



UCSB Audit and Advisory Services

Internal Audit Report

UCSB Extension

October 14, 2015

Performed by:

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Approved by:

Robert Tarsia, Director

Report No. 08-16-0002

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AUDIT AND ADVISORY SERVICES
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October 14, 2015

To: Michael Brown, Dean
Nancy Mondok, Associate Dean
UCSB Extension

Re: **UCSB Extension**
Audit Report No. 08-16-0002

As part of the 2015-16 annual audit services plan, Audit and Advisory Services has completed our audit of the UCSB Extension (Extension). Enclosed is the report detailing the results of our work.

The purpose of the audit was to review key business functions and evaluate processes and internal controls in select areas, such as student cash receipts, enrollment and application processing, accounting for fees, and certificate completion. We also performed a limited review of select information technology processes and controls.

Based on the results of the work performed within the scope of the audit, Extension has generally established effective internal controls in the core areas of student enrollment and application processing, accounting for fees, and compliance with F-1 visa and other requirements. Our review did identify opportunities for improving separation of duties and some other controls over cash receipts, IT access practices, and documentation of established procedures.

We greatly appreciated the assistance on this project provided by Extension personnel. If you have any questions, please contact me.

Respectfully submitted,

A handwritten signature in black ink that reads "Robert Tarsia".

Robert Tarsia
Director
Audit and Advisory Services

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Enclosure

cc: Chancellor Henry Yang
Executive Vice Chancellor David Marshall
Vice Chancellor Administrative Services Marc Fisher
UCSB Audit Committee
Senior Vice President and Chief Compliance and Audit Officer Sheryl Vacca

PURPOSE

This audit is part of the fiscal year 2015-16 audit services plan of the University of California, Santa Barbara (UCSB). The purpose of this audit was to review key UCSB Extension (Extension) business functions and evaluate processes and internal controls in select areas, such as student enrollment and application processing, accounting for fees, and certificate completion. We also performed a limited review of select information technology processes and controls.

SCOPE, OBJECTIVES AND METHODOLOGY

The scope of our audit included Extension administrative and business practices, including compliance with key University policies and select regulations. Our review of student enrollment procedures focused on the 2014-15 academic year.

The objectives of this review were to determine whether:

- Processes and controls for student enrollment and certificate completion are adequate to ensure that students meet minimum standards to be accepted into the program, and that these requirements are documented; that Extension staff adequately document compliance with any applicable F-1 visa requirements; application and tuition fees are correctly assessed and collected; and that students meet minimum requirements for any certificates awarded and have filed the necessary *Application for Candidacy*.
- Internal controls over cash receipts are adequate, and whether reconciliation procedures ensure that all revenue is adequately accounted for and properly reconciled to monthly bank deposit activity, when appropriate.

We also performed a limited-scope review of Extension IT controls by reviewing the capabilities of select users in the department's primary business system, Destiny One, and reviewing the department's business continuity and recovery plan.

Our preliminary work emphasized:

- Gaining an understanding of Extension operations through interviews with key staff personnel and review of internal controls.
- Gaining and documenting an understanding of critical compliance requirements relevant to the scope of the audit, including applicable laws, regulations, policies, and procedures.
- Reviewing other audits and reviews relevant to this audit, including work by UCSB Audit and Advisory Services and other University of California (UC) campuses.

Our audit fieldwork included:

- Reviewing Extension cash handling procedures for compliance with University policies and procedures and prudent business practices.
- Evaluating Extension revenue reconciliation procedures.
- Testing Extension student enrollment procedures, including admission verification, compliance with F-1 visa requirements, tuition assessment and collection, and monitoring of certificate completion. We tested these processes by selecting a sample of 20 students to ensure that enrollment and tuition fees were correctly assessed, and that students met admission, graduation, and visa eligibility requirements, as applicable.

This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

BACKGROUND

UCSB Extension provides continuing education without formal admission to UCSB (the “Open University”), aimed towards working and professional adults, most of whom already have a college education. The department also offers post-baccalaureate courses for current UCSB and international students, allowing them to fulfill prerequisites prior to enrolling in graduate school, and certificate programs in select academic areas, such as paralegal studies, project management, and human resources management. Courses can be attended online or in-person at either the UCSB campus or the Ventura Center in Ventura, California. During the 2014-15 calendar year, 7,418 students took at least one Extension course. Fiscal year 2014-15 revenues were \$6,134,431, and expenses totaled \$3,864,870. Extension has a full-time equivalent staff of 19.2.¹

Extension uses the Destiny One enterprise management system, developed by Destiny Solutions to manage daily operations for non-traditional higher education clients. Destiny One provides enrollment and curriculum management, budget tracking and reporting, marketing, and system administration modules, and allows for the integration of a third-party vendor application (CyberSource) to process online credit card transactions.

Because Extension enrolls international, nonimmigrant students, federal regulations require that the program be certified by the Student and Exchange Visitor Program operated by U.S. Immigration and Customs Enforcement. Being certified allows Extension to issue I-20 forms to students admitted to a certificate program or the Open University, which the students in turn use to apply for an F-1 Student Visa at a U.S. Embassy or Consulate in their home country.

Relevant Policies

Laws, regulations, policies, and procedures considered most relevant to the scope of this audit include:

- *UC BFB BUS-49, Policy for Cash and Cash Equivalents Received* (Policy BUS-49), establishes the University’s policies related to handling and processing cash and cash equivalents, and defines roles and responsibilities related to receipt, safeguarding, reporting and recordkeeping for all University cash and cash equivalents.

¹ Source: UCSB Extension

- *UC BFB IS-3, Electronic Information Security (Policy IS-3)*, establishes guidelines for achieving appropriate protection of University electronic information resources and for identifying roles and responsibilities at all levels in the University of California system.
- *8 Code of Federal Regulations § 214, Nonimmigrant Classes (8 CFR 214)*, governs eligibility qualifications for F-1 student visas, and outlines procedures for universities to issue I-20 forms (Certificate of Eligibility for Nonimmigrant Status) and track the academic progress of F-1 students during their stay.
- *UCSB Policy and Procedure, Student Education Records – Disclosure of Information*, governs the disclosure of information from all student education records.

SUMMARY OPINION

Based on the results of the work performed within the scope of the audit, Extension has generally established effective internal controls in the core areas of student enrollment and application processing, accounting for fees, and compliance with F-1 visa and other requirements. Our review did identify opportunities for improving separation of duties and some other controls over cash receipts, IT access practices, and documentation of established procedures.

DETAILED OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS

A. Improve Controls Over Cash Receipts

Our evaluation of internal controls over departmental cash handling and reconciliation processes found that Extension would benefit from an evaluation of current practices in these areas to help ensure compliance with UC and UCSB policies and prudent business practices. Although we noted that Extension cash is secured in a safe overnight and is generally deposited to a Main Cashiering Station² in a timely manner, we identified opportunities for improvement in the following areas:

- *Inadequate Separation of Duties* - Policy BUS-49 prohibits individuals with cash handling responsibilities from also preparing journal entries. We found that the Extension Financial Analyst is solely responsible for counting and depositing cash, can process transaction adjustments in the Destiny One system, performs department reconciliations, and enters month-end revenue journal entries. Inadequate segregation of duties is an internal control weakness that could result in undetected and/or unauthorized financial transactions.
- *Lack of Proper Credit Card Reconciliation Process* - We found that current monthly credit card reconciliation procedures are not adequate. Our review of monthly closeout procedures determined that the Financial Analyst is using the monthly credit card revenue total from Destiny One to allocate credit card receipts to the appropriate department account, but not performing a reconciliation of Destiny One data to bank account or credit card merchant activity, despite being aware that month-end discrepancies exist. No follow-up work is performed to ensure that the difference between Destiny One revenues and bank account activity is investigated, and no receivable or other appropriate entry is recorded when Destiny One revenues exceed bank account deposits for the same period. Not performing a full monthly reconciliation increases the risk of inaccurate financial reporting, unresolved discrepancies, and undetected loss.

We recommend that Extension staff consult with Business and Financial Services to implement:

- Departmental workflows that ensure separation of duties consistent with Policy BUS-49 requirements.
- A complete, written reconciliation procedure that includes reconciling to bank account activity and ensures accountability for all revenue.

² As defined in Policy BUS-49, a Main Cashiering Station is a "campus operating unit from which collections are deposited directly to a University bank account." UCSB Extension is considered a "Sub-cashiering Station", which is a "[c]ampus operating unit from which collections are deposited to a Main Cashiering Station."

Management Corrective Actions

Extension will consult with Business and Financial Services to implement:

- Departmental workflows that ensure separation of duties consistent with Policy BUS-49 requirements.
- A complete, written reconciliation procedure that includes reconciling to bank account activity and ensures accountability for all revenue.

Audit and Advisory Services will follow up on the status of this management action plan by May 31, 2016.

B. Review of Select IT Controls for Compliance with Policy IS-3

Access Controls

Our limited review of Extension IT controls found that processes and controls are generally adequate in the areas we examined. Extension is minimizing the collection of sensitive data and ensuring that data are stored on an encrypted system. The department has also adequately planned for potential system outages, including creating a disaster recovery plan.

Our work did identify some concerns regarding systems access and assigned roles. Although we found that Extension management has limited the number of Destiny One users with accounting and financial capabilities in the system, certain key employees appear to be assigned significantly more financial capabilities than necessary for daily operations. We determined that three “superuser” roles were assigned despite the high level of access the role allows to financial transactions in the system, and that another department employee with access to cash receipts can enter adjustments to student accounts, remove taxes and/or fees from already processed transactions, initiate refunds, approve refunds, and finalize transactions. Policy IS-3 requires limiting access and authorizations to the least permissive necessary for the performance of job duties.

Information Security and Privacy

The Family Educational Rights and Privacy Act of 1974 (FERPA) is a federal law regarding the privacy of student records and the obligations of the institution, primarily in the areas of release of the records and the access provided to these records. Any educational institution that receives funds under any program administered by the U.S. Secretary of Education is bound by FERPA requirements that personally identifiable information in an education record may not be released without prior written consent from the student. Although we observed that at least some Extension employees had received FERPA training since 2010, the department does not appear to have a systematic process for documenting completion of campus web-based FERPA training and ensuring that all staff receives periodic, updated training, as necessary. Extension should review current training practices and develop written procedures that include systematic tracking of FERPA training.

We also noted that Extension maintains paper copies of certain personally identifiable information (passports, academic transcripts, and financial information) as part of its administration of the Student and Exchange Visitor Program, which requires the documentation of student F-1 visa eligibility requirements. Although Extension staff explained that they have an annual process in place to purge all non-permanent records according to UC record retention requirements, we noted that this procedure is not documented, and that there is no log or tracking of destroyed records.

We recommend that Extension:

- Review current roles assigned in the Destiny One system, and reassign them in a manner that adequately tailors capabilities to the least permissive necessary for the performance of job duties.
- Document and implement FERPA training procedures that include a more systematic process for documenting training and ensuring that all staff receive periodic, updated training.
- Document its annual purge process by maintaining a listing of the destroyed records to demonstrate compliance with UC record retention policies.

Management Corrective Actions

Extension will:

- Review current roles assigned in the Destiny One system, and reassign them in a manner that adequately tailors capabilities to the least permissive necessary for the performance of job duties.
- Document and implement FERPA training procedures that include a more systematic process for documenting training and ensuring that all staff receive periodic, updated training.
- Document its annual purge process by maintaining a listing of the destroyed records to demonstrate compliance with UC record retention policies.

Audit and Advisory Services will follow up on the status of this management action plan by March 1, 2016.

C. Develop and Implement Departmental Desk Procedures for Critical Processes

More formalized, written procedures addressing key departmental business processes would help Extension ensure compliance with applicable policies and procedures and sound business practices. Areas that would benefit include:

- Cash Handling – When reviewing existing processes for compliance with Policy BUS-49, we identified processes that should be revised and better documented, such as segregation of duties, reconciliations, mailed or unidentified remittances, adjustments, and deposit procedures.

- IT Processes – Including information on assigning access and roles to supplement Destiny One user manual content, limiting access to restricted data, and implementing the disaster recovery plan.
- International Student Enrollment and Monitoring – Collection and storage of restricted data, and compliance with the Student and Exchange Visitor Program requirements, including visa eligibility and monitoring minimum enrollment requirements.

We recommend that Extension staff document key departmental procedures into a desk manual for use in training and everyday operations.

Management Corrective Actions

Extension will document key departmental procedures, such as those related to cash handling, IT processes, and international student enrollment and monitoring, in a desk manual for employee reference and use in new hire orientation and training.

Audit and Advisory Services will follow up on the status of this management action plan by March 1, 2016.