers

By the end of August, all missing serial numbers will be recorded on the MC equipment inventory list and updated in KFS. Prior to update in KFS, the Director will review the list for approval.

IAS will follow-up on this action by March 31, 2016.

6. Human Resources

Background

UCI Administrative Policy Sec. 300-10, Background Check Procedures, states "A pre-employment check of a candidate's background serves as an important part of the selection process and is conducted to promote a safe work environment; protect key organizational assets such as people, property, and information; and enables the hiring authority to make prudent hiring decisions based upon more comprehensive job-related information." UCI departments are responsible for complying with this policy during recruitment processes or when assigning an employee new and/or additional duties where a position or function is deemed critical such as handling cash or having access to financial systems.

Observation

Seven employees in positions deemed critical were selected for further review. The review disclosed that background checks were not performed for two employees as required by policy. It should be noted that the two employees include the Director, hired on April 23, 2007 with access to financial systems and records, and a student worker, hired on May 27, 2013 who makes purchases and handles cash.

Promptly obtaining cleared background checks on staff in critical positions will ensure that business risks are minimized within the unit.

Management Action Plan

The Director completed a background check at the UCI Police Department (UCIPD) on August 10, 2015. The background check results will be forwarded to his supervisor for her review.

The student employee had stated that she was already gone through a background check prior to her hire in MC. However, UCIPD did not have documentation that verified a background check was conducted. The student's employment ends on or about September 30, 2015. Management has rescinded her key access, and cancelled her Managed Spend Card. Also, as of March 2015, this student has not collected cash as part of her employment duties; the area she works in stopped sales and services in March 2015.

IAS will follow-up on this action by March 31, 2016.