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

SCHOOL OF LAW
Report No. 2013-103

December 14, 2012

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December 14, 2012

ERWIN CHEMERINSKY, J.D.
DEAN & DISTINGUISHED PROFESSOR OF LAW
UC IRVINE SCHOOL OF LAW

Re: **UC Irvine School of Law Audit**
      Report No. 2013-103

Internal Audit Services has completed the review of the School of Law 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

Bent Nielsen
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee
    Rebecca Avila – Assistant Dean for Administration
    Lisa Rehbaum – Director of Finance and Operations

I.   MANAGEMENT SUMMARY

In accordance with the fiscal year 2012-13 audit plan, Internal Audit Services (IAS) reviewed financial activities and business operations of the University of California (UC), Irvine, School of Law (UCILS). Based on the audit work performed, certain internal controls should be strengthened to ensure compliance with University policies and procedures and/or best business practices. The following concerns were noted:

Conflict of Commitment and Leave of Absence/Travel Authorization – Concerns were noted regarding the completion and timely submission of the annual Conflict of Commitment and Outside Activities of Faculty Members (AP 025) report and related forms, and the documentation of all outside professional activities by faculty members. Additionally, travel associated with faculty outside activities was not properly authorized. These observations are discussed in section V.1. and V.2.

PayQuest Reimbursements – Travel, entertainment, and other business-related reimbursements to UCILS faculty, staff, and associates are not always proper, and/or properly authorized, documented, and approved. Additionally, travel reimbursement requests are not always submitted in a timely manner. These observations are discussed in section V.3.

Business Continuity and Disaster Recovery Plans – Business continuity and disaster recovery plans for UCILS have not been documented to minimize the risk of loss of critical services. This observation is discussed in section V.4.

II.   BACKGROUND

UCILS, the first new public law school in California in more than 40 years, welcomed its first class in August 2009. UCILS seeks to train lawyers for the practice of law at the highest levels of the profession. UCILS's innovative curriculum stresses hands-on learning, interdisciplinary study and public service.

Drawn from top law schools across the country, UCILS's faculty has been ranked ninth in the nation in a recent study of scholarly impact. UCILS's high selectivity enabled it to field an inaugural class of 60 students with a median grade point average and LSAT scores consistent with other "top 20" U.S. law schools.

In FY 2011-12, UCILS employed 141 faculty, staff, and students and reported over $13 million in funds from all sources, including over $6 million in state funding.

III. PURPOSE, SCOPE, AND OBJECTIVES

The scope of the review focused on fiscal year 2011-12 financial, operational and compliance activities. The primary purpose of the audit was to assess internal controls and evaluate the business operations of UCILS. In addition, the audit evaluated whether sufficient control measures are in place to prevent or detect fraudulent financial transactions, while ensuring the efficiency and effectiveness of business operations.

The following audit objectives were included as part of the audit.

1. A review of UCILS faculty outside professional activities.

2. A review of internal controls over UCILS cash handling and depositing processes.

3. A review of internal controls over UCILS non-payroll expenditures. Included was a review of control and compliance measures over travel and business-related/entertainment expenditures.

4. A review of UCILS conformance with selected other key accounting controls.

5. Assessment and review of selected information technology (IT) general controls.

IV. CONCLUSION

In general, internal controls and processes in UCILS appear to be functioning as intended. However, business risks and control concerns were identified in conflict of commitment and leave of absence/travel authorization, PayQuest reimbursements, and business continuity/disaster recovery planning.

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. Conflict of Commitment (COC) Reporting

Background

UC Academic Policy Manual (APM) 025, the University policy governing conflict of commitment and outside activities, requires all faculty members to complete an annual report of Category I and II compensated outside professional activities (OPA). The annual reports must be completed (regardless of activity), and approved by November 1st of the following academic year.

Observation

IAS reviewed the FY 2010-2011 annual disclosure report for OPA, and nineteen corresponding report forms. The review disclosed some concerns regarding the completion and timely submission of the report and forms, as follows.

1. As of the audit date, the FY 2010-2011 annual report for OPA (which had a November 2011 reporting deadline) had not been completed. Subsequently, an IAS request for OPA documentation prompted UCILS to complete an annual report for FY 2010-2011 (dated 7/24/12). Report forms for nineteen faculty members were also completed. However, eighteen of the nineteen report forms also had signature dates that occurred after the November 2011 reporting deadline.

2. UCILS identified twenty faculty members who were required to report OPA activities in FY 2010-11. One faculty member failed to turn in a report form.

    In addition, the report forms for the other nineteen reporting faculty members were not always properly completed as follows:

    - Three of the report forms were signed but not dated;
    - Four report forms were neither signed nor dated.

Failure by faculty members to accurately report OPA in a timely manner hinders management's ability to ensure that faculty members' outside activities are in compliance with policy.

Management Action Plan

An annual email message is sent to all faculty members reminding them of their obligation to report outside activities along with a link to policy. Follow-up reminders are sent to those that do not respond.

Going forward, UCILS management will attempt to gather this information during the month of October every year so that a more timely report may be submitted to AP. Failure to comply will result in reminders from the Director of Personnel and the Dean.

2. COC and Leave of Absence/Travel Authorization

Background

University travel must be properly authorized, reported, and reimbursed in accordance with University policy. Authorization is to be obtained prior to undertaking University travel.

Academic Personnel (AP) policy requires faculty to complete a leave of absence form (AP-76) for leave of seven days or more.

Observation

An adequate mechanism is not in place to properly authorize and monitor faculty travel, including those activities likely to raise a conflict of commitment and/or require a leave of absence form. In a review of faculty-reported OPA, IAS examined a sample of related travel activities supported by PayQuest reimbursement forms and other documentation and noted that none of the travel reimbursements had been pre-authorized (no AP-76 form or any other type of travel authorization).

Proper authorization and monitoring of faculty travel reduces the risk of inappropriate/unauthorized expenditures.

Management Action Plan

UCILS will require faculty to complete AP-76 forms for all travels/leaves of more than seven days. These forms will then be used as authorization for travel/approval of certain categories of leave as well as to monitor faculty activities to ensure compliance with University policies.

3. PayQuest Reimbursements

Background

UCI employees utilize the PayQuest automated system to request reimbursement for various expenditures. PayQuest reimbursement requests pertaining to travel expenditures, and expenditures for business meetings, entertainment, and other occasions must comply with UC Policies G-28 and BUS-79.

Observation

IAS reviewed a sample of 22 PayQuest reimbursement requests prepared between November 2011 and June 2012. The sampled requests were judgmentally selected and included advances and reimbursements for supplies/materials, events, travel, meetings/entertainment, and other/miscellaneous. The following is a summary of the observations.

Reimbursements for Travel, Events, and Meetings/Entertainment

- **Reimbursement Request Submission:** Travel reimbursement requests were not always submitted to the campus Accounting office within 21 days after the event as required by policy.

- **Expenditure Certification:** Employees certifying the propriety of event expenditures were not always the official event host and did not always appear on the event's list of attendees.

- **Expenditure Approval:** Some expenses that required exceptional approval were either not signed by an appropriate authority or lacked any approval signature.

- **Prepaid Travel and Travel Advances:** Supporting documentation for reimbursement requests pertaining to some employee prepaid travel expenditures and zero-pay travel advance closeouts does not always provide sufficient evidence that claimed expenditures were incurred.

- **Support Documentation:** Documentation submitted in support of reimbursement requests did not always provide sufficient evidence of the final amount paid for certain expenditures.

Reimbursements for Supplies/Materials, and Other/Miscellaneous

- **Payment Method**: Some reimbursement requests paid to faculty and staff members were for supplies and materials that should be purchased with a PALCard or a purchase order.

- **Support Documentation:** Documentation submitted in support of supplies and materials did not always provide sufficient evidence as to the final amount paid for certain expenditures, and/or proof that all of the purchased items were properly authorized and received.

Proper authorization, review, approval, documentation, and timely submission of PayQuest reimbursements reduces the risk of improper costs or unauthorized use of University funds.

Management Action Plan

To strengthen PayQuest processes as well as ensure compliance with policy, UCILS financial management will educate internal PayQuest processors, travel coordinators, event organizers, and financial related staff during planned training sessions. In addition, UCILS financial management will redistribute PayQuest policies and procedures as well as the approval authority matrix through various communication channels with the UCILS community including: (1) an update to the faculty handbook, which is a document that is updated and distributed annually to all faculty members; (2) conducting UCILS wide policy and training sessions for staff; and (3) emails from UCILS financial management. Planned implementation is January 2013.

4. **Business Continuity and Disaster Recovery Plan**

   Background

   UC Business and Finance Bulletin IS-3: Electronic Information Security (IS-3) states that appropriate documented measures should be in place for the prevention, detection, early warning of, and recovery from emergency conditions.

   Observation

   Discussion with the UCILS IT Director indicated that the Office of Information Technology (OIT) is responsible for performing backup of UCILS systems and data, however, business continuity and disaster recovery processes have not been

documented. Without comprehensive contingency plans, UCILS is at risk of loss of critical services such as IT for students, faculty and staff and also data security and privacy risks.

Management Action Plan

Some of the critical IT services that have the largest impact that need to be discussed among the executive management are the following:

- Downtime of email services provided by OIT;
- Disruption in classroom technology; and
- Access to critical information stored on UCILS file/database servers.

By the end of December 2012, the IT Director will implement the following.

- Identify the critical IT services that have the largest impact to the UCILS community.
- Determine and document the backup/contingency plan both in the short term and long term for the disruption. Also, ensure that resources (equipment and staff) are available to follow through on the plan.

By the end of June 2013, the IT Director will implement the following.

- Ensure that the review and test are done at least annually.
- Work with OIT on the following:
    a. OIT already provides secure onsite storage. Research with OIT to determine the best secure offsite storage of backups; and
    b. Work with OIT on their plan if email services are down.
- Complete UCILS emergency preparedness and business continuity plan based on the campus' established protocols and template.