

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

Disability Services Center
Internal Audit Report No. I2018-102
March 19, 2018

Prepared By

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Reviewed and Approved By

Mike Bathke, Director



INTERNAL AUDIT SERVICES
IRVINE, CALIFORNIA 92697-3625

March 19, 2018

**INGRID FAHR
INTERIM DIRECTOR
DISABILITY SERVICES CENTER**

**Re: Disability Services Center Audit
No. I2018-102**

Internal Audit Services has completed the review of the Disability Services Center 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
Marcelle C. Holmes, Associate Vice Chancellor
Johnny Chu, Business Manager

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2017-2018 audit plan, Internal Audit Services (IAS) reviewed business operations and other financial activities in the Disability Services Center (DSC). In general, many internal controls within DSC business operations and financial activities have been established and implemented. IAS identified a few internal control and compliance weaknesses that should be improved to minimize business risks and ensure compliance with University policies and procedures and/or best business practices. The following observations were noted.

Cash Handling – Cash collections were not properly recorded, handled, or deposited as required by policy. In addition, proper separation of duties was not established in the cash handling process. Further details related to these observations are provided in section V.1.

Travel, Entertainment and Business Meeting Expenses – Some reimbursements were not properly reviewed and approved. Also, supporting documentation, such as receipts, agendas, or business justification, were not submitted as required by policy. In addition, travel was not authorized in advance as required by policy. Details related to these observations are provided in section V.2.

PALCard Expenditures – Approvals were not documented or obtained in advance. Proper supporting documentation that is necessary for administrative reviews was not always retained on file to support or justify PALCard transactions. These observations are discussed in section V.3.

II. BACKGROUND

University of California at Irvine (UCI) recognizes students with disabilities as a vital diverse part of its student body and seeks to provide genuine, meaningful opportunities for all students and full participation in every program and promoting independent living and economic self-sufficiency. UCI demonstrates its core values of individual growth and development and civility and diversity by recognizing students with disabilities as an important part of its student body.

To ensure that the students with disabilities succeed, the Disability Services Center (DSC) has been tasked in providing services to students with both permanent and temporary disabilities. Services include reasonable academic accommodations, auxiliary aids, and individualized support services based on the documented disability, functional limitations, and a collaborative assessment of needs.

III. PURPOSE, SCOPE AND OBJECTIVES

The purpose of the audit was to assess DSC business risk, internal controls, and compliance with University policies and procedures. The review was designed to determine whether sufficient internal control measures are in place to prevent or detect inappropriate, non-compliant and/or fraudulent transactions, while ensuring efficiency and effectiveness in business operations. The audit scope included fiscal year 2016-2017 business operations and financial activities.

The following audit objectives were included in the review:

1. Review cash handling processes for compliance with policies and procedures and for assurance that collected funds are properly recorded, secured, reconciled, and deposited timely.
2. Review travel expenses 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.
3. Review business meeting and entertainment expenditures for proper accountability and separation of duties, adequate supporting documentation, assurance of valid transactions, as well as compliance with policies and procedures.
4. Review PALCard 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.
5. Evaluate the smartpen inventory tracking procedures and sample inventorial items to ensure appropriate tagging, storage, and reporting.

6. Determine if self-supporting graduate programs were properly and timely recharged for services provided and whether the recharge rate was properly and timely reviewed for appropriateness.

IV. CONCLUSION

Many internal controls within DSC business operations and financial activities have been established and implemented. However, concerns were noted with the practices and processes in cash handling, travel, business meeting, and entertainment expenditures, and PALCard purchases.

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

V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Cash Handling

Background

University of California Office of the President (UCOP) policy, Business and Finance Bulletin – 49 (BUS-49) establishes the University’s policies related to handling and processing cash and cash equivalents, and defines roles and responsibilities related to 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 DSC has been handling cash and checks received from sales of supplies from students, such as smartpens, smartpen notebooks, smartpen ink, bluebooks, and scantrons. The following is a summary of the observations.

- Cash collections from sales were not deposited at the Main Cashiering Office as required by policy. The last deposit was made on July 27, 2016 yet cash was collected from the sales of items mentioned above from July 28, 2016 through October 2, 2017. Instead, the collections were commingled with a petty cash fund as well as a change fund. This is a violation of University cash handling policies and procedures, which require that a petty cash fund must be maintained separately from a change fund.
- Although DSC completed the application to request a new petty cash or change fund on January 6, 2016 and a change of custodian of petty cash/change fund form on April 11, 2016, both forms were not submitted to the Accounting Office so the fund had not been properly established and recorded.
- The DSC also did not establish proper departmental procedures for the use of petty cash with internal controls such as documented approval by the department head for reimbursement from the petty cash fund or a record of staff that have received reimbursements from the petty cash fund. Therefore, IAS could not determine if reimbursements from the petty cash fund were appropriate.
- IAS reviewed the DSC petty cash journal and noted the following observations.
 - Petty cash funds were used to purchase refreshments, food, and gifts, which are prohibited purchases by policy.
 - Seven log entries were either crossed out or whited out without any explanation.

- IAS also noted two errors in calculating the fund balance thereby understating the fund balance by \$8.80 and overstating the fund balance by \$39.12.
 - IAS also noted two discrepancies in the income amounts noted in the DSC petty cash journals. The income amounts did not tie to the sales log and income amounts were inflated by \$14.70 and \$27.25.
 - Lastly, IAS also noted that although the business manager and the fund custodian performed a cash count on a regular basis and documented the cash count on the DSC petty cash journals, the ending fund balances rarely equaled the sum of cash plus accumulated receipts and deposits. IAS noted that during seven cash counts, the cash count amounts did not tie to the running fund balance amounts. Policy states that the fund custodian "assumes personal responsibility for the cash in the fund" and is to "ensure that the sum of cash plus accumulated receipts equals the fund balance."
- Although IAS performed a cash count with the fund custodian on November 22, 2017, IAS was not able to determine or verify if the cash count amount is valid or accurate due to the fact that actual sales receipts were not recorded as required by policy and that income amounts on the petty cash journals did not tie to the sales log totals.
 - Although DSC had pre-numbered, multiple-part cash receipt books on hand to record collections not recorded on a cash register or point of sale equipment as required by policy, most collections were not recorded. For example, in one receipt book, receipt number 500817 recorded a collection on October 13, 2014 and the next receipt number 500818 recorded a collection on October 27, 2017 (three years later). In addition, an official University receipt was not provided to payers making an in-person payment as required by policy.

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. Failure to establish and maintain adequate internal controls over cash related functions may result in diversion of University funds.

Management Action Plan

Effectively immediately, DSC has implemented the following.

- Eliminate the petty cash fund and deposit the remaining funds (\$168.84) to the DSC Income/Recharge Account.
- Discontinue sales activities of school supplies with the exception of smartpen supplies.
- Document each sale of smartpen supplies and provide students with a receipt.
- Accept only checks as form of payment for sales of smartpen supplies.
- Deposit checks at least on a weekly basis or when collections exceed \$500.

Due to current staffing and the low risk associated with deposits, DSC will assume the risk of the current practice in preparing the deposits (not in dual custody).

IAS considers this management action plan to be implemented and no further follow-up is required.

2. Travel, Entertainment, and Business Meeting Expenses

Background

As of July 1, 2014, reimbursements for various transactions such as travel, business meetings, entertainment, and other expenses are processed through the Quali Financial System, a comprehensive enterprise financial system used to process most of the campus' financial transactions. Reimbursement requests pertaining to travel as well as business meeting and entertainment expenditures must comply with University policy on travel (G-28) and business meetings, entertainment, and other expenses (BUS-79) in addition to UCI policies.

Observation

IAS reviewed travel, entertainment, and business meeting reimbursements to determine if DSC complied with policy and procedures. IAS noted the following observations.

- None of the travel reimbursements reviewed had been properly authorized in advance as required by UCI policy Sec. 715-01: Travel Authorization and Approval.
- Some travel, entertainment, and business meeting reimbursements lacked proper documentation, were not properly approved, or lacked adequate explanations to support the charges. For example, IAS noted some reimbursements that lacked receipts (lodging, airline, meals, etc.), lacked exceptional approval when exceeding the maximum per person limit for business meeting meal amounts, and lacked explanations for offsite meals when meals may have been included in conference registration fees or booking the higher venue room rate.

Internal controls, such as a proper authorization, documentation, and approvals should be strengthened to comply with policy and to reduce the potential for reimbursement of improper expenses.

Management Action Plan

DSC created a pre-travel checklist that addresses the issues noted above, which travelers must read and sign acknowledging they will comply with the new requirements. Travelers are also now required to document travel approval from the department head prior to booking any business related travel. DSC has also implemented internal controls to ensure compliance with entertainment and business meeting expenses. IAS has reviewed the controls and considers these management action plans to be implemented and no further follow-up is required.

3. PALCard Transactions

Background

The purchasing card (PALCard) is used by staff with purchasing responsibilities to buy equipment, supplies, and services. DSC purchasing procedures and policies require purchases to be authorized in advance either formally through an internal requisition or informally, such as an email. In addition, PALCard policies

require an administrative reviewer to review PALCard supporting documentation and account/fund for appropriateness for each transaction in a timely manner.

Observation

A sample of PALCard transactions was selected from July 1, 2016 through present for further review and the following observations were noted.

- Packing slips were not always maintained as required by policy to document the proof of delivery.
- Purchases were sometimes made before authorizations were obtained, and/or before purchase requisitions and other purchasing documentation were prepared.
- For one PALCard transaction reviewed, the proper tax amount was not posted to the general ledger.

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

Management Action Plan

Effective immediately, DSC has implemented internal controls to ensure compliance with PALCard purchasing requirements. IAS has reviewed the controls and considers this management action plan to be implemented and no further follow-up is required.