

**UNIVERSITY OF CALIFORNIA, SAN FRANCISCO
AUDIT AND ADVISORY SERVICES**

**University Development and Alumni Relations
Gift and Cash Operations
Project #15-019**

November 2014

University of California
San Francisco



Audit and Advisory Services

November 6, 2014

Steve Downs

Executive Director – Financial Services and Administration
University Development and Alumni Relations

SUBJECT: Gift and Cash Operations 15-019

As a planned internal audit for Fiscal Year 2015, Audit and Advisory Services (“AAS”) conducted a review of gift and cash operations at University Development and Alumni Relations (UDAR). This review was performed in September 2014. Our services were performed in accordance with the applicable International Standards for the Professional Practice of Internal Auditing as prescribed by the Institute of Internal Auditors (the “IIA Standards”).

Our preliminary draft report was provided to management of UDAR in October 2014. Management provided us with their final comments and responses to our observations in October 2014. The observations and corrective actions have been discussed and agreed upon with department management and it is management’s responsibility to implement the corrective actions stated in the report. In accordance with the University of California audit policy, AAS will periodically follow up to confirm that the agreed upon management corrective actions are completed within the dates specified in the final report.

This report is intended solely for the information and internal use of UCSF management and the Ethics, Compliance and Audit Board, and is not intended to be and should not be used by any other person or entity.

Sincerely,

A handwritten signature in black ink, appearing to read 'Irene McGlynn', with a horizontal line extending to the right.

Irene McGlynn
Director
UCSF Audit and Advisory Service

**University Development and Alumni Relations
Gift and Cash Operations
Project #15-019**

MANAGEMENT SUMMARY

As a planned audit for Fiscal Year 2014-2015, Audit and Advisory Services (AAS) conducted a review of gift and cash operations at University Development and Alumni Relations (UDAR). In Fiscal Year 2014, UDAR received approximately \$290 million in donations, with approximately \$172 million in checks, \$4 million in credit cards, \$35 million in securities, \$72 million via electronic fund transfers, and the remaining amount in other forms such as real estate, awards, payroll deductions, etc.

The objectives for this review were to determine whether 1) adequate internal controls have been implemented to confirm that gift and cash receipts are properly recorded, processed, and accurately accounted for; 2) adequate segregation of duties has been implemented for gift and cash collections; 3) gift and cash processing procedures comply with University policies; and 4) potential vulnerabilities for diversion or misappropriation of gift/cash receipts have been identified and appropriately addressed.

Based on work performed, UDAR has implemented reasonable controls for gift and cash receipts. However, AAS identified several opportunities to enhance existing procedures and processes to improve accountability, monitoring and oversight, and increase compliance with existing University policies.

Detailed information on the observations and management corrective actions can be found in the body of the report.

**University Development and Alumni Relations
Gift and Cash Operations
Project #15-019**

TABLE OF CONTENTS

MANAGEMENT SUMMARY i

TABLE OF CONTENTS ii

I. BACKGROUND.....1

II. AUDIT PURPOSE AND SCOPE 1

III. CONCLUSION2

IV. OBSERVATIONS, MANAGEMENT CORRECTIVE ACTIONS3

 1. Access to mail is not restricted, and enclosed checks are not processed in dual custody3

 2. Background checks and fingerprinting records are not consistently maintained3

 3. Checks stored in the safe are not consistently restrictively endorsed and accounted for at all times4

 4. Faxed credit card transactions are not accounted for at all times and corresponding required exception approval has expired5

 5. Wire transfers are not consistently posted to the appropriate general ledger accounts within two working days6

 6. Advance users are granted gift maintenance access inappropriately6

 7. Annual cash handling training records are not consistently maintained.....7

 8. Event passes are not properly safeguarded.....7

 9. Documentation of safe combination changes is not maintained8

I. BACKGROUND

As a planned audit for Fiscal Year 2014-2015, Audit and Advisory Services (AAS) conducted a review of gift and cash operations at University Development and Alumni Relations (UDAR), which includes Gift Administration, Gift and Endowment Accounting and Reporting (GEAR), Finance Services and Administration, and Special Events. Members of GEAR are employees of the UCSF Controller's Office and have a dual reporting relationship to UDAR.

In Fiscal Year 2014 UDAR received approximately \$290 million in donations with approximately \$172 million in checks, \$4 million in credit cards, \$35 million in securities, \$72 million via electronic fund transfers, and the remaining amount in other forms such as real estate, awards, payroll deductions, etc.

UDAR receives checks in several ways: hand delivered to Gift Administration, through a Union of Bank California (UBOC) lockbox, inter-campus mail, the U.S. Postal Service (USPS), and given directly by attendees at special events.

Credit Card transactions are received through a UBOC lockbox, a UBOC bank account, fax transmissions, USPS, and over the telephone. Credit card transactions received through the UBOC lockbox, fax transmissions, USPS, and over the telephone are processed manually by Gift Administration using PayPal (Verisign). Credit card transactions received through the UBOC bank account represent online transactions. Wires and securities are received electronically through State Street Bank accounts.

UDAR Gift Administration uses Advance to record and allocate gifts to UCSF departments. Advance is a donor, prospect, and events management system that tracks, manages, and maintains donor information, including personal demographics and donations made. UDAR Information Technology (IT) has set up accounting logs (Excel files) that translate gift allocations from Advance into corresponding general ledger (GL) entries in PeopleSoft. PeopleSoft is the UCSF financial system that encompasses transactions for procurement to payment, proposals to awards, bill to cash, and ledger activities including reporting and reconciliation. The accounting logs are reviewed by GEAR prior to posting them to the UCSF GL.

University policies require UC campuses to establish cash and cash equivalent handling procedures to ensure accountability, physical security, separation of duties, and reconciliation of accounts.

The policies governing cash collections include University Business and Finance Bulletin BUS- 49 (BUS-49), Campus Administrative Policies 300-14 and 350-12, and University of California (UC) Accounting Manual Cash: Cash Controls (C-173).

II. PURPOSE AND SCOPE

The objectives for this review were to determine whether 1) adequate internal controls have been implemented to ensure that gift or cash receipts are properly recorded, processed and accurately accounted for; 2) proper segregation of duties has been established for gift or cash collections; 3) gift and cash processing comply with University policies; and 4) potential vulnerabilities for diversion or misappropriation of gift/cash receipts have been mitigated.

In order to achieve our objectives, we performed the following:

- Reviewed relevant UC policies;
- Interviewed UDAR management and staff and performed walk-throughs of key business processes, including mail processing, cash handling, gift administration, and account reconciliation;
- Reviewed and tested Gift Administration daily reconciliation worksheets for three months in 2014;
- Reviewed and tested account reconciliations for three months in 2014;
- Reviewed records for compliance requirements for cash handling training, background checks and fingerprinting;
- Reviewed user access to Advance, PeopleSoft, and electronic fund transfer systems for proper authorized access and that appropriate segregation of duties are maintained;
- Reviewed unallocated gift balances and agreed balances between Advance and PeopleSoft as of September 8, 2014;
- Examined physical security for processing and storing cash and cash equivalents;
- Reviewed special events cash and cash equivalent handling procedures; and
- Reviewed and leveraged the audit work completed by PricewaterhouseCoopers for Fiscal Year 2014 on testing gifts allocation accuracy.

III. CONCLUSION

Based on the work performed, UDAR has implemented reasonable controls for gift and cash receipts. However, AAS identified several opportunities to enhance existing procedures and processes to improve accountability, monitoring and oversight, and increase compliance with existing University policies.

Specifically, the review identified the following:

- Collection of mail is not performed under dual custody and procedures do not require opening of mail and endorsement of checks prior to distribution;
- Documentation supporting completion of cash handling training, background checks, and fingerprinting could not be located;
- Checks are not restrictively endorsed immediately upon receipt and accounted for at all times;
- Faxed credit card transactions are not accounted for at all times and corresponding required exception approval has expired;
- Wire transfers do not consistently post to the GL within the required two working days;
- Users with Advance gift maintenance access do not have justified business needs;
- Event passes are not logged and reconciled; and
- Safe combination change documentation is not maintained.

There are also inherent fraud risks pertaining to cash and cash equivalent handling, such as having donor checks received directly by development personnel or UDAR personnel working at off-site events. Therefore, it is important to continually evaluate cash handling procedures and controls in place for the various UDAR cash collection processes.

The following section of this report provides detailed explanations on the identified observations.

IV. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS**1. Access to mail containing checks is not restricted, and enclosed checks are not endorsed immediately or processed in dual custody as required by University policies.**

It was identified that two UDAR employees have custody of the USPS mailbox keys, allowing these individuals to have direct access to the UDAR mailbox on the first floor.

Additionally, UDAR's current procedure is to deliver mail directly to UDAR staff using existing internal mail folders without first opening the mail and logging any enclosed checks. For mail where the recipient is not clearly identifiable, the mail is opened under dual custody and a mail remittance log is used to track checks received.

For the month of August 2014, there were approximately 51 checks processed manually totaling \$5.6 million.¹ Daily mail contains, on average, five checks ranging from \$20 to \$2 million or above. Checks are normally not logged until they reach Gift Administration therefore any diverted check would not be easily identified.

University accounting manual requires that the mail distributor opens mail and endorses checks. BUS 49 Policy for Cash and Cash Equivalents Received requires that mail remittances shall be verified and processed by two employees.

Failure to establish a process to ensure mail, especially mail containing checks, is collected securely and enclosed checks are processed in dual custody will significantly increase the risk of check diversion or theft.

Management Corrective Action

By January 31, 2015, Management should revise current procedures to require secure access to mail and checks are endorsed immediately upon receipt under dual custody. Separate procedures may need to be established for checks going to Planned Giving.

2. Background checks and fingerprinting records are not consistently maintained.

A. We sampled ten UDAR and GEAR employees to validate that their background check and fingerprinting requirements were met, and noted that five of the ten UDAR and GEAR employees did not have background check completion documentation on file.

Of the five employees identified, we noted the following:

- Four UDAR employees did not have background checks or fingerprinting records on file. Of the four employees:

¹ This total represents the number of manual checks processed but is undistinguishable as to whether they were received through USPS, interoffice or by hand.

1. Two employees were hired prior to the 2007 UDAR imposed mandatory background checks and fingerprinting for all staff;
 2. One employee was hired in July 2007 and is currently handling cash and cash equivalents. However, this individual's job offer letter did not indicate the background check and fingerprinting requirements; and
 3. One employee was hired after 2007 and his job offer letter did include the background check and fingerprinting requirements.
- One GEAR employee did not have background check and fingerprinting records on file and justification could not be provided.
- B. According to Human Resources Service Center (HRSC), UDAR has not consistently required staff to complete background checks and fingerprinting for internal job changes.

BUS 49 Policy for Cash and Cash Equivalents Received requires that background checks must be performed before employing cashiers, cash handlers, and individuals in other critical positions.

Hiring employees into critical positions without a completed background check and fingerprint clearance may result in a higher exposure to potential theft and fraud.

Management Corrective Actions

1. By December 31, 2014, UDAR Finance Services and Administration will consult with HRSC, Labor & Employee Relations (LER), and Office of Legal Affairs (OLA) on enforceability of requiring employees to complete background checks and fingerprinting if they were not performed during the onboarding process.
 2. If it is determined to be legally feasible, UDAR will initiate background checks and fingerprinting by January 31, 2015, for all UDAR and GEAR employees missing these records.
 3. Separately, UDAR will work with the Controller's Office, LER, and OLA to evaluate the feasibility and ramifications of implementing more stringent policies that require background checks for employees in critical positions at any time and the removal of employees who have committed financial wrongdoings that result in civil penalties or convictions. Other considerations should include whether or not it would be necessary to provide notice or obtain consent from the employees.
- 3. Checks stored in the safe are not consistently restrictively endorsed and accounted for at all times.**

Checks that are not processed on the same day by Gift Administration are placed in a dual custody safe (a key and a combination). It was observed during the review that a \$50,000 check was left in the safe overnight without being logged or endorsed.

BUS 49 Policy for Cash and Cash Equivalents Received requires that checks must be restrictively endorsed "for deposit only" and accounted for at all times immediately upon receipt.

Checks that are not accounted for at all times and endorsed upon receipt may result in higher exposure to theft and fraud.

Management Corrective Action

Gift Administration management has developed procedures prior to the issuance of this report requiring that checks stored in the safe be immediately endorsed and accounted for on a check log maintained in the safe.

4. Credit card transactions received via fax transmissions are not accounted for at all times and exception approval to accept faxed credit card transactions has expired.

Incoming faxes containing credit card transactions are received in a secure room at UDAR accessible only by Gift Administration staff, who processes them using PayPal (Verisign). The number of credit card transactions received via fax is generally low, ranging from none to two daily. However, Gift Administration does not maintain a log to account for incoming credit card transactions.

Additionally, UDAR requested an exception to BUS 49 policy to process credit card transactions via fax transmissions in March 2010 with an expiration date of April 11, 2011. UDAR has not renewed this exception.

BUS 49 Policy for Cash and Cash Equivalents Received requires that cash and cash equivalents are accounted for at all times and the University should not accept payment instructions via fax transmission. The location Controller may grant variances provided appropriate compensating controls are in place.

Credit card transactions received via fax transmissions and not accounted for may result in higher exposure to theft and fraud. Also, it is a violation of BUS 49 policy to accept credit card transactions via fax transmissions without obtaining an approval of an exception to the policy from the UCSF Controller.

Management Corrective Actions

Gift Administration management has addressed this observation prior to the issuance of this report by developing a log to account for incoming faxed credit card transactions.

UDAR should continue its efforts to encourage donors to make donations online as to eventually eliminate the need for faxed credit card donations. Separately, UDAR should evaluate the risks and benefit of continuing acceptance of credit card transactions via fax given the low volume. Other method of accepting fax transmissions, including RightFax (which allows faxes to be sent directly as email), should be considered as part of this evaluation.

If it is determined that it is necessary to continue to accept faxed transactions, GEAR will seek renewal of exception approval to BUS 49 policy from the UCSF Controller by December 15, 2014.

5. Wire transfers are not consistently posted to the GL accounts within two working days.

We noted that wire transfers received through the State Street Bank Accounts are posted to the GL only once a week, which is not compliant with UC policy requirements. The State Street Bank Account is used solely by UDAR and receives approximately one to two wire transfers weekly with totals generally ranging from \$2 million and above.

BUS 49 Policy for Cash and Cash Equivalents Received requires that incoming wire transfers be recorded to the appropriate GL accounts within two working days.

Wire transfers that are not posted timely to the appropriate GL accounts may limit the benefits of maximizing investment returns on available assets.

Management Corrective Action

By December 15, 2014, GEAR will either obtain a policy waiver to allow posting of wire transfers to the GL on a weekly basis or change the current practice to comply with BUS 49 requirement.

6. Several Advance users were granted gift maintenance access inappropriately.

During our review, we identified three Advance users with gift maintenance access that does not correspond to their job responsibilities. Gift maintenance access allows a user to process transactional entries in Advance, such as allocating gifts and deleting transactions.

UC Information System Bulletin #3 (IS-3) Electronic Information Security Policy requires that access control measures should include authorization (the process of determining whether or not an identified individual or class has been granted access rights and determining what type of access is allowed).

Allowing users to have additional access to Advance that is not required by their job responsibilities will reduce system security, and may result in an increase of inadvertent or unauthorized transactions being processed.

Management Corrective Action

UDAR IT has already removed gift maintenance access for the three Advance users identified above and developed an automated Advance user gift maintenance access log for Gift Administration Director and UDAR IT Director to review on a monthly basis.

By December 15, 2014, UDAR IT will implement procedures with Finance Services and Administration to coordinate user system access changes due to staff changes.

7. Annual cash handling training records are not consistently maintained.

UDAR personnel are required to either take a tailored, in-person cash handling training developed jointly with the UCSF Controller's Office for UDAR and/or the UCSF mandatory training. We were not able to obtain evidence of training completion records for two out of the five employees sampled. The two employees without supporting documentation stated that they have taken the annual cash handling training.

UCSF Campus Administrative Policy 300-14 Cashiering requires mandatory training for all cash handlers at least annually.

Without maintaining proper training records, staff may not be taking mandatory training that ensures an understanding of the risks and controls necessary in handling cash.

Management Corrective Action

By January 31, 2015, GEAR will migrate the UDAR tailored annual cash handling training to the UCSF Learning Management System to ensure proper training records are maintained and tracked.

8. Event passes are not adequately safeguarded.

Special Events is expecting to raise \$10 million for the benefit of UCSF Benioff Children's Hospitals through Dreamforce 2014, a fundraising concert in October 2014. Special Events will be printing and sending 4,000 event passes to donors. These passes allow attendees access to exclusive viewing areas and/or special sessions before and after the concert. Our discussion with Special Events management indicated that there were no plans to log and reconcile the passes to donations received.

BUS 49 Policy for Cash and Cash Equivalents Received requires that procedures for sales of admission or event tickets must meet the same standards and security requirements as those stated in Cash/Cash Equivalent Receiving and Recording. Campus department must develop adequate controls to safeguard tickets or other items.

Ticket sales and their equivalents (e.g. event passes) that are not logged or reconciled may result in inadequate safeguard on commodity assets and higher exposure to potential theft and fraud.

Management Corrective Action

Special Events management has been made aware of the importance of controlling commodities with an actual or perceived value. Going forward, Special Events will implement appropriate controls (i.e. maintain a log, track donations, etc.) to safeguard University assets.

9. Documentation of safe combination changes is not maintained.

Gift Administration has stated that safe combinations are changed once a year around October and there has been no change in personnel requiring more frequent safe combination changes. However, Gift Administration has not maintained documentation pertaining to date and reason for the safe combination changes.

BUS 49 Policy for Cash and Cash Equivalents Received requires that the safe combination to be changed whenever a person who knows the combination leaves the employment of a cash handling unit or at least once a year. Documentation must be maintained showing the date and the reason for the combination changes.

Maintaining proper documentation as to when and why safe combinations are changed will help ensure safe combinations are changed when required.

Management Corrective Action

Gift Administration management has developed procedures prior to the issuance of this report requiring safe combination changes be documented with dates and reasons.

* * * * *