

March 11, 2011

GRANT KESTER
Chair, Department of Visual Arts
0327

Subject: *Department of Visual Arts
Audit & Management Advisory Services Project 2011-11*

The final audit report for Department of Visual Arts, Audit Report 2011-11, 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. While management corrective actions have been included in the audit report, we may determine that additional audit procedures to validate the actions agreed to or implemented are warranted. We will contact you to schedule a review of the corrective actions, and will advise you when the findings are closed.

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 AMAS personnel or destroy them at this time.

Stephanie Burke
Assistant Vice Chancellor
Audit & Management Advisory Services

Attachment

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AUDIT & MANAGEMENT ADVISORY SERVICES



University of California
San Diego

**Department of Visual Arts
March 2011**

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Project Number: 2011-11

*Department of Visual Arts
Audit & Management Advisory Services Project 2011-11*

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I. Background

Audit and Management Advisory Services (AMAS) has completed a limited review of key internal controls in the Department of Visual Arts as a component of our annual plan for Fiscal Year 2010-11. This report summarizes the results of our review.

The UCSD Department of Visual Arts (the Department) offers Bachelor of Arts (B.A.) and Master of Fine Arts (M.F.A.) degrees across painting, drawing, sculpture, performance, computing in the arts, film, video, photography and criticism; as well as a Bachelor of Arts (B.A.) degree in art history and a Ph.D./M.A. degree in Art and Media History, Theory and Criticism. Rather than segregating art practice and history, the Department brings practitioners, theorists and historians together to encourage innovative work at the boundaries of disciplines, discourses, and methodologies.

The Department of Visual Arts has over 900 majors and minors, and over 75 graduate students. The Department is spread throughout the campus in four locations occupying approximately 96,000 square feet of space containing class laboratories, academic offices, open laboratories, conference rooms, research laboratories, studios, computer labs, electronic labs, metal shops, wood shops and machine shops, as well as common and plaza areas alongside with outside work decks. The Department has 32 permanent faculty and 17 staff employees.

For Fiscal Year 2009-10, Visual Arts incurred total expenditures of approximately \$5.6 million. The Department was primarily funded by state funds. Funding from all other sources combined, including gift funds, opportunity funds, contract and grant funding and endowment funding together comprised less than ten percent of the Department's budget. On the expenditure side, faculty and staff salaries and related benefits accounted for approximately 90% of Department expenditures. The cost of supplies and other expenses accounted for nearly all of the Department's non-payroll related expenditures.

II. Audit Objective, Scope, and Procedures

The objective of our audit was to review key internal controls for Department financial activity, and evaluate whether the internal controls provided reasonable assurance that financial activity was conducted in accordance with University and campus policies and procedures. This was not a full scope audit using a broad-based preliminary survey approach to evaluating department risk. Rather, this was a limited scope review of key department internal controls for financial activities based on Department management's assertions, in conjunction with AMAS testing performed to validate those assertions. The scope of our review consisted primarily of Department financial activities in the current and prior fiscal years.

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In order to fulfill our objective, we interviewed the Department Management Services Officer (MSO); evaluated the AMAS internal control questionnaires and separation of duties matrix completed by the MSO; reviewed department timekeeping and payroll processes; examined department financial reports, files, and documents; and performed limited transaction testing for selected financial activities (Attachment A).

III. Conclusion

Based on our audit procedures, we concluded that the system of internal controls within the Visual Arts Department needs improvement in order to provide reasonable assurance that financial activity within the Department is conducted in accordance with University and campus policies and procedures. We identified a number of areas in which improvements in the system of internal controls are needed, as discussed in the following section of this report.

IV. Observations and Management Corrective Actions

A. Department Procurement Practices

During our transaction testing we observed procurement practices that did not conform to University policy or generally recognized good business practices.

Reliance on Employee Reimbursements for Procurement - We noted that the Department exhibited an over-reliance on employee reimbursements via Payment Authorizations as a routine method of procurement by the Business Office.

University policy states that reimbursements to University employees for purchases of goods should be discouraged as there are other options available for making such purchases including procurement cards (UC Accounting Manual Policy D-371-16). However, in reviewing procurement activity over the last two completed fiscal years, we noted a greater reliance on employee reimbursement as a procurement method than is typical in most university departments.

Specifically, we noted a total of 32 reimbursements to the Department MSO. We also observed that the Department used this procurement method for purchases of specific activity types where more appropriate campus procurement methods were available (i.e., Express Cards, Marketplace, Purchase Orders, MyTravel, and recharge). For example, we noted employee reimbursements to the MSO for the following: non-inventoriable equipment, Faculty Club meals, other business meeting entertainment costs, and office supplies.

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When we asked why some of these transactions were not conducted through other procurement methods, we were advised that the Department sometimes saved money through the reimbursement and payment authorization process. For example, in one instance we were advised that a large television monitor was purchased at a discount from a vendor (Costco) that would accept the individual's American Express Card but would not accept a UCSD Express Card. In our opinion, as a matter of University policy and good business practice, it is best to avoid involving employees' personal funds in the conduct of University business, unless absolutely necessary. Occasionally, this may mean forgoing a discount that might otherwise be available.

Documentation of Reimbursement Approvals – Approval documentation for reimbursements to the MSO were located within and outside of the Department and, consequently, were not all readily available for our review. Generally, the transaction audit trail in the UCSD Integrated Financial Information System (IFIS) indicated that the transactions were electronically initiated by the Department Fiscal Officer that reports to the MSO, and were then electronically approved by the MSO.

The MSO advised that the Department Chair would generally approve these reimbursements via a manual signature, and that the signed supporting documents would be sent to Disbursements. Of the 32 reimbursements to the MSO, we were able to locate supporting documentation in Disbursements' IDocs imaging system for 20 transactions which indicated approval by the Department Chair or the Division Dean. The Department was able to locate in Department files supporting approval documentation for another eight transactions. Ultimately, there were four reimbursements to the MSO for which we were unable to locate documentation of approval of the transaction by someone who did not report directly or indirectly to the MSO.

University policies regarding Expenditures for Business Meetings, Entertainment and Other Occasions (BUS-79) and the Policies and Regulations Governing Travel (BUS-28) establish restrictions on approval of expenses for travel and entertainment (including the approval of business meeting expenses). According to these policies, expenditures cannot be approved by the individual who incurs the expense or by anyone who reports directly or indirectly to this individual.

Good business practices suggest a separation of duties between the recipient of any reimbursement and the approver for *any type of transaction* to provide assurance that all transactions are bona fide University business. Further, good business practices also ensure that transaction approvals are readily available for review by third parties (e.g., Disbursements personnel and auditors) as needed. Ideally, all transaction approvals would be electronically recorded in IFIS.

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Express Card Purchases - The MSO is an Express Cardholder. Express Card purchases made by the MSO were reviewed by a Fiscal Officer that reports to the MSO. Express Card Program records indicate that the Fiscal Officer is the Express Card Administrator, and the Department has not yet formally designated an Express Card Reviewer. University policy for the Procurement Card Program states that reviewers may not be in a subordinate relationship to the Express Cardholder, and recommends that MSO's not be Cardholders (BUS-43, Part 8).

Use of State Funds for Exceptional Entertainment - We noted that in two instances state funds were incorrectly used to pay for exceptional entertainment. The first event was described on the Payment Authorization as "team building activity - bowling and lunch." The total cost of the event for 12 participants was \$195. The second event was registration fees of \$180 for 12 participants in the Chancellor's 5k run. The events appeared reasonable inasmuch as University policy allows for employee morale building and employee recognition events. The Department obtained the required additional approvals for exceptional entertainment in accordance with University Policy. However, as expenses requiring the additional exceptional entertainment approvals, these expenses should not have been charged to state funds, per University policy (BUS 79).

Impact of Department Business Practices - Due to the nature of the Department procurement practices, and the four approvals that could not be located, we inquired with Business Office Fiscal support staff whether they had any unaddressed questions or concerns regarding the business justifications for any Department transactions. None were noted. However, unless Department procurement practices are changed, the Department may remain at risk for transaction approvals that cannot be substantiated, and errors or irregularities which could occur and go undetected.

Management Corrective Actions:

1. The Department will limit the use of employee reimbursements for administrative expenses via the Payment Authorization mechanism to transactions and circumstances where a more appropriate method is not available (e.g., employee mileage reimbursement).
2. Department transaction approval processes for employee reimbursements has been revised so that transactions are not approved by an individual who is subordinate to the employee being reimbursed. Specifically, all reimbursements to the MSO will be approved by the Department Chair or Dean's Office personnel.

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3. The approval template for the MSO's Express Card will be modified to require approval by the Chair, and for all other Department Express Cards the Department will formally designate both an Administrator and a Reviewer.
4. All travel and entertainment expenses of the Department Chair will be approved by Dean's Office personnel.
5. The Department has transferred the exceptional entertainment expense from state funds to an alternate fund source.

B. Performance Appraisals for Department Staff

Performance appraisals were not being provided to staff members within the Visual Arts Department on a timely basis in accordance with University policy.

During our audit, we were advised that some Department staff employees have gone years without receiving written performance appraisals. When we inquired about the date of the last written performance appraisal for four departmental employees on a test basis, we were told that two of these employees had not had a written performance appraisal in over fifteen years.

University of California Personnel Policies for Staff Members require that the performance of each employee shall be appraised at least annually in writing by the employee's immediate supervisor. UC's Personnel Policies for Staff Members provide that the written performance appraisal is an opportunity for the supervisor and employee to review whether previously discussed performance expectations and goals have been met, to discuss professional development opportunities, and to identify options for acquisition of additional skills and knowledge to foster performance improvement and career growth. Additionally, the appraisal provides appropriate documentation to support any recommended merit increases and/or other performance-based awards, as well as other personnel actions.

Management Corrective Action:

The Department will conduct annual written performance appraisals for all staff personnel.

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C. Department Information Systems Security

During our audit, we noted that the Department was not yet in full compliance with campus minimum network security standards.

Based on conversations with the Department network systems administrator, it appeared that the Department had not met two of the campus minimum network security standards. Specifically, as of the time of our audit fieldwork the Department's password requirements were less stringent than required by the campus standards, and all workstations were not automatically locked after a specified period of inactivity. Fully implementing the campus standards will enhance the security of the department's information system resources.

Management Corrective Action:

The department has now fully implement the campus minimum network security standards.

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Audit Results by Business Office Functional Process
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Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion ¹	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)			
Transaction Processing - Non-Payroll Expenditures	√	√	√	Reviewed randomly selected transactions; traced to supporting documents.	No	Needs Improvement	We noted excessive use of employee reimbursements as a procurement method, and poor approval documentation practices. (See Report, Observation IV.A, page 2)
Travel and Entertainment	√	√	√	Reviewed selected transactions; traced to vouchers (TEV's) & supporting documents.	No	Needs Improvement	We noted excessive use of employee reimbursements as a procurement method, and poor approval documentation practices. (See Report, Observation IV.A, page 2)
Express Card	√	√	√	Reviewed randomly selected transactions; traced to supporting documentation.	No	Needs Improvement	Express Card Reviewer reported directly to the Express Cardholder. (See Report, Observation IV.A, page 4)
Timekeeping & Payroll, HR	√	√	√	Reviewed selected timesheets, input verification and key controls documentation.	Yes	Needs Improvement	Timekeeping was well documented. However staff had not received annual written performance evaluations, (See Report, Observation IV.B, page 5).

¹ Scale: Satisfactory - Improvement Suggested - Improvement Needed - Unsatisfactory

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Audit Results by Business Office Functional Process
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Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion ¹	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)			
Information Systems Environment		√		Interviewed administrator and toured computer facilities.	Yes	Needs Improvement	Department had not attained full in compliance with campus minimum network security standards, (See Report, Observation IV.C, page 6)
Expense Transfers	√	√	√	Reviewed randomly selected transfer.	Yes	Satisfactory	Transfer explanations appeared reasonable. No exceptions were noted.
Operating Ledger Review & Financial Reporting	√	√	√	Examined operating ledgers and financial reports.	Yes	Satisfactory	Operating ledgers were reviewed monthly. The Department was adequately documenting SAS 112 key controls.
Equipment Management	√	√	√	Reviewed inventory listing and equipment file for purchases, transfers, and deletes.	Yes	Satisfactory	Equipment inventory was properly maintained.

¹ Scale: Satisfactory - Improvement Suggested - Improvement Needed - Unsatisfactory