**UC** **RIVERSIDE: AUDIT & ADVISORY SERVICES**

Date: August 3, 2017

To: Dr. Milagros Pena, Dean

College of Humanities, Arts and Social Sciences (CHASS)

Subject: Audit of CHASS Dean’s Office Operations

Ref: R2017-04

We have completed our audit of College of Humanities, Arts and Social Sciences (CHASS) Dean’s Office Operations 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 R2017-04 will remain open until we have evaluated the actions taken.

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

Gregory Moore

Director

xc: Audit Committee Members

Cindy Williams, Assistant Dean and Chief Financial and Administrative Officer

UNIVERSITY OF CALIFORNIA AT RIVERSIDE

AUDIT & ADVISORY SERVICES

INTERNAL AUDIT REPORT R2017-04

AUDIT OF CHASS DEAN’S OFFICE OPERATIONS

August 2017

Approved by:

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Gregory Moore

Director

**UC RIVERSIDE**

**AUDIT OF CHASS DEAN’S OFFICE OPERATIONS**

**INTERNAL AUDIT REPORT R2017-04**

**AUGUST 2017**

1. **MANAGEMENT SUMMARY**

Based upon the results of work performed within the scope of the audit, it is our opinion that the system of internal controls over the CHASS Dean’s Office operations, with the exception of the issues noted in the Observations (Section III), is satisfactory and generally in compliance with applicable University policies and procedures.

However, we observed some areas noted below that need enhancements to strengthen internal controls and/or effect compliance with University Policy:

1. Procurement Cards (Observation III. A)
2. Non-Capitalized Inventory (Observation III. B)
3. Expenditures and Cost Transfers Testing (Observation III. C)
4. Restricted Gift Funds (Observation III. D)

These items are discussed below. Minor items that were not of a magnitude to warrant inclusion in the report were discussed verbally with management.

1. **INTRODUCTION**
   1. **PURPOSE**

UC Riverside Audit & Advisory Services (A&AS), as part of its Audit Plan, performed a limited review of selected CHASS Dean’s Office Operations to evaluate the adequacy and effectiveness of its system of internal controls and

compliance with applicable University policies and procedures.

Included in the review were consideration and evaluation of significant processes and practices, specifically addressing the following components:

1. Management philosophy, operating style, and risk assessment practices;
2. Organizational structure, and delegations of authority and responsibility;
3. Positions of accountability for financial and programmatic results;
4. Process strengths (best practices), weaknesses, and mitigating or compensating controls; and
5. Information and communications systems, applications, databases, and electronic interfaces.
   1. **BACKGROUND**

The CHASS Office of the Dean oversees the administrative aspects of the College of Humanities, Arts, and Social Sciences. The administrative structure of the college features the Dean, three associate Deans, one assistant Dean and a team of staff members.

The Assistant Dean and Chief Financial and Administrative Officer (CFAO) oversees all financial and administrative matters for the College including Business Operations, Human Resources, Facilities and Space Management, Contracts and Grants, and the Information Technology Team – Computing, as well as participates in short- and long-range planning.

* 1. **SCOPE**

We reviewed supporting documentation for transactions from FY 2015-2016 through FY 2016-2017.

The review included evaluating the adequacy and effectiveness of internal controls over ProCard usage, non-capitalized inventory assets, allowablity and reasonableness of expenditures, payroll transactions and restricted gift funds. The review was principally limited to the following areas:

1. **Preliminary Assessment –** Our preliminary assessment included an overview of the following areas:

* General Overview and Risk Assessment
* General Control Environment
* Business Processes
* Information and Communication Systems.

1. **Analytic Review –** Performed an analytic review of expenditures by account, description lines, department, budget category, and fund type from FY 2012-2013 to FY 2016-2017.
2. **Overall Analysis**
3. **Internal Controls**

We reviewed and evaluated the CHASS Dean’s Office’s control environment, processes and procedures through interviews of appropriate personnel as well as our independent observations.

1. **Payroll Analysis**

We conducted an analysis of overtime for payroll charges during FY 2015-2016. Specifically, we reviewed overtime hours and made a comparison to regular hours to determine if the overtime hours were reasonable.

In addition, we conducted a trend analysis for FY 2014, FY 2015 and FY 2016 and identified any significant and unusual variances and asked for explanations and proper justifications.

1. **Non-Payroll Expenditures Analysis**

We generated expenditure transaction reports from UCRFS Totals for FY 2012 through FY 2016 and performed a detailed trend analysis to make a comparison of the four years’ data and investigate any unusual changes, trends or irregularities. We selected some of the unusual transactions and requested explanations or supporting documentation.

1. **Procurement Card**

We obtained a list of all cardholders and associated card numbers from the department and reviewed them to determine if the card members are all current and active in the system. In addition, we reviewed transactions and ensured that the individuals who utilized the cards to make purchases are the same individuals stated in the list that were provided by departments.

1. **Non-Capitalized Inventory**

We interviewed the department’s management to determine if internal controls were adequate and effective over theft sensitive non-capitalized inventory items under $5,000. We obtained a list of purchases to verify if the department conducts periodic inventory to determine if these items exist and are on site.

1. **Expenditures and Cost Transfers Testing**

We judgmentally selected a sample of 14 non-payroll expenditures from FY 2012 through FY 2016 and reviewed the supporting documentation and justifications to determine if these expenses were allowable, reasonable and approved.

We selected four cost transfers to verify if these were justified properly by reviewing supporting documentation and interviewing appropriate personnel.

1. **Restricted Gift Fund**

We obtained and reviewed donors’ letters for all of the gift funds within the CHASS Dean’s office. We then reviewed a judgmental sample of seven restricted gift funds to determine if expenses are in accordance with the donor’s intent. In addition, we compared budget versus actual for all of the restricted gift funds during FY 2015-2016 to determine if any of the funds are in deficit.

* 1. **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.

Substantive audit procedures were performed during the months of March through May of 2017. Accordingly, this evaluation of internal controls is based on our knowledge as of that time and should be read with that understanding.

1. **OBSERVATIONS, COMMENTS, AND CORRECTIVE ACTION PLANS**
   1. **Procurement Cards**

According to Campus Policy 750-70, “Issuance of a Procurement Card indicates an employee has been given the privilege to use the ProCard to conduct official University financial business. This privilege is requested through the Departmental Financial Manager. Each Cardholder must sign an [Employee Agreement Form](http://matmgmt.ucr.edu/purchasing/proc_card/forms/EmployeeAgreementForm.pdf) which indicates their agreement to use the Procurement Card in accordance with Purchasing and Procurement Card Policies and Procedures. This privilege is conditioned upon the employee's agreement to first obtain Purchasing and Procurement Card specific training.

A Cardholder's ability to utilize the Procurement Card in accordance with campus policies and procedures will be routinely monitored. In order to minimize the risk or threat to the University's financial resources, it may be necessary to immediately suspend a Cardholder's Procurement Card privileges if irregularities are detected. Campus Purchasing, in consultation with other appropriate parties, may temporarily suspend a Cardholder's privileges based on irregularities and reinstate them following reasonable explanation. Cardholder privileges can be denied, suspended, or permanently revoked if it is determined that an employee is incapable of complying with, disregards, or intentionally circumvents campus policies and procedures. Any violation of local, State, or Federal laws may carry the additional consequence of prosecution under the law where judicial action may result in one or more of the following: specific fines, imprisonment, litigation costs, and payment of damages.”

Per Campus Policy 750-70, “the Department’s Card Administrator (DCA) is responsible to ensure that all ProCard Transactions are independently reviewed by someone other than the Cardholder. If the department unit is too small to provide an independent assessment, an authorized individual from an outside unit should be assigned to review these transactions. The DCA is also responsible to ensure that the ProCard Program is operating in accordance with Low Value Purchase Authorization policies and procedures. In addition, the DCA ensures ProCard transactions are recorded to the appropriate FAUs within sixty days of posting or by the end of the fiscal year, whichever comes first and accurate reconciliation of bank charges with the Financial Transaction Detail Report is completed within thirty days following the final Financial Transaction Detail Report.

ProCard holders cannot use their ProCard for expenses such as Travel, Entertainment Personal Use, Inventory Equipment, Cash Advances and Goods in Excess of Department Low Value Purchase Authorization Limits.”

**Observations**

We obtained a list of all ProCard holders in the CHASS Dean’s Office to review and determine if internal controls were adequate and effective over ProCard operations.

Specifically, we reviewed purchases related to all four ProCard holders for the last four years from FY 2012 through FY 2016. Based on our analysis, we determined that overall expenditures appeared to be allowable and reasonable. However, we selected and reviewed a judgmental sample of 13 ProCard transactions and determined that internal controls could be improved based on the following observation:

There was supporting documentation for four tablets purchased during FY 2013 in the department. Based on our review, we observed that the department utilized General Fund #19900 and Sales & Services Fund #64620 to pay for these tablets. We verified that approval to increase the ProCard transaction amount by appropriate personnel was obtained to purchase these tablets; however, we could not identify adequate justifications to verify if these tablets were purchased for work and not for personal use. As a best practice, it is important that department personnel document any justifications regarding initial approvals of these types of purchases for future review.

**Corrective Action Plans**

The department ensures that adequate justifications will be documented for these types of purchases. In addition, the department ensures that when an individual applies for a pro-card, he/she signs acknowledging the following: “I agree to never use the Procurement Card for personal purchases or gain” per policy.

For future purchases of tablets and laptops, we will be sure to annotate on the approval that they are being utilized for work and not personal use.

**Implementation Date**

October 1, 2017

* 1. **Non-Capitalized Inventory**

According to Policy #750-12, “Guidelines governing the control of theft-sensitive items (valued at less than $5,000) may be established at the department level for managing theft- sensitive items valued at less than $5,000. Examples of the theft sensitive items include computers, PDA, computer printers, computer terminals.”

**Observations**

The department did not have adequate internal controls in place over items valued at less than $5,000. There was no tracking system (periodic inventory) in place to determine if theft-sensitive inventory items less than $5,000 exist. In addition, the department did not track/inventory the type of information stored in the electronic devices to ensure the information on electronic devices is adequately secure.

An inadequate tracking system can increase the risk of loss or theft of sensitive inventory items including sensitive information that are stored in these devices. Failure to protect confidential information could result in damaged reputation and potential loss of customers as well as fines, litigation and penalties.

**Corrective Action Plans**

The department concurred that maintenance of an inventory list that tracks low dollar electric devices is important, and they will work with the IT team and other departments to set up a tracking mechanism going forward.

**Implementation Date**

October 1, 2017

* 1. **Expenditures and Cost Transfers Testing**

We judgmentally selected a sample of 14 non-payroll expenditures including four cost transfers from FY 2012 through FY 2016 and reviewed the supporting documentation and justifications to determine if these expenses were allowable and reasonable, and the selected cost transfers adequately justified. The sample included the transactions with the highest total dollar amounts and/or any unusual activities in order to verify the following:

* Invoices or receipts were provided as supporting documentation.
* Amounts on the purchase vouchers matched the amounts on the supporting documentation.
* Purchase vouchers were approved by the appropriate personnel.
* Any changes made to the purchase vouchers were documented, reviewed and approved, as necessary.
* Cost Transfers were justified properly.

**Observations**

Based on the results of our testing, we observed that the four cost transfers judgmentally selected did not have adequate explanations or were not adequately justified. Although the amounts were not significant, it is important to include adequate justifications for cost transfers. Specifically, the four transactions are non-federal cost transfers totaling $248 during the months of June 2012 and June 2013.

**Corrective Action Plans**

The department agrees that cost transfers should be accurately and completely documented. It is the expectation that the explanation will include the reasons an expense was originally charged to an account from which it is now being transferred along with why the charge now needs to be transferred.

The department will also ensure that staff are trained adequately and understand the importance of adequately explaining the need for the cost transfers.

**Implementation Date**

October 1, 2017

* 1. **Restricted Gift Funds**

Restricted Gift funds are comprised of resources restricted by donors to be utilized for particular entities or programs or for specified purposes. Endowment Funds represent funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and that only income be utilized.

The department is responsible to ensure the payment amounts received coincide with the corresponding gift agreement on file and that the cash or checks are kept in a secure area. The department is also responsible to expend the funds in accordance with the donor’s intent.

**Observations**

We obtained a list of seven restricted funds and the corresponding donor's letters for each of those funds. We reviewed these to ensure the expenses recorded during FY 2015-2016 were in accordance with the donor’s intent. Based on our observation, it appears that expenses are allowable and reasonable in accordance with the donor’s intent. In addition, we reviewed balances for all seven restricted gift funds and we observed that the balances of some of these funds (Fund numbers 56912 and 47780) either have not been used or have minimal activity.

As a best practice, the department should re-evaluate the purpose of these funds with the donors to determine the best use of these funds in the department.

**Corrective Action Plans**

Utilizing gift funds to their maximum capacity is a priority for the College. The department is in the process of identifying all of these funds and working closely with Development to spend these funds in accordance with donors wishes. By the end of fiscal year 2018, the department should have significantly lower balances.

**Implementation Date**

June 1, 2018.