

RIVERSIDE: AUDIT & ADVISORY SERVICES

August 7, 2012

To: Lindy Fenex, Director
Recreation Center

Subject: Recreation Center

Ref: R2012-18

We have completed our limited audit of the Recreation Center in accordance with the UC Riverside Audit Plan. Our report is attached for your review. We will perform audit follow-up procedures in the future to review the status of management action. This follow-up may take the form of a discussion or perhaps a limited review. Audit R2012-18 will remain open until we have evaluated the actions taken.

We appreciate the cooperation and assistance provided by your staff. Should you have any questions concerning the report, please do not hesitate to contact me.

Michael R. Jenson
Director

Attachment

Xc: Audit Committee Members
Associate Vice Chancellor Kim

UNIVERSITY OF CALIFORNIA AT RIVERSIDE
AUDIT & ADVISORY SERVICES
MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS

INTERNAL AUDIT REPORT R2012-18
RECREATION CENTER
AUGUST 2012

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**UC RIVERSIDE
RECREATION CENTER
INTERNAL AUDIT REPORT R2012-18
AUGUST 2012**

I. MANAGEMENT SUMMARY

Based upon the results of work performed within the scope of the limited review, it is our opinion that, overall, the Recreation Center's system of internal controls is operating satisfactorily and generally in compliance with University policies and procedures.

Positive observations include:

- The Recreation Center expansion project will commence in August 2012. The expanded facility will accommodate a future population of 25,000 UCR students. Among other things, the expanded facility will provide better sports facilities and equipment, and generate approximately 170 additional jobs for students.
- The Recreation Center's accounting functions appear to be effectively managed by the Management Services Officer with quarterly internal financial reports prepared that present revenues and expenditures for each activity code and/or fund.
- An Advisory Board to the Chancellor, the Recreation Facilities Governing Board (RFGB), comprised of six undergraduate and three graduate students, is charged with the oversight of operational policies and approval of the annual budget and facility usage fees.

We observed some areas that need enhancement to strengthen internal controls and/or effect compliance with University policy:

- Single accountability for cash receipts was not maintained at all times. Also, daily reconciliation of cash receipts by each cashier was not consistently performed. (Observation III.C.2)
- Processing of two Travel Expense Summaries (TES) from the same traveler took a considerable amount of time to complete - from preparation to approval and posting to the general ledger. (Observation III.D.2)

- Incorrect application of premium rate on overtime hours resulted in the overpayment of overtime. (Observation III.E.2)

These are explained in greater detail in Section III of this report. Minor items that were not of a magnitude to warrant inclusion in the report were discussed verbally with management.

II. INTRODUCTION

A. PURPOSE

UC Riverside Audit & Advisory Services, as part of its Audit Plan, performed a limited review of the Recreation Center to evaluate compliance with certain University policies and procedures, efficiency and effectiveness of selected operations and adequacy of certain internal controls.

B. BACKGROUND

The UCR Recreation Center (RC) is the campus department that provides the facilities, programs, and recreational services to students, faculty, and staff to enhance their mental, physical, and social development. RC is managed by a Director and has a staff of 22 career, 29 contract (instructors), and 231 student employees.

Aside from the oversight of RC's operational policies and approval of the annual budget and facility usage fees, the RFGB's responsibilities include representing student concerns, issues and ideas to the RC administration and to serve as a liaison to the Associate Students of UCR (ASUCR) and Graduate Student Association (GSA) on matters relevant to campus recreation.

Presently, the RC is housed in an 80,000 square-foot facility that contains various sports equipment and offers fitness and wellness classes and programs. All UCR students are assessed \$59 a quarter. Faculty and staff can use the facility and are assessed membership fees on a monthly basis through payroll deduction. For those who opt for daily usage, users pay a \$5 daily usage fee. RC also offers classes, team excursions, leadership programs, and equipment rentals.

The RC Expansion Project will add approximately 69,000 square feet of which approximately 46,000 is the assignable or usable square footage. Also, 8,035 square feet of the existing facility will be renovated.

C. SCOPE

Audit & Advisory Services reviewed selected records supporting transactions that occurred between July 2011 and April 2012, and examined procedural controls relating to the following major administrative areas:

1. Internal Controls

We evaluated administrative and accounting procedures and internal controls based on management responses to the internal control questionnaire and verification of selected areas.

2. Financial Management

We performed a financial analytical review of revenues and expenditures for fiscal years 2008-2009, 2009-2010, 2010-2011, and 2011-2012 (as of 4/30/2012). This included identifying unusual trends or fluctuations including the reasons for any variances. Also, we identified any funds with deficit balances.

3. Cashiering Operations

Controls over cashiering operations were evaluated. A judgmental sample of six Deposit Advice Forms (DAF) totaling \$28,160 was tested for propriety, accuracy, and policy compliance.

4. Non-Payroll Expenditures

We selected and reviewed a judgmental sample of 39 non-payroll expenditures totaling \$559,325. The sample consisted of 17 travel and entertainment transactions totaling \$17,595 and 22 other non-payroll expenditures totaling \$541,730.

5. Payroll Expenditures

We judgmentally selected the July 2011 to April 2012 timesheets of eight employees. We reviewed their timesheets for wages paid and leave posted to the Payroll/Personnel System (PPS) and the Distribution of Payroll Expense (DOPE) reports.

D. INTERNAL CONTROLS AND COMPLIANCE

As part of the review, internal controls were examined within the scope of the audit.

Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- effectiveness and efficiency of operations
- reliability of financial reporting
- compliance with applicable laws and regulations

Our substantive audit procedures were performed from May to June 2012 (not inclusive). Accordingly, this evaluation of internal controls is based on our knowledge as of that time and should be read with that understanding.

III. OBSERVATIONS, COMMENTS, AND RECOMMENDATIONS

A. Internal Controls

We reviewed and evaluated the RC's overall organizational structure and controls to ensure that these are conducive to accomplishing their business objectives through the completion of the Internal Control Questionnaire (ICQ).

Our review did not disclose any exceptions.

B. Financial Management

Financial highlights during the current (as of 4/30/2012) and last three fiscal years (FY) are presented below:

	2011-2012	2010-2011	2009-2010	2008-2009
Revenues	4,007,798	4,381,648	4,087,594	4,012,308
Expenditures	2,428,667	3,167,066	2,937,308	3,119,222
Debt Service (Principal & Interest)	1,230,758	1,326,478	1,338,555	1,086,541

Note: Expenditures do not include the debt service payments for the construction of the existing facility. The payments are presented here separately.

SRC is primarily funded by the \$59 per quarter per student assessment (average of \$3.8 million or 87% of total revenues per year), staff use fees, class fees, trips, and day use (9%), and recharges to campus departments and campus organizations for facility use (4%).

Revenues for the past three fiscal years averaged \$4.1 million. FY 2011-2012 revenues are projected to be at \$4.3 million. After completion of the

RC Expansion Project, all students will be assessed an additional \$149 per quarter or \$447 for three quarters. This will significantly increase the Student Fee Revenue, B20000, by approximately \$9 million (based on a 20,000 student population).

Expenditures remain at, more or less, the same level during the last three fiscal years and are projected to be at \$3.1 million by fiscal year-end 2012. After the completion of the Expansion Project, the RC expects to hire more career and student employees, and acquire more equipment.

Increases in revenues and expenditures appeared reasonable and consistent with student population growth. No unusual trends in revenues and expenditures were detected that could not be explained.

Quarterly internal financial reports reflect appropriations, actual, and projected (for the remaining months) revenues and expenditures for each Activity Code/Fund. The reports are prepared by the Management Services Officer and submitted to the RC Director and Student Affairs Associate Vice Chancellor.

C. Cashiering Operations

1. Summary

Cash receipts averaged \$420,000 annually consisting of cash, checks, and credit card receipts. The RC maintains change and petty cash funds totaling \$1,500. Cash, checks, and credit card payments are received and processed by the Front Counter cashiers.

When the expansion project is completed, the RC plans to install additional cash registers and to accept online credit card payments for classes, trips, and equipment rentals. The RC uses the RecTrac Recreation Tracking Software to monitor access control to the main facility, class registrations, and memberships. However, RecTrac does not interface with the cash receiving function or SecurePay. With the planned online payment receipt for class registrations and trips when the expansion project is completed, the RC plans to acquire better software that will meet their needs.

A judgmental sample of six Deposit Advice Forms from July 2011 through April 2012 totaling \$28,160 was tested for propriety, accuracy, and policy compliance. Cash receipts were traced to the register tapes Z-reports and Card Type Summary Totals. Also, procedures were performed to determine the timeliness of bank deposits, tracing them to RC's Armored Car Pick up Log. Daily collections, as reported in the daily Cash Collection Reports, were deposited intact and in a timely manner.

Our observations are discussed below.

2. **Single Accountability and Daily Reconciliation**

Single accountability for cash receipts was not maintained at all times. Also, daily reconciliation of cash receipts by each cashier was not consistently performed.

COMMENTS

The RC cashiers use only one cash register. Two cashiers may be working in one shift but they are not given separate change funds. Although they are assigned different cash register codes, they share the same cash drawer. Generally, the cash register ring-out (Z-report) tapes are not generated on a daily basis. As a result, cash receipts are not reconciled to the register totals on a daily basis.

UC Business and Finance Bulletin (BFB) BUS-49, *Policy for Cash and Cash Equivalents Received*, Section II.A., requires that “Each individual who receives or has custody of University cash and cash equivalents must be held responsible for cash and cash equivalents under his or her control.”

RECOMMENDATIONS

In accordance with BFB BUS-49, single accountability should be maintained at all times. Each cashier should be given his/her own cash drawer and change fund.

At the end of his/her shift, a cash register Z-report should be generated and the cashier should reconcile the cash receipts to the Z-report totals.

MANAGEMENT RESPONSE

The Recreation Programs/Student Recreation Center management has instituted as of Tuesday July 17, 2012 individual cash drawer and change funds. The procedure is as follows: at the beginning of their shift each cashier will receive their change fund from the safe, count out their change fund with supervisor oversight and signature. At the conclusion of their shift, the cashier will run a Z-report on the cash register, count their change fund drawer with supervisor signature, place it in the locked cash bag and deposit it into the drop safe. The following morning the head cashier will reconcile the previous days Z-reports and cash drawers and process a deposit for the day.

D. Non-Payroll Expenditures

1. Summary

Non-payroll expenditures and its percentage to total expenditures for the current and last three and current (as of 4/30/2012) fiscal years are presented below:

	2011-2012	2010-2011	2009-2010	2008-2009
Non-Payroll Expenditures (NPE)	802,203	1,347,810	1,354,661	1,392,341
Total Expenditures (TE)	2,428,667	3,167,066	2,937,308	3,119,222
% of NPE to TE	33%	43%	46%	45%

Note: Amounts exclude debt service payments.

Non-payroll expenditures for the past three fiscal years remained at, more or less, the same level, \$1.3 million. FY 2011-2012 non-payroll expenditures are projected at \$1.2 million.

We judgmentally selected 17 travel and entertainment expenditures totaling \$17,595 and 22 other non-payroll expenditures totaling \$541,730.

Transactions were reviewed for validity, reasonableness, proper approvals, completeness of supporting documentation, and compliance with applicable University policies.

Generally, non-payroll expenditures were properly approved, documented, supported by receipts and/or properly approved purchase orders and invoices, and complied with applicable University policies. Internal controls on processing accounts payable and purchasing transactions appear adequate.

Our observations are discussed below.

2. Travel Expense Processing

Processing of two Travel Expense Summaries (TES) from the same traveler took a considerable amount of time to complete - from preparation to approval and posting to the general ledger.

COMMENTS

UC BFB G-28, *Policy and Regulations Governing Travel*, “a Travel Expense Voucher (Form U85 or equivalent, or an electronic version) reporting all expenses and advances pertaining to a particular trip must be submitted to the campus accounting office within 21 days of the end of the trip.”

UCR Campus Policy 900-40, *Travel Advances, Cash Advances, Direct Charges for Airfare, Registration Fees and Local Hotels*, provides the following:

- Clearing Advances. The traveler should report travel expenses and account for all travel advances within (21) twenty-one days after completion of the trip.
- Failure To Clear Advances in a Timely Manner. If outstanding advances and/or proceeds from discount, rebate, or premium coupons on transportation tickets have not been recovered within 60 days from the date the accounting for the trip was due, the Accounting Officer (or other campus officer designated by the Chancellor) shall, in the absence of extenuating circumstances, initiate action for recovery through a collection agency or, when the employee has agreed in writing, by a deduction from the salary, wages, or other amounts due by the traveler. Any advances that cannot be recovered from the traveler shall be charged to the account indicated on the Form 6 submitted when the advance was originally requested.

The travel expense summaries are as follows:

- T130583 – This was for an RC Outdoors Excursions (OE) trip from 3/21/2009 – 3/30/2009. The TES was prepared on 4/06/2009 with the final approval by the Director on 7/08/2011 and posting to the ledgers on 7/12/2011, a period of more than two years. The traveler had a cash advance of \$1,400 and reimbursed the University \$118. In accordance with Campus Policy 900-40, since the advance was not cleared through a TES, on 5/15/2009, the Accounting Office charged the department for the cash advance under Account 713120, Travel Delinquent Advances. This was reversed on 7/12/2011 when the advance was finally cleared.

Eight students and the OE Recreation Supervisor went on this trip for which each student paid \$2,050 for a total of \$16,400.

Expenses associated with this trip totaled \$18,567 and was not fully covered by the student payments. As a result, the difference of \$2,167 was absorbed by the RC.

- T151770 – This was for an out-of-state trip from 11/10/2010 – 11/14/2010. The TES was prepared on 6/15/2011, more than five months after the trip ended, and approved by the Director on 7/08/2011.

While it appears that TES T130583 was prepared within 21 days after the end of the trip, from the comments reflected in the TES, it appears that all the required receipts were not submitted and the Accounting Office Travel Unit rejected the TES several times because the required receipts were not attached to the TES.

RECOMMENDATIONS

Management should remind travelers to submit all their travel expense receipts in a timely manner so as not to delay the processing of the Travel Expense Summary.

For Outdoor Excursions' trips, the department should ensure that all projected trip expenses would be fully covered by the registration fees. An estimate of all registration fees to be received and expenses to be incurred should be prepared and approved before embarking on trips of this nature.

MANAGEMENT RESPONSE

The Recreation Programs / Student Recreation Center management has instituted as of Tuesday, July 17, 2012 a process that requires all receipts for Outdoor Excursions travel expenses to be submitted within five (5) business days. Trip Leaders will be provided an envelope to keep all receipts accumulated and organized.

The department has a procedure in place that calls for the cancellation of any trip if the number of registered participants does not meet the minimum number necessary to cover all trip expenses.

E. Payroll Expenditures

1. Summary

RC salaries and benefits account for approximately 55% of total annual expenditures. Total payroll expenditures for the last three fiscal years were \$1.7 million in FY 2008-2009, \$1.6 million in FY 2009-2010, and \$1.8 million in FY 2010-2011. Payroll expenditures for FY 2011-2012 are projected at \$2.2 million. The increase in payroll expenditures of approximately \$400,000 could be attributed to the merit increases given on 7/01/2011, the equity increases given to some employees, bargaining unit, Clerical (CX) and Service (SX), increases, and the hiring of three staff employees in August 2011.

Generally, internal controls on segregation of duties were adequate. Payroll transactions covering the period July 2011 to April 2012 for a judgmentally selected sample of eight employees were reviewed.

Our observations are discussed below.

2. Overtime Payments

Incorrect application of premium rate on overtime hours resulted in the overpayment of overtime.

COMMENTS

The application of straight-time and premium rates on overtime hours is regulated by the employee's bargaining unit agreement. Bargaining unit agreements have varying provisions on when the regular or straight-time and premium rate of pay should be applied to overtime hours and which holidays the premium rate should be paid regardless of whether the employee actually worked 40 hours during the workweek.

Applicable provisions are presented below:

- Skilled Crafts Unit (K5), Article 8. *Overtime*, provides that "Overtime is time actually worked in excess of forty (40) hours in a workweek. Holiday(s), vacation, witness pay, jury duty, and compensatory time off shall be included as hours worked for purposes of this Article only. Hours worked in excess of forty (40) hours worked in a workweek shall be compensated for at one and one-half (1 1/2) times an employee's base hourly rate of pay."
- Service Unit (SX), Article 12. *Hours of Work*, provides that "Employees in classes designated in Appendices A and B of this Agreement as eligible for overtime at one and one-half times the straight-time rate (OT (P) code N) shall be compensated at the straight-time rate for hours of overtime not exceeding 40 hours of actual work in a workweek and shall be compensated at one and one-half times the straight-time rate only for those overtime hours which exceed 40 hours of actual work in a workweek."
- For non-represented employees (99), Personnel Policies for Staff Members, Article 32. *Overtime (Non-Exempt Employees Only)*, provides that "Employees shall be compensated at the straight-time rate for hours of overtime not exceeding 40 hours of actual work in a workweek, and shall be compensated at the premium rate of 1-1/2 times the regular rate of pay for hours worked which exceed 40

hours of actual work in a workweek, not simply hours on pay status in a workweek.”

The premium rate of pay was applied to overtime hours worked by three SX and two non-represented (99) employees who did not actually work 40 regular hours during the workweek because of holidays. The straight-time rate of pay should have been applied.

RECOMMENDATIONS

Corresponding adjustments should be made on the compensation of employees who had been overpaid for overtime. The overtime and/or compensatory time accruals of other employees (not selected in this review) should be reviewed by the RC since it is likely that similar errors have occurred in other employees' payroll.

In the future, the department should refer to the provisions of the appropriate bargaining unit agreement to ensure the accurate application of straight-time and premium rates on overtime.

MANAGEMENT RESPONSE

The Recreation Center management implemented an immediate review of all overtime paid in the prior fiscal year and made the following adjustments.

1. November 2011: Employee one – OTP (overtime premium) 6.25 hours were taken away and correctly listed at OTS (overtime straight) resulting in reduction of pay corrected in July 2012.
2. Nov. 2011 & Jan. 2012: Employee two - OTP (overtime premium) 13.75 hours were taken away and correctly listed at OTS (overtime straight); will result in reduction of pay to be corrected in August 2012. (Month requested by employee.)
3. November 2011: Employee three - OTP (overtime premium) 5.5 hours were taken away and correctly listed at OTS (overtime straight) resulting in reduction of pay corrected in July 2012.
4. November 2011: Employee four - OTP (overtime premium) 5.5 hours were taken away and correctly listed at OTS (overtime straight) resulting in reduction of pay corrected in July 2012.
5. November 2011: Employee five - OTP (overtime premium) 5.5 hours were taken away and correctly listed at OTS (overtime straight); will result in reduction of pay to be corrected in August 2012. (Month requested by employee.)
6. October 2011: Employee six – CTA (comp time accrued) 2 hours corrected in July 2012 payroll.

Immediately, all staff responsible for payroll will refer to the provisions of each collective bargaining unit and correctly apply all policies related to overtime compensation for all employees.