



Internal Audit Report

EDUCATIONAL PARTNERSHIP CENTER OPERATIONS

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I. EXECUTIVE SUMMARY

Internal Audit & Advisory Services (IAS) has completed an audit of the Educational Partnership Center (EPC) at the request of the Vice Provost and Dean, Undergraduate Education and Summer Session. The purpose of the audit was to evaluate the adequacy of controls over EPC operations, including; general compliance with contracts and grants; campus policies and practices for establishing partnership agreements; and financial policies including procurement, invoicing, travel, and entertainment.

Overall, controls over operations we reviewed were adequate in the areas of outreach program management and grant management. Gear UP and Cal-SOAP program personnel obtained necessary cost sharing/matching funds from partners and documentation supported required effort reporting certifications in the time period reviewed.

However, opportunities for improvements were identified in the area of service agreement contracting and delegation of authority, engagement of available expertise in purchasing approvals, cash handling and travel processing. In addition, suggestions were made to address the complex nature of time and effort reporting to help simplify the process.

The following issues requiring management corrective action were identified during the review:

A. EPC Contracting Procedures

EPC contracting protocols, including requirements for establishing contracts versus memorandums of understanding was not sufficiently defined or understood, and as a result, EPC was engaging in agreements that contained terms and conditions that were not enforceable or acceptable to the University.

B. Delegation of Authority to Execute Services Agreements

EPC personnel were executing contracts on behalf of the University without having the appropriate delegation of authority. Existing delegation of authority for EPC service agreements was not clear.

C. Purchasing Approvers

EPC staff that was most qualified for reviewing the appropriateness of, and approving grant related purchase requests, was not included in the approval queue above \$2500.

D. Cash Handling

There was a lack of separation of duties within the EPC cash handling process as one employee created invoices, received payments, created receipts, and assigned foapals for the remittances.

E. Submission of Post-Travel Vouchers.

It was common for EPC employees engaged in recurrent travel to submit their post-travel vouchers after the monthly limit allowed by UC travel policy, even on a quarterly basis.

Management agreed to all corrective actions recommended to address risks identified in these areas. Observations and related management corrective actions are described in greater detail in section III of this report.

II. INTRODUCTION

Purpose

The purpose of this audit was to evaluate the adequacy of controls over EPC operations, including; general compliance with contracts and grants; campus policies and practices for establishing partnership agreements; and financial policies including procurement, invoicing, travel, and entertainment.

Background

EPC is a student outreach organization established in 1999 to coordinate outreach programs of UCSC with the goal of increasing access and opportunity to postsecondary education for students across the Monterey Bay and Silicon Valley/San Jose regions.

EPC programs include:

- California Reading and Literature Project (CRLP)
- California Student Opportunity and Access Program (Cal-SOAP)
- California State Summer School for Mathematics and Science (COSMOS)
- Early Academic Outreach Program (EAOP)
- Gaining Early Awareness And Readiness For Undergraduate Programs (GEAR UP)
- Mathematics, Engineering, Science Achievement Schools Program (MESA)

EPC programs' funding sources included state funds, private gifts, and other funds totaling \$2,240,564 in FY12; and federal and state grants active in FY12 and FY13 totaling \$6,931,996.

EPC has been subject to reorganization in recent years. Its founding executive director retired at the end of FY10. The executive director of the University of California College Preparation (UCCP) was made the interim executive director in FY11 and UCCP became a department of EPC. The Student Affairs Division was reorganized in FY12 with the result that EPC was incorporated into the Division of Undergraduate Education. In FY13, UCCP was incorporated into UNEX. Staff changes have occurred due to retirements, budget cuts and reorganization.

Scope

We assessed the effectiveness of EPC operational controls by means of meetings with EPC and Division of Undergraduate Education management and staff; gathered background information including previous audits of EPC; assessed risks to the reasonable accomplishment of EPC operational goals; formed an audit program to evaluate controls to significant risks identified in the risk assessment; reviewed relevant standards and regulations and associated policies and procedures; gathered and evaluated data from FY12 and FY13; and conducted detailed testing.

Areas of detailed testing were:

- Services agreements with outside organizations, including an analysis of whether such agreements were legal contracts or memoranda of understanding, and the agreements' authorizations in terms of appropriate delegation of authority;
- Compliance with grant requirements, including matching funds and effort reporting;
- Payroll distribution, including frequency of change requests, and reasonableness of allocations; and
- Financial policies, including procurement practices, and compliance with UC entertainment and travel policies.

Refer to Appendix A: Summary of Work Performed and Results for additional detail on audit scope.

III. OBSERVATIONS REQUIRING MANAGEMENT CORRECTIVE ACTION

A. EPC Contracting Procedures		
EPC contracting protocols, including requirements for establishing contracts versus memorandums of understanding was not sufficiently defined or understood, and as a result, EPC was engaging in agreements that contained terms and conditions that were not enforceable or acceptable to the University.		
Risk Statement/Effect		
Engaging in improper contracting practices within EPC can lead to undesired consequences, including unenforceable contracts and the University having difficulties in recovering payments for its services.		
Agreement		
A.1	Division of Undergraduate Education and EPC management will continue working with the Office of Campus Counsel to identify contracts as distinct from memorandums of understanding, and implement applicable campus contractual procedures.	Implementation Date
		1/31/2013
		Responsible Manager
		Assistant Vice Provost, Undergraduate Education

A. EPC Contracting Procedures – Detailed Description

EPC creates service agreements in the form of contracts and memorandums of understanding with its partners, such as school districts, whose students benefit from its outreach programs. Sometimes these agreements appear to be contracts in which partners agree to pay for services that EPC provides. Other times, agreements appear to be memorandums of understanding that describe a program’s expectations including EPC’s and its partner’s responsibilities.

EPC did not have adequate training to ensure contracts were written to include University required terms and conditions. Nor did it adequately consult with the Office of Campus Counsel to ensure University contracting requirements were met.

For example, during FY12, EPC entered into a contractual arrangement with Pajaro Valley United School District in which the EPC program, California Reading and Literature Program, would deliver training and the School District would pay \$36,000 for the training. As part of this agreement, the School District created a purchase order as a payment vehicle for its payment to EPC. EPC’s Contract Services Agreement did not reference the University’s terms and conditions, and the School District’s terms and conditions listed on its purchase order included a liability condition that was not acceptable to the University.

When a services agreement is an enforceable contract, it is important for EPC to implement campus contract procedures. As EPC is providing services through these agreements, rather than purchasing services, the Office of Campus Counsel is the campus authority for such contracts. Management from the Division of Undergraduate Education and EPC met with Campus Counsel to discuss how to proceed to ensure proper procedures are implemented for future EPC contracts.

B. Delegation of Authority to Execute Services Agreements		
EPC personnel were executing contracts on behalf of the University without having the appropriate delegation of authority. Existing delegation of authority for EPC service agreements was not clear.		
Risk Statement/Effect		
The absence of clear delegations of authority over EPC service contracts creates a question as to the validity and enforceability of agreements that are contracts, and inefficiencies for the processing of other agreements.		
Agreement		
B.1	Division of Undergraduate Education management will work with UCSC Policy Coordination to ensure that an adequate delegation of authority is identified for the type of service agreements established by EPC.	Implementation Date
		1/31/2013
		Responsible Manager
		Assistant Vice Provost, Undergraduate Education

B. Delegation of Authority to Execute Service Agreements – Detailed Description

EPC services agreements are of two types: contracts in which partners agree to pay EPC for services rendered; and memorandums of understanding that are guiding documents describing program expectations to be combined with UC standard terms and conditions when purchase orders are required. Because a service agreement can take on these two different types of agreements, there is some question as to what type of delegation authority is required to approve these agreements.

This was evident as we observed that when buyers with Procurement & Business Contracts (P&BC) would receive a request for a purchase order from EPC they were confused by the nature of the request as it was not a typical request for the purchase of goods and services. Buyers would seek advice from their manager who would in turn seek advice from her director. Along the way a question would be raised about the authority of the person requesting the purchase order: “Does this person have the authority to commit the University to services described in the agreement?” Consequently, we sought to answer this question.

We first asked the EPC executive director if he had in writing a delegation of authority to sign EPC agreements that including contracts. He did not. Then we looked for a UC presidential delegation of authority that might apply to EPC’s services agreements. We found DA 1058 Delegation of Authority – Execution of Agreements (12/30/1991) in which chancellors, the senior vice president, Administration, and vice president, Agriculture and Natural Resources were delegated authority “to the execution of the various service agreements required with outside organizations, agencies, and individuals to implement approved programs and activities, whether the University is the supplier or recipient of the service covered by the agreement.” This delegation appears to cover agreements that are contractual

in nature as well as memorandums of understanding, and therefore would apply to EPC service agreements.

DA 1058 was re-delegated by the UCSC chancellor in April 1992 (SCDA 1058), and revised in April 2000 (SCDA-BUS00003). This revision delegated authority to negotiate and execute various business contracts to vice chancellors and assistant chancellors; this authority could be re-delegated in writing. We contacted the campus Policy Coordination Office to learn of the re-delegation's current status and discovered that it was up for revision as it appeared to not be as comprehensive as the previous delegation. We informed the Policy Coordination Office of EPC services agreements and that EPC is now a unit of the Division of Undergraduate Education to help ensure that the revision of this delegation of authority applied adequately to EPC services agreements.

The Division of Undergraduate Education has an opportunity to clarify the delegation of authority needed for signatories of EPC service agreements, whether those agreements are contractual in nature or memorandums of understanding, and should work with the Policy Coordination Office to ensure the revision of the campus re-delegation of DA 1058 adequately covers EPC services agreements.

C. Purchasing Approvers		
EPC staff that was most qualified for reviewing the appropriateness of, and approving grant related purchase requests, was not included in the approval queue above \$2500.		
Risk Statement/Effect		
Without review by a person with related expertise, a purchase order requisition could be approved without adequately taking into consideration what is allowable, allocable, and applicable for grants; if adequate funding exists; or if the expense was accounted for appropriately.		
Agreement		
C.1	Division of Undergraduate Education will review approval queue status of budget analysts for purchase requisitions and ensure their input is obtained before other approvals are made, especially grant-related.	Implementation Date
		7/1/2013
		Responsible Manager
		Financial Manager, Undergraduate Education

C. Purchasing Approvers – Detailed Description

The two EPC budget analysts were trained to examine grant-related expenditures to ensure they are allowable, allocable and applicable; were in the best position to ensure there was adequate funding; and that the appropriate ledger codes (foapal) were used to account for proposed expenditures. However, EPC placed a dollar approval limit of \$2,500 on the amounts budget analysts were authorized to approve on purchase requisitions. Consequently, a purchase at a higher dollar amount could potentially be approved without the expert input of these budget analysts. We are not aware of any purchases that did not comply with grant requirements.

However, divisional management who approve such purchases may or may not confer with the budget analyst before assigning their approval. Because the approval process in CruzBuy requires the approver signoff before a purchase order goes through, unless the budget analyst has approval authority in CruzBuy, there is no evidence to demonstrate whether or not they have been involved in the process. Therefore, divisional management should consider providing qualified budget analysts approver status in CruzBuy for all dollar amounts to ensure their expert review of all grant-related purchases.

D. Cash Handling		
There was a lack of separation of duties within the EPC cash handling process as one employee created invoices, received payments, created receipts, and assigned foapals for the remittances.		
Risk Statement/Effect		
A lack of separation of duties in EPC cash handling processes creates an opportunity and risk for an employee to misappropriate cash.		
Agreement		
D.1	The Educational Partnership Center financial manager will improve separation of duties for cash handling, such as by having remittances sent to the campus Cashier’s Office after informing the main cashier what foapals to use to account for the funds, or ensure that an employee who does not create the invoices collects and opens the mail that includes remittances and keeps a log of remittances received.	
		Implementation Date
		7/1/2013
		Responsible Manager
	Financial Manager, Undergraduate Education	

D. Cash Handling – Detailed Description

The budget analyst we spoke to informed us that during FY12, EPC received and deposited \$1,572,748 into its accounts.

Within EPC, the current cash handling process is as follows:

- A budget analyst creates invoices and mails them to partners, such as school districts. The invoices instruct partners to remit payments to UC Regents, University of California, Santa Cruz, Educational Partnership Center, Attention: Business Services, 2901 Mission St. Ext. Suite A, Santa Cruz CA 95060
- The budget analyst collects the mail for the Business Office.
- The budget analyst opens the mail and when checks are inside she fills out the standard campus receipt form, and includes the foapals that the money should be deposited to.
- The budget analyst hands-off the check and receipt to another budget analyst, who fills out the deposit form and makes the deposit in the Cashier’s Office 24-hour depository.
- The deposit form is not reviewed and signed off by an approver.
- Further, regarding the GEAR UP program, the first budget analyst creates a spreadsheet of GEAR UP transactions by manually entering data from the General Ledger. She goes over these transactions with the GEAR UP director, who signs off on the spreadsheet. If the director regards this as the extent of her ledger review, and does not review the General Ledger as well, then the budget analyst would be involved in ledger review as well as invoicing and receiving remittances.

The Cashier's Office maintains a binder that identifies the foapals for checks it receives on a regular basis and uses these foapals to ensure the funds are properly accounted for. If there is a question about the foapal, the Cashier's Office will call the unit to obtain the proper foapal. If the Cashier's Office does not know who to contact, the funds are deposited and accounted for in a suspense account from which they can be transferred at a later time.

EPC could inform the Cashier's Office of checks it is expecting and what foapals to assign. Alternatively, EPC can request its partners making payments to include a reference number on the checks that is the foapal that the Cashier's Office should use to account for the remittances.

E. Submission of Post-Travel Vouchers		
It was common for EPC employees engaged in recurrent travel to submit their post-travel vouchers after the monthly limit allowed by UC travel policy, even on a quarterly basis.		
Risk Statement/Effect		
Untimely submissions of travel vouchers may adversely affect periodic budget planning; grant requirements for expense reimbursement; and the substantiation of the business purpose of travel, such as by losing supporting documentation.		
Agreement		
E.1	The Educational Partnership Center will remind traveler’s that they are required by policy to submit their post-travel vouchers on a monthly basis when they are engaged in recurrent travel; and within 21 days of the end of a trip when travel is not recurrent.	Implementation Date
		1/31/2013
		Responsible Manager
		Financial Manager, Undergraduate Education

E. Submission of Post-Travel Vouchers – Detailed Description

UC travel policy states:

The Travel Expense Voucher must be submitted to the campus accounting office within 21 days of the end of a trip unless there is recurrent local travel, in which case vouchers may be aggregated and submitted monthly.

This policy was designed for budgetary as well as expense matching and documentation/substantiation of the business purpose of the trip. Generally, local policies may be more restrictive than system-wide policies, but not less restrictive.

From a population of approximately 400 travel transactions, there were 94 that were identified as likely involving the untimely submission of travel vouchers.

None of the travel reimbursements we reviewed involved lost receipts, but not following policy could make it difficult to verify travel expenses or adversely affect budget planning.

EPC could remind travelers to submit their post travel vouchers on a monthly basis.

APPENDIX A – Summary of Work Performed and Results

EPC Service Agreements	
Work Performed	Results
<p>Interviewed EPC management and staff; Procurement & Business Contracts management; campus counsel, Office of Sponsored Projects contracts and grants officer; Office of Policy Coordination analyst.</p> <p>Reviewed samples of services agreements; correspondence between EPC and P&BC and the Office of Campus Counsel; UC presidential delegations of authority and re-delegation of authority by UCSC chancellor together with a revision; and other historical documents.</p>	<p>EPC should meet with campus counsel to receive guidance on discerning the difference between service agreements that are contracts and those that are memorandums of understanding; and implement campus procedures for contracts. <i>See observation III.A</i></p> <p>Division of Undergraduate Education management should work with the Office of Policy Coordination to ensure that the revision of the campus re-delegation of authority DA1058 pertains to EPC service agreements. <i>See observation III.B</i></p>
EPC Grants	
Work Performed	Results
<p>Chose a sample of a federal grant (GEAR UP) and a state grant (Cal-SOAP).</p> <p>Interviewed budget analysts to identify responsibilities for ensuring grant-related transactions complied with grant requirements.</p> <p>Reviewed grant documents including reports on program activities to evaluate compliance.</p> <p>Checked with the campus Effort Reporting System to ensure reporting requirements were met.</p>	<p>GEAR UP: There were several GEAR UP grants operational during FY12 and FY13 that totaled \$6,931,996 for FY12.</p> <p>The auditor analyzed pay rates on the grants and found a discrepancy for which he sought clarification. The GEAR UP director’s rate of pay on two grants was changed and this was properly approved; this demonstrated an adequate approval process.</p> <p>EPC GEAR UP program personnel obtained necessary cost sharing/matching funds from partners to obtain the grants. Grant partners certify they have complied with federal requirements regarding cost sharing. EPC provides documented guidance on cost sharing requirements so that certification of compliance is meaningful.</p> <p>GEAR UP program management fulfilled reporting requirements.</p> <p>Cal-SOAP: Procedures for obtaining cost sharing from partners were the same as with GEAR UP.</p> <p>The auditor examined how a services agreement revenue fund (66506) was used and found controls on fund use were adequate.</p>

	<p>Cal-SOAP program management fulfilled reporting requirements.</p> <p>Effort Reporting: Certifications of effort reporting were timely for both quarters reviewed in the Effort Reporting System. System staff indicated no problems with EPC meeting campus reporting requirements.</p> <p>We concluded that GEAR UP and Cal-SOAP grants were managed adequately.</p>
Payroll Distribution	
Work Performed	Results
<p>Based on a sample of employees, we looked up their appointment and distribution in the Payroll Personnel System (PPS), and checked for reasonableness. We contacted EPC management and staff to gain clarification where needed. We also contacted Staff Human Resources to identify issues it might have with EPC distribution change requests.</p>	<p>Certain employees benefit multiple programs and therefore have complex distributions of their pay to various fund sources. We identified two such employees whose distributions were mistaken and informed the financial manager. He confirmed that errors were made recently and corrected them.</p> <p>We observed that since UCCP was incorporated into EPC, its funds were used to pay for effort that was not exclusively for UCCP. Although the EPC executive director did not have documentation from UCOP authorizing this use of UCCP funds, UCOP was provided regular reports of UCCP activity and budgets. UCCP is no longer an EPC department.</p> <p>The DUE assistant vice provost made needed changes to EPC practices when requesting payroll changes in order to reduce difficulties Staff HR had to understand and implement those changes timely and without errors.</p> <p>There are occasions when the volume of EPC change requests taxes the limits of its Staff HR team. The recent changes in EPC change request practices should relieve some of this stress. However, it is the nature of grant-funded programs that as old grants wind down and new grants start, payroll change requests will occur. EPC could further assist its Staff HR team, which is at a reduced staff due to budget constraints, by giving them a heads-up when an increase in change requests is expected. This would allow time for Staff HR to assign help from other teams.</p>

Financial Policies: Purchasing	
Work Performed	Results
<p>We contacted Procurement & Business Contracts and spoke with its management and the buyer assigned to EPC.</p> <p>We obtained the EPC CruzBuy Budget Approvers/Approvals list and analyzed it for reasonableness. Further, we spoke with the PBSci research resources manager to understand the responsibilities of research accountants, and looked on the PBSci website where many of these are documented.</p>	<p>Aside from the difficulties that P&BC had with purchase order requests related to services agreements, all other purchase order activities were normal and followed standard P&BC procedures.</p> <p>The PBSci website identified the following functions:</p> <ul style="list-style-type: none"> • Reviewing proposal budgets to see that the amounts budgeted seem reasonable for the various types of projected expenditures. • Reviewing and approving all transactions involving the commitment of grant funds. • Providing regular financial summaries and projections of expenditures to PIs. • Consulting with PIs to determine how best to meet their changing financial needs. • Ensuring that all transactions are in accordance with terms and conditions of the award and with university policy. • Reviewing and tracking cost sharing and/or matching fund commitments set forth in the proposal and making recommendations to the Dean; providing cost-sharing information to Extramural Funds for reporting purposes. • Assisting with the closing of grants <p>As EPC budget analysts report to the DUE financial manager, there is good separation of duties between them and the program directors they provide service to.</p> <p>See observation III.C for further results.</p>

Financial Policies: Entertainment	
Work Performed	Results
<p>We contacted the DUE financial manager and staff to identify divisional policies and procedures over entertainment transactions.</p> <p>We chose a small number of samples for detailed testing.</p>	<p>EPC personnel receive training in UC entertainment policy. No more restrictive policies were mentioned.</p> <p>We observed two issues:</p> <ol style="list-style-type: none"> 1) An inappropriate use of grant funds to pay for a business meeting’s light refreshments. We discussed this with the program director and budget analysts and reviewed funds used for similar business meetings that occurred later. We concluded that the one instance was an oversight that controls would usually prevent. The amount was immaterial and the grant was closed, which prevented a transfer of expenses. We decided to not include this among reportable observations as no further action by management was needed. 2) Inconsistent requirement of guest lists for approval of reimbursements. Our number of samples was too small to identify trends so we did not include this observation among those that required management corrective action. However, review of entertainment expense forms could be improved by consistently requiring guest lists where practical to help determine the business purpose of the expense.
Financial Policies: Travel	
Work Performed	Results
<p>We contacted the DUE financial manager and staff to identify divisional policies and procedures over travel transactions.</p> <p>We chose a small number of samples for detailed testing.</p>	<p>EPC personnel receive training in UC travel policy. No more restrictive policies were mentioned.</p> <p>Aside for the observation of late submissions of post-travel vouchers (see observation III.E), there was an issue in which the supporting documentation provided for a post-travel voucher was not adequate. Due to the circumstances of this reimbursement request, we elected to contact the traveler and the reviewers of that voucher and informed them of the type of supporting documentation we expected to find and why. Consequently, we did not include this among observations requiring further management corrective actions.</p>