

August 26, 2014

BARBARA SAWREY
Associate Vice Chancellor
Dean – Undergraduate Education
0001

STEVEN ADLER
Chair
Council of Provosts
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***Subject: Colleges Business Office
Audit and Management Advisory Services Project #2014-06***

The final audit report for the above referenced audit 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 at the appropriate time.

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 or destroy them at this time.

David Meier
Director
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Attachment

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UC San Diego

AUDIT & MANAGEMENT ADVISORY SERVICES

Colleges Business Office
August, 2014

Performed By:

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Project Number: 2014-06

*Colleges Business Office
Audit & Management Advisory Services Project 2014-06*

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ATTACHMENT A – Audit Results by Business Office Functional Process

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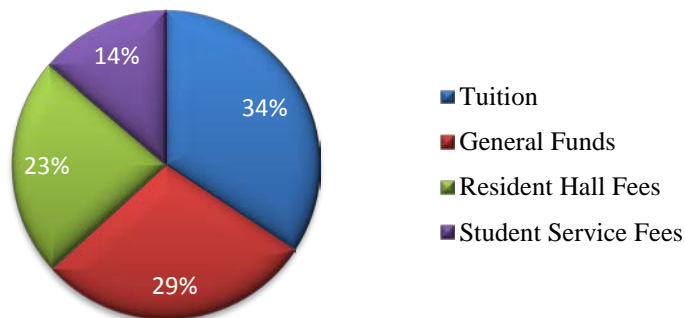
I. Background

Audit & Management Advisory Services (AMAS) has completed a review of the Colleges Business Office as part of the approved audit plan for Fiscal Year 2013-14. This report summarizes the results of our review.

The Colleges Business Office (CBO) was established in June 2012 based on a Memorandum of Understanding (MOU) between Academic Affairs, Student Affairs, and Business Affairs-Housing, Dining, and Hospitality Services (HDH). The CBO was established to consolidate UCSD's six undergraduate college business offices. The purpose of the consolidation was to reduce the costs of doing business by attaining operational efficiencies through standardizing, streamlining, and automating administrative processes in the colleges. Obtaining these operational efficiencies through reorganization was especially timely in light of the budget cutbacks experienced across the University during this period. It was estimated that total savings of roughly \$250,000 a year could be achieved through this consolidation.

The CBO provides business services to the six undergraduate colleges and their affiliated units (Provosts' offices, Writing/Core sequence programs, academic advising, student affairs and residence life units, Council of Provosts (COP), Provost Information Technology Services Group, Academic Internship Program, International House and the Colleges Writing Center). Functional support provided by the CBO includes transactional processing and management of fiscal, human resources and academic personnel functions.

The CBO manages financial information in 73 Integrated Financial Information System (IFIS) organization codes. During Fiscal Year 2012-2013, expenditures incurred totaled approximately \$23.1 million, comprised of \$17 million in salaries and benefits, \$5.8 in supplies and other expenses, and \$0.3 million in travel. The sources of funding for these expenditures are provided in the following chart.



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II. Audit Objective, Scope, and Procedures

The objective of our audit was to evaluate whether CBO internal control procedures were adequate to provide reasonable assurance that operations were effective, complied with University policies and procedures, and resulted in accurate financial reporting. The scope of the review was limited to activities and business practices for Fiscal Year 2012-13, and for the period July 1 through December 31, 2013.

In order to fulfill our objective, we performed the following procedures:

- Reviewed department policies and procedures for key business processes such as:
 - Operating ledger review and financial reporting,
 - Timekeeping and payroll,
 - Contract and grant activity,
 - Non-payroll expenditure transactions,
 - Travel and entertainment expenses,
 - Express Card purchases,
 - Payment authorizations,
 - Expense transfers,
 - Gift fund expenditures, and
 - Information systems security;
- Analyzed departmental organizational and financial information;
- Met with management to discuss any potential areas of concern;
- Reviewed internal control questionnaires and separation of duties matrices with departmental management; and
- Performed detailed testing of selected key business processes to verify that internal controls were adequate and functioning in compliance with university policy, as summarized in **Attachment A**.

III. Conclusion

Based on the audit procedures performed, we concluded that CBO internal controls were generally adequate and functioning effectively to provide reasonable assurance that operations were effective, in compliance with University policies and procedures, and resulted in accurate financial reporting.

However, during our review we noted opportunities for improvements in the system of internal controls in the following areas:

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- Muir Store Cash Handling Procedures,
- Resolution Plan for Muir Store Fund Overdraft, and
- CBO IT Risk Assessment.

These issues are discussed in more detail in the remainder of this report.

A complete summary of results by business office functional area is provided as **Attachment A**.

IV. Observations and Management Corrective Actions

A. Muir Store Cash Handling Procedures  ISS.1

Cash handling procedures at the Muir Store were not in strict compliance with University policy.

UC Business and Financial Bulletin 49 (BUS 49), *Policy for Cash and Cash Equivalents Received*, provides requirements for handling cash and cash equivalents, and defines roles and responsibilities related to the receipt, safeguarding, reporting and recordkeeping for all University cash and cash equivalents.

The table below provides a summary of practices at the Muir Store that were not in strict compliance with University policy.

BUS 49 Requirement	Current Practice
Each cashier must be assigned their own cash drawer, or cash insert, that cannot be accessible by other individuals.	Cash drawers are shared by multiple employees throughout the day.
Documentation of cash differences must be maintained for each cashier.	Cash differences for each cashier cannot be determined because cash drawers are shared.
The safe's combination must be given only to supervisory and authorized personnel who must then commit the combination to memory. A record of the combination, sealed and opened only under double-custody to prevent undetected access, must be maintained away from the safe area.	Access to the locked cash room and safe is not restricted in accordance with policy.

In addition to the above, the store did not have a point of sale system to record

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what had been sold. Therefore the Muir Store was unable to generate an itemized listing of what has been sold during the day, making it impossible to reconcile cash on hand to sales.

Because of the cash control deficiencies noted above, there appears to be an increased risk for misappropriation of cash or theft at the Muir Store.

Management Corrective Action:

The CBO will work with the Muir Store to strengthen internal controls over cash and cash equivalents, and to ensure compliance with the requirements set forth in University policy (BUS 49).

B. Overdraft Resolution Plan  ISS.2

A resolution plan has not yet been developed and documented to address a fund overdraft exceeding \$10,000 for over 60 days.

The UCSD Overdraft Policy states that “If an overdraft occurs, administrative officials, or their designees, need to determine the cause, evaluate the activity, and take corrective action.” The policy requires that a written plan be developed for the removal of overdraft balances requiring an extended period of time to resolve - usually over 60 days and in excess of \$10,000, and that department personnel resolve overdrafts in accord with the written plans approved by the cognizant Vice Chancellor or Dean.

We noted that as of May 31, 2014, one CBO fund had a deficit exceeding \$10,000 for a period exceeding 60 days, as follows:

IFIS Fund Number	IFIS Fund Title	Fund Deficit
74020A	Muir College Sundry Shop	\$73,597

To date, no written plan has been developed to resolve this longstanding fund overdraft. However we understand that the CBO is in the process of working with the appropriate offices to develop a written plan to resolve this fund overdraft.

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Management Corrective Action:

A written plan to resolve this longstanding fund overdraft will be developed and approved as required by University policy.

In addition, management will evaluate alternative approaches for oversight of the Muir College Sundry Shop, and may consider partnerships with campus service providers.

C. Information Systems Risk Assessment  ISS.3

CBO has not conducted a formal information systems risk assessment as required by University policy (BFB IS-3).

In accordance with UCOP policy IS-3, section III.B, departments or units that handle or manage information assets or electronic resources should conduct formal risk assessments to determine what information resources exist that require protection, and to understand and document potential risks from IT security failures that may cause loss of information confidentiality, integrity, or availability. The purpose of a risk assessment is to help management create appropriate strategies and controls for stewardship of information assets. As business operations, workflow, or technologies change, periodic reviews should be conducted to analyze these changes, to account for new threats and vulnerabilities created by these changes, and to determine the effectiveness of existing controls. Ideally, unit management would work with information systems personnel to complete the risk assessment, since management would be knowledgeable as to what information systems assets could be considered high risk.

Management Corrective Action:

The CBO Provost Information Technology Services Group will complete a risk assessment as required by University policy (BFB IS-3).

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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)			
Cash Handling		√	√	Observed cash handling procedures at the Muir Store.	No	Improvement Needed	Cash handling control procedures at the Muir Store were not in compliance with University policy. <i>(Audit Report Finding A)</i>
Operating Ledger Review & Financial Reporting		√	√	Examined selected operating ledgers, financial reports, SAS-112 reporting and deficit balance reports.	No	Improvement Needed	In general, procedures complied with University policies. However, a plan to address a fund in long-term deficit has not been documented. <i>(Audit Report Finding B)</i>
Information Systems Environment		√	√	Completed web application vulnerability scans on select CBO web applications.	No	Improvement Suggested	In general, CBO was in compliance with campus information systems standards. However, a risk assessment has not been documented as required by UC policy. <i>(Audit Report Finding C)</i>

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

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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 selected transactions; traced to supporting documents.	Yes	Satisfactory	Supporting documentation was adequate.
Express Card	√	√	√	Reviewed randomly selected transactions; traced to supporting documentation.	Yes	Satisfactory	Purchases were processed and supported by documentation as required by University policy.
Travel and Entertainment	√	√	√	Reviewed travel, business meetings and entertainment expenses and supporting documents.	Yes	Satisfactory	Activity was monitored for compliance with policies and procedures. No exceptions were noted.
Payment Authorizations	√	√	√	Reviewed randomly selected transactions; traced to supporting documentation.	Yes	Satisfactory	Supporting documentation was adequate.
Personnel and Timekeeping documentation	√	√	√	Reviewed selected timesheets, background checks and performance reviews.	Yes	Satisfactory	Procedures for timekeeping and payroll complied with University policies. Key controls were documented.

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

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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)			
Gift Fund Expenditures	√	√	√	Examined gift fund documentation and expenditures for several gift funds.	Yes	Satisfactory	Expenditures were consistent with donor intentions. Supporting documentation for expenditures was adequate.
Expenses Transfers		√		Reviewed timeliness, and business justifications for reasonableness.	Yes	Satisfactory	Expense transfers were adequately documented and supported.

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