



Child Care Services

Internal Audit Report No. I2015-107

July 13, 2015

Prepared By

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INTERNAL AUDIT SERVICES
IRVINE, CALIFORNIA 92697-3625

July 13, 2015

**LAURA FINLEY-SANBRANO
INTERIM DIRECTOR
CHILD CARE SERVICES**

**RE: Child Care Services Audit
Report No. I2015-107**

Internal Audit Services has completed the review of Child Care Services 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

Marcelle Holmes, Assistant Vice Chancellor – Wellness, Health and Counseling
Services – Student Affairs

Brice Kikuchi, Chief Financial Officer – Student Affairs

Lisa Martinez, Business Manager – Child Care Services

I. MANAGEMENT SUMMARY

Internal Audit Services (IAS) reviewed business operations and financial activities, within Child Care Services (CCS). Certain internal controls and process improvements could be strengthened to ensure compliance with University policies and procedures and/or best business practices. The following issues were noted.

Overtime Pay – Internal controls were not established to ensure that overtime for staff was accurate and valid. Prior approvals for overtime were not documented to verify that reported overtime was correct prior to payment. The details related to this issue are provided in section V.1.

Approval Processes – Internal controls for levels of approving authority need to be better defined. The details related to this issue are provided in section V.2.

PALCard – Required PALCard documentation was not always retained. In addition, appropriate approvals of requisitions were not always maintained. The details related to this issue are provided in section V.3.

II. BACKGROUND

CCS is a department under Student Affairs. As of April 2015, it has moved organizationally from Student Affairs Auxiliary Services to Student Affairs Health, Wellness, and Counseling. CCS has the responsibility for the care of children from infant through 12 years of age. It provides day care service for children of students, faculty, staff, and the Irvine community. CCS is comprised of five centers: Infant Toddler Center, Children’s Center, Early Childhood Education Center, Extended Day Care Center, and Verano Preschool. Their educational programs are developmentally based. Currently two centers (Early Childhood Education Center and Verano preschool) are accredited by the National Academy of Early Childhood (NAEYC) programs and two centers (Children Center and the Infant Toddler Center) are in the self-study stage of the accreditation process. NAEYC does not accredit school age programs therefore the Extended Day Center does not fall under their guidelines. In addition, all programs follow the guidelines of the California Department of Education Child Development Division and licensing requirements of the Department of Social

Services. Curriculum activities are planned and presented by teachers who maintain Child Development Permits, issued by the Commission on Teacher Credentialing.

III. PURPOSE, SCOPE AND OBJECTIVES

The scope of the audit focused on FY 2013-2014 CCS business operations. The purpose of the audit was to assess whether the internal controls currently in place are adequate and sufficient to prevent or detect fraudulent or non-compliant transactions, while ensuring the overall efficiency and effectiveness of business operations. IT general controls were also reviewed.

Based on the assessed risks, the following audit objectives were established:

1. Reviewed non-payroll expenditures for proper accountability and separation of responsibilities; adequate documentation; assurance of valid, properly pre-authorized and approved transactions; timely reconciliations; and compliance with University policies and procedures;
2. Determined whether the following aspects of employee time reporting: overtime approval, leave accrual tracking, and payroll reconciliation comply with established policies and procedures;
3. Evaluated whether there are adequate controls over budgeting and accounting and verified whether general ledgers are reviewed and reconciled in a timely manner;
4. Reviewed payroll certification processes for timely completion and submission;
5. Determined whether extramural fund expenses were appropriate, allocable, and reasonable;
6. Assessed and reviewed selected IT general controls.

IV. CONCLUSION

In general, internal controls and operational processes reviewed appear to be functioning as intended. No issues were noted related to budget and accounting review and reconciliation practices and the management of extramural funds. However, internal control concerns were identified in the area of non-payroll expenditures and the approval of payroll overtime. Lack of control measures in these areas makes it difficult to prevent or detect unauthorized and fraudulent transactions.

Observation details and recommendations were discussed with management who formulated action plans to address the issues. These details are presented below.

V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Overtime

Background

Personnel policy on overtime for staff members requires the department head to approve overtime for non-exempt employees to meet essential operating needs. The department is responsible for ensuring an employee requested advance approval for overtime work and properly report the overtime worked in a timely manner prior to compensation.

Observation

IAS reviewed payroll data and sampled nine staff members for further review of payroll activity. Based on the review, internal controls over reporting of overtime compensation could be strengthened. IAS found that overtime approvals were verbal and were not consistently documented. As a result, IAS was not able to substantiate if the reported overtime hours were accurate prior to compensation or able to determine if overtime was approved in advance as required by policy. Also, IAS noted that the justification for overtime was not always explained and documented.

Furthermore, compensatory time agreements were not obtained in a timely manner for some of the represented staff and not at all for the non-represented staff members selected for review.

Compliance with the policies and procedures ensures that payroll is not only properly approved and processed in accordance with regulatory requirements, but also valid for compensation.

Management Action Plan

Child Care Services transitioned to TRS (Time Reporting System) on September 23, 2013. Prior to that, our written time sheets had pre-approved overtime documented on the actual time sheet and the information would be transferred to the PPS (Payroll Personnel System) by the office staff. During our transition to TRS, our supervisors had an adjustment period in learning how to properly use the system. As our employees are required to use a time clock (overseen by Office of Information Technology - OIT) to record their time, some of the earlier timesheets did not have written documentation on why overtime was granted. The directors have been making notations on timesheets indicating reasons why overtime was generated and it can be seen in numerous recent timesheets.

During the course of the review, the Interim Director sent a memo to the management staff regarding overtime requirements on June 8, 2015. Directors will meet with all non-represented staff during their regularly scheduled staff meeting on July 7, 2015 and distribute compensatory time agreements for all non-exempt staff to sign. Furthermore, CCS will ensure that overtime procedures are properly implemented for all staff members by obtaining compensatory time agreements for covered staff and reviewing all reported overtime prior to compensation to verify that overtime is compensated in accordance with the agreement and properly substantiated with appropriate documentation and justification of overtime necessary to meet essential departmental needs, as well as prior approval.

IAS will follow up on this management action plan in September 2015.

2. Approval Processes

Background

Internal control procedures that ensure adequate approval processes were not always maintained. Approving authority for a payee should be someone at a higher level to ensure that the transaction is accurate, valid, and appropriate.

Observation

IAS reviewed a sample of PayQuest reimbursements and PALCard transactions for appropriateness and compliance with policy and noted the following.

- Some transactions were not appropriately approved for payment. For example, IAS noted that, in some instances, an employee in a subordinate position was authorizing payments.

Lack of internal controls, such as an adequate approval process, increases the risk of improper costs, unauthorized use of University funds, or fraud.

Management Action Plan

The former director for CCS retired effective June 2012 and was rehired as a recalled retiree in August 2012. She was to aid the unit in completing the accreditation process (on-going at the time of the retirement) and to help transition a new director. She was allowed to maintain her authority to sign off on transactions until a new director was named. In the intervening three years, the operation for CCS was shared by both the former Director and the current ECEC director and authorizations became blurred. However, once the Interim Director was officially in place, the authority to approve transactions was removed from the former director. Also, during the audit, the authority to approve all transactions involving the Interim Director is now routed to the office of the Student Affairs Assistant Vice Chancellor of Wellness, Health and Counseling.

IAS has verified this process and no further action is required.

3. PALCard

Background

The purchasing card (PALCard) is used by staff with purchasing responsibilities to buy equipment, supplies, and services. University purchasing policies require purchases to be pre-authorized either formally through an internal requisition or informally, such as an email. In addition, PALCard policies require an administrative reviewer to review PALCard supporting documentation and account/fund for appropriateness for each transaction in a timely manner.

Observation

IAS reviewed a sample of PALCard transactions and noted the following:

- Internal requisitions were not properly approved. Examples of the observations include a requisition that had no documented approval.
- Packing slips were not maintained on file for review as appropriate supporting documentation.

Implementation of internal controls, such as obtaining authorized requisitions prior to purchase and maintaining proper documentation minimizes the risks of error, waste, and inappropriate or unauthorized use of University funds.

Management Action Plan

Effective July 1, 2015, a memo was issued to all PALCard holders regarding proper approvals as well as supplying packing slips to the office as back-up or making a notation on the order that all items ordered are received.

IAS will follow up on this management action plan in September 2015.