

The logo for UCIrvine, featuring the text "UCIRVINE" in a large, serif font. A vertical line is positioned to the right of the text, separating it from the "INTERNAL AUDIT SERVICES" text.The text "INTERNAL AUDIT SERVICES" in a smaller, serif font, positioned to the right of the vertical line.

School of Social Ecology

Internal Audit Report No. I2015-103

May 11, 2015

Prepared By

Mike Shead, Senior Auditor

Reviewed and Approved By

Mike Bathke, Director



INTERNAL AUDIT SERVICES
IRVINE, CALIFORNIA 92697-3625

May 11, 2015

VALERIE JENNESS, Ph.D.
DEAN AND PROFESSOR
UC IRVINE SCHOOL OF SOCIAL ECOLOGY

RE: School of Social Ecology Audit
Report No. 2015-103

Internal Audit Services has completed the review of the School of Social Ecology 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
Melanie Montrelli – Director, Finance, School of Social Ecology
Greg Reinhard – Assistant Dean, School of Social Ecology

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2014-2015 audit plan, Internal Audit Services (IAS) reviewed business operations and other financial activities within the School of Social Ecology (SE). Certain internal controls could be improved to ensure compliance with University policies and procedures and/or best business practices. The following concerns were noted.

Non-payroll Expenditures – Concerns were noted with recharge transactions at the Bookstore and Computer Store (The Hill). Pre-authorizations were not obtained for purchases; employees making the purchases were not authorized to commit University funds. A business purpose for the purchases was not provided. Post-approvals of recharges were sometimes completed by the same employee who made the purchase. This observation is discussed in section V.1a.

Concerns were also noted with employee reimbursements. Reimbursements for purchases of materials, supplies and/or non-inventorial equipment were not pre-authorized; employees making the purchases were not authorized to purchase. A business purpose for the purchases was not always stated; all of the purchases should have been made with a PALCard. Some purchases were shipped to employee residences; proof of receipt was not provided for some purchased goods. Concerns were also apparent with travel reimbursements. Foreign travel expenditures were not pre-authorized; support documentation for lodging expenses was not always provided, in violation of University policy. These observations are discussed in section V.1b.

Additional concerns were noted with PALCard purchases. A business purpose was not always stated for purchases that were made. For some purchases, the vendor invoice date preceded the purchase requisition date; the purchase requisitions were prepared after-the-fact and the purchases post-approved. The details related to these issues are provided in Section V.1c.

Payroll and Employee Leave Reporting – Payroll reconciliations are not always completed in a timely manner. In addition, inconsistencies in leave reporting requirements and processes are apparent; requests for employee leave are not always documented. This observation is discussed in section V.2.

Account-Fund Review and Reconciliation – Written departmental policy and procedures for general ledger reconciliations have not been developed. Some departments are not reconciling their account-funds on a monthly basis. These issues are discussed in section V.3.

Risk Assessment, Analysis and Security Plan – A formal IT risk assessment, analysis and security plan has not been completed for the SE computing environment. These issues are discussed in section V.4.

II. BACKGROUND

In 1970, UC Irvine established a program in SE to meet a high demand for socially relevant research. In 1992, SE was accorded status as a formal academic school at UC Irvine. SE's faculty and students investigate social problems from multi-disciplinary and trans-disciplinary perspectives to analyze and develop solutions for a host of community, regional, national and international concerns.

SE is home to three highly acclaimed academic departments, including Criminology, Law & Society (CLS), Planning, Policy & Design (PPD), and Psychology & Social Behavior (PSB). Criminology, Law & Society consists of approximately 28 faculty/academic appointments, including 22 full-time faculty, six emeritus faculty, and six career staff employees. Psychology & Social Behavior consists of approximately 29 faculty/academic appointments, including 25 full-time faculty, four emeritus faculty, and four career staff employees. Planning, Policy & Design consists of approximately 18 faculty/academic appointments, including 15 full-time faculty, three emeritus faculty, and five career staff employees. All three academic departments are supported by SE administration, consisting of 22 career staff members. As of Fall Quarter 2014, SE enrolled 2,672 undergraduate students and 367 graduate students.

In addition, SE hosts seven research centers, including five campus-wide centers. Collectively, these centers examine the forces that profoundly affect social, political and environmental ills, serving as a resource to the needs of the surrounding communities and society as a whole.

The academic departments within SE offer a wide array of undergraduate and graduate education programs, many of which are nationally recognized.

Department chairs and the Associate Dean for Academic Programs are responsible for academic oversight, and report to the SE Dean. Business operations and other financial/administrative activities are primarily the responsibility of the Assistant Dean, who also reports to the Dean. The Assistant Dean is supported by a Director of Finance, Director of Computing, Director of Personnel, Director of Space Planning and Facilities, and the Management Service Officers (MSOs) situated in the academic departments.

III. PURPOSE, SCOPE AND OBJECTIVES

The scope of the audit focused on certain FY 2013-2014 financial activities. The purpose of the audit was to assess SE business operations. 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 included the following objectives:

1. Review of internal controls for certain non-payroll expenditures;
2. Verify internal controls over time reporting and payroll processes;
3. Verify internal controls encompassing vacation accruals and usage;
4. Verify the status of SE account-funds, and their timely reconciliation in accordance with University policy;
5. Verify internal control measures over payroll certification for federal awards;
6. Review of internal controls surrounding certain IT operations.

IV. CONCLUSION

Certain internal controls within SE business operations and financial activities appear to be functioning satisfactorily. However, concerns were noted in the areas of non-payroll expenditures (departmental recharges, PayQuest

reimbursements, and PALCard purchases), leave of absence/travel authorization, payroll/employee leave reporting, account-fund reconciliations, and risk assessment, analysis and security plan.

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. Non-payroll Expenditures

a. Recharge Transactions

Background

On behalf of the campus community, UC Irvine owns and operates The Hill, a not-for-profit, self-supporting organization consisting of a bookstore, computer store, and other retail operations. Authorized employees may purchase items from The Hill for their departments; expenditures are recharged to the departments' account-funds.

Observation

IAS reviewed SE FY 2013-14 recharge transactions. Recharge transactions completed by faculty, staff or students from all SE departments were reviewed. Twenty-one purchases from The Hill bookstore and 25 purchases from The Hill computer store were sampled. In addition, nine credit returns from the bookstore and four credit returns from the computer store were sampled. The following concerns were noted.

1. **Purchase Pre-authorization/Authorized Purchaser:** None of the sampled recharge transactions included support documentation that indicated purchases were pre-authorized; only one of the 46 sampled purchases was made by an employee authorized to commit University funds;
2. **Stated Business Purpose:** Only 11 purchases included an adequate statement of business purpose for the purchase.

Management Action Plan

Management will distribute updated policy guidelines for recharge transactions at The Hill to all SE employees on or before July 1, 2015. The policy guidelines will require, unless exceptional approval is granted, that 1) purchases are made with an appropriate separation of duties and 2) purchase documentation include a stated business purpose, when the business purpose for the purchase is not self-evident.

In addition, only individuals with Low Value Purchase Order Authority or PALCard holders will be authorized to purchase items at The Hill. An individual who makes an unauthorized purchase of goods or services may be personally responsible for payment of the charges incurred. For unneeded items or items whose purchase would not otherwise be authorized, the unauthorized individual shall be required to pay either the full amount or the amount of any cancellation charges incurred when a cancellation can be arranged.

b. Employee Reimbursements

Background

IAS reviewed a sample of employee reimbursements submitted by SE faculty, staff and students, and included travel advances and vouchers, purchases of materials, supplies and/or non-inventorial equipment.

Employee Supply and Material Reimbursements

Observation

1. **Purchase Pre-authorization:** None of the support documentation for the sampled reimbursement requests indicated any pre-authorization for the purchase that was made;
2. **Payment Method/Authorized Purchaser:** All sampled reimbursements were made for items that should have been purchased with a PALCard or low value purchase order. Only two of the employees requesting reimbursement had authority to commit University funds;

3. **Stated Business Purpose:** Few reimbursement requests included an adequate statement of business purpose for the purchase;
4. **Proof of Receipt:** Several requests failed to include adequate support documentation confirming that the purchased goods were received;
5. **Delivery of Purchased Goods:** Nine of the sampled reimbursement requests included one or more items that were shipped to an off-campus site. Some purchases were shipped directly to employee residences (in one sampled reimbursement transaction, items were ordered and paid for by a SE faculty member's spouse, and shipped to his non-campus address).

Management Action Plan

Management will distribute updated policy guidelines for employee reimbursements to all SE employees on or before July 1, 2015. The policy guidelines will require that 1) all purchase and reimbursement requests include a stated business purpose describing the intended use of the purchase, when the business purpose for the purchase is not self-evident; 2) all purchase and reimbursement requests include adequate proof of receipt, 3) the delivery address for all purchases shall be a campus office, campus laboratory, or an off-campus research site, unless a written request is approved to ship a purchased item to a home address when shipping to the office would impede work and 4) only individuals with either Low Value Purchase Order Authority or PALCard holders will be authorized to request reimbursement for supply and material expenses, except during official University business travel.

In addition, the policy guidelines will further state PALCard and Purchase Orders are the preferred methods of purchase payment and will define the documentation and approval necessary for reimbursement authorization. Reimbursements may only be authorized to cover 1) costs associated with travel, 2) supplies and materials related to entertainment and events, and 3) business/research meetings.

An individual who makes an unauthorized purchase of goods or services may be personally responsible for payment of the charges incurred. For

unneded items or items whose purchase would not otherwise be authorized, the unauthorized individual shall be required to pay either the full amount or the amount of any cancellation charges incurred when a cancellation can be arranged. When an individual is traveling on official University business and normal purchasing procedures cannot be followed, the individual may purchase supplies or equipment up to \$500 when necessary to accomplish the purpose of the trip. Items purchased are limited to items that comply with University Purchasing policies. Conventional office and computer supplies are acceptable when needed to accomplish the purpose of the trip.

Travel Reimbursements

Observation

1. **Travel Advance Pre-authorization:** None of the supporting documentation for the sampled reimbursement requests indicated any travel expenditure pre-authorization;
2. **Support Documentation for Travel Expenditures:**
 - One travel reimbursement from a SE faculty member involved 12 days of foreign travel. Supporting documentation for the request included a \$967.94 charge for an eight-night hotel booking fee. However, hotel folios for the eight nights were not included in the supporting documentation to substantiate the booking fee;
 - Another travel reimbursement request involved 35 days of foreign travel. The faculty member obtained a \$5,500 travel advance to cover lodging, meals and incidental expenditures (M&IE). However, supporting documentation submitted at the end of the trip by the faculty member failed to include the name and location of the lodging establishment, separate amounts for each night's lodging charges/fees, and M&IE, as required by University policy.

Management Action Plan

Management will distribute updated policy guidelines for travel reimbursements on or before July 1, 2015. The updated guidelines will 1)

require a proposed travel budget be submitted prior to any advance pre-authorization and will 2) define what support documentation is required for the approval of travel expenditures, including, but not limited to, written documentation for rentals and other non-hotel lodging expenses.

c. PALCard Transactions

Background

The purchasing card (PALCard) is used by staff with purchasing responsibilities to buy equipment, supplies, and services. UC purchasing policies require purchases to be pre-authorized either formally through an internal requisition or informally, such as an email. 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. Employees with low value purchase training (which includes PALCard cardholders) have been delegated authority by Purchasing and Risk Services to make low value purchases with University funds. University policy states that low value purchases can only be made by employees with this delegated authority; purchases by other employees are unauthorized.

Observation

IAS reviewed a sample of PALCard purchases that were requested by faculty members and charged to their federal awards. The following concerns were noted.

Stated Business Purpose: PALCard purchase requisitions seldom indicated a business purpose for the purchase. Best practice advocates that a business purpose should be documented on the PALCard purchase requisition (or other supporting documentation), when the business purpose for the purchase is not self-evident;

Post-dated Purchase Requisitions: For some sampled PALCard purchase requisitions, the vendor invoice dates preceded the purchase requisition dates; the purchase requisitions were prepared after-the-fact and the purchases post-approved.

Failure to maintain adequate internal controls over PALCard transactions may hinder management's ability to prevent unauthorized and/or fraudulent use of University funds.

Management Action Plan

Management will distribute updated policy guidelines regarding PALCard transactions on or before July 1, 2015. The updated guidelines will require 1) a stated business purpose describing the intended use of the purchase, when the business purpose for the purchase is not self-evident and 2) completed purchase requisitions be submitted to buyer prior to securing purchased items.

2. Payroll and Employee Leave Reporting

Background

UC Irvine policy requires staff employees to notify their supervisors of expected vacation and sick leave. Actual employee leave time is documented on a time sheet and approved by the employee's supervisor. Approved timesheets are used to determine payroll earnings; payroll earnings are summarized on a payroll expense report. UC policy requires a monthly reconciliation of the payroll expense report to assure the validity of payroll payments charged and credited to University accounts.

Observation

IAS discussed payroll reconciliation processes with management and also reviewed staff employee leave reporting processes. The following concerns were noted.

- 1. Untimely Payroll Reconciliations** - Discussions with management in November 2014 disclosed that a reconciliation of the payroll expense report to certain supporting documentation was last completed in July 2014;
- 2. Inconsistencies in leave reporting requirements/processes** - SE time reporting units differ with regard to required employee notification for

leave time and the methods by which supporting documentation for employee leave is gathered/summarized;

3. **Missing leave request documentation** - In certain instances, time reporting units could not provide adequate documentation evidencing the request and/or pre-authorization of paid employee leave time. Best practice advocates that employee leave requests be documented in writing.

Failure to reconcile the payroll expense report in a timely manner may hinder management's ability to detect erroneous or fraudulent transactions. Additionally, inconsistent requirements, processes and documentation pertaining to employee leave requests may impede management's ability to ensure the accuracy of employees' paid leave.

Management Action Plan

Management will require all supervisors to follow a SE-wide policy for payroll and employee leave reporting. Specifically, supervisors will 1) be required to obtain vacation leave requests in writing (email notification will be acceptable) prior to leave being granted, 2) document sick leave either through a written request or on a work calendar, 3) maintain leave documentation for a period of 1 calendar year, and 4) reconcile leave documentation to the time reporting system. Further, management believes timely payroll reconciliation is an important internal control and will implement a back-up a plan to ensure timely payroll reconciliation in the event the personal specialist position is on extended leave or the position is vacated. Management will distribute the updated SE-wide policy for leave reporting on or before July 1, 2015.

3. **Account-Fund Review/Reconciliation**

Observation

Some SE departments are not reconciling their account-funds on a monthly basis. University policy requires that responsible individuals monitor and verify transactions, and reconcile balances in the general ledger.

Management Action Plan

Management agrees ledger reviews are an important internal control and will distribute SE-wide policies and procedures for general ledger reconciliations on or before July 1, 2015. The new policy will incorporate accounting best practices, including sign and date guidelines to accurately document monthly reconciliations are completed.

4. Risk Assessment, Analysis and Security Plan

Background

University policy (Electronic Information Security IS-3) requires that a risk assessment and information security plan should be developed.

Observation

A formal information technology (IT) risk assessment and analysis process has not been completed for the SE computing environment. In addition, a security plan has not been developed. IS-3 requires that a risk assessment be formally documented. Also, an information security plan should be developed based on the risk assessment.

Without a comprehensive IT risk assessment, management may not have a full understanding of the risks associated with their computing environment and critical systems to ensure appropriate strategies and adequate controls. In addition, a security plan helps lay out a path for addressing identified risks and document the controls that are in place or planned to ensure an acceptable level of risk for systems, processes, and the IT environment.

Management Action Plan

SE will partner with the OIT security team to complete an IT risk assessment, analysis and security plan for our computing environment encompassing (faculty, staff and students). The anticipated completion date is September 15, 2015.