

UC RIVERSIDE: AUDIT & ADVISORY SERVICES

June 29, 2011

To: Marcia Iamanaka, Chief Financial & Administrative Officer
and Assistant Dean, Finance & Administration

Subject: Internal Audit of Graduate School of Education

Ref: R2011-04

We have completed our internal audit of Graduate School of Education 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 a limited review. Audit R2011-04 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.

Michael R. Jenson
Director

xc: Audit Committee Members

UNIVERSITY OF CALIFORNIA AT RIVERSIDE
AUDIT & ADVISORY SERVICES
MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS

INTERNAL AUDIT REPORT R2011-04
GRADUATE SCHOOL OF EDUCATION

JUNE 2011

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**UC RIVERSIDE
GRADUATE SCHOOL OF EDUCATION
INTERNAL AUDIT REPORT R2011-04
JUNE 2011**

I. 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 Graduate School of Education (GSOE) processes, with the exception of the issues noted in the Observations section (Section III), is generally adequate and in compliance with sponsoring agency requirements and applicable University policies and procedures.

Campus management has taken a proactive approach and made progress in enhancing controls as evidenced by the following positive observations:

- 1) The unit has implemented the recommendations in the prior GSOE audit R2010-07.
- 2) The GSOE Chief Financial & Administrative Officer (CFAO) has consulted with Audit & Advisory Services over the last several years on internal control matters.

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

- 1) Lack of consistent management reports to the Dean (Observation III.A).
- 2) Insufficient proof of receipt on Purchase Order items (Observation III.B).
- 3) Late certifications on the Ledger Reconciliation Storage System (Observation III.C).

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

II. INTRODUCTION

A. PURPOSE

UC Riverside Audit & Advisory Services (A&AS), as part of its Audit Plan, performed an audit of GSOE to determine the adequacy of internal controls and evaluate compliance with sponsoring agency requirements and applicable University policies and procedures.

Included in the review was consideration and evaluation of significant processes and practices employed in the management of GSOE, 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.

B. BACKGROUND

GSOE offers student credential and graduate degree programs (Med., MA, and PhD). Significant financial information (approximate amounts) follows:

GSOE	9 months Fiscal Year (FY) 2011	FY 2010	FY 2009
Revenues	\$342,000	\$336,000	\$272,000
Expenditures	\$6.1 million*	\$9.4 million	\$11.3 million
Salaries & Benefits	\$5.2 million	\$7.2 million	\$7.7 million
Salaries & Benefits/ Expenditures	85%	77%	68%

*The sharp decrease in expenditures is primarily due to the end of the Copernicus project in FY 2010; which was a 5 year project with expenditures of approximately \$18 million (2/3 funded by Federal money).

Non-extramural fund ending balances for the GSOE were \$3.0 million for FY 2010, \$2.8 million for FY 2009, and \$2.6 million for FY 2008 (the majority of the ending balances pertain to the Core General Funds and Gifts, which were \$1.6 million and \$1.3 million, respectively).

GSOE Primary Funding	9 months Fiscal Year (FY) 2011	FY 2010	FY 2009
General Funds	\$5.0 million	\$5.1 million	\$5.0 million
Extramural Funding	\$900,000**	\$3.1 million	\$4.2 million
Federal Contract & Grant (C&G) (non subaward)	\$200,000**	\$2.5 million	\$3.3 million
Federal C&G (non subaward) / Extramural Funding	22%**	81%	79%

**The sharp decrease in extramural funding and Federal C&G (non subaward) is primarily due to the end of the Copernicus project in FY 2010; which was a 5 year project with expenditures of approximately \$18 million (2/3 funded by Federal money).

C. SCOPE

The audit included evaluating whether departmental procedures comply with UC and UCR policies and procedures, sponsor regulations, and good business practice. The audit was principally limited to the following areas:

- a. General Overview and Risk Assessment
- b. General Control Environment
- c. Business Processes
- d. Information and Communication Systems

We evaluated administrative and accounting procedures, and internal controls based on management responses to the internal control questionnaire and verification of selected areas.

The audit included, but was not limited to the following areas:

Analytic Review

We reviewed financial activity for FY 2009 through FY 2011 and obtained explanations for any significant fluctuations by Budget Category, Fund, and Activity Codes.

Management Review

We reviewed FY 2009 through FY 2011 management reports, budget plans, carry forward fund balances, and permanent funding information for GSOE. We reviewed the timeliness and evidence of Ledger Reconciliation Storage System reviews and certifications for three months in FY 2011. We also reviewed the Budget Reduction Plan for FY11/12.

Leave Accounting

We judgmentally selected five employees included in the FY 2010 and/or FY 2011 payroll and tested the accuracy of sick and vacation leaves, and furloughs. We also reviewed for compliance with the holiday shutdown policy for December 2009.

The review did not include the determination of the propriety of vacation and sick time use and whether all leave taken had been reported in the Time Records. Therefore, there is a risk that opinions stated in this report could prove to be inaccurate since we did not test these areas.

Purchasing

We performed an analytic review for FY 2009 through FY 2011 of procurement card (P-Card) transactions (approximately \$49,000 for FY 2010) and purchasing transactions (approximately \$1.3 million for FY 2010) to identify unusual transactions, vendors, or Full Accounting Unit (FAU) coding.

In addition, we judgmentally selected and reviewed ten P-Card transactions (\$20,000 or 25% of total population) and nine eBuy transactions (\$38,000 or 3% of total population) recorded between July 1, 2009 and April 30, 2011 for proper documentation, authorization, and FAU coding.

Contracts and Grants

We limited our review to an evaluation of administrative and accounting procedures and internal controls based on management responses to the internal control questionnaire and limited substantive tests of transactions, noting GSOE's decreasing Contract and Grant activity primarily due to Copernicus.

Access Control

We reviewed the Enterprise Access Control System (EACS) access in GSOE to identify any improper or unauthorized access.

Cash Receipts

We reviewed the procedures over cash receipts and analyzed activity for FY 2010 and FY 2011 for unusual items. We reviewed 10 transactions for timeliness of deposit.

Petty Cash

We reviewed the procedures over petty cash funds and performed unannounced cash counts.

Travel Vouchers

We reviewed procedures over processing travel vouchers and evaluated changes in activity from FY 2009 through FY 2011 for unusual items. We judgmentally selected and reviewed seven travel vouchers (\$19,000 or 6% of population) recorded between July 1, 2010 and April 30, 2011 for proper documentation, authorization, and Full Accounting Unit (FAU) coding.

D. 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 from February to June 2011. Accordingly, this evaluation of internal controls is based on our knowledge as of that time and should be read with that understanding.

III. OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES**A. Management Reports**

A complete set of GSOE management reports were not provided on a monthly basis to the Dean, nor provided unless requested by the Dean.

COMMENTS

Campus management has not established a prescribed set of standard monthly reports that should be provided to control unit Deans and stakeholders. As a result, the CFAOs of the various units produce varying reports at varying intervals through a combination of manual and automated processes. Some reports are difficult to verify, inconsistent across units, and not produced by reliable processes; as such, results may have errors. While there are reports available to be produced on a monthly basis from the UCR Financial System and other systems, many of these do not appear to be written for high level management use.

Campus management has recognized the issue and the Financial System Steering Committee (FSSC) has worked together with Computing & Communications and representatives from various units to establish a set of standard management reports which will be available through a new Enterprise Management Information System (EMIS). The system would allow Deans and stakeholders to run monthly standard reports for their respective organizations. Three organizational reports were approved (Organizational Overview, Divisional Report, Divisional Report with Summary Accounts) by the FSSC and these reports are currently being tested by several units: Resource, Planning & Budget; Accounting, College of Natural and Atmospheric Sciences; and the Finance & Business Operations Organization office.

RECOMMENDATIONS

The CFAO and Dean should agree on a set of standard reports to be prepared and provided monthly by the CFAO to the Dean. GSOE should also consider how to best utilize a new series of tools that produce management / Principal Investigator (PI) reports with little or no user input. These reports include the PI Web Reporting System and the Enterprise Management Information System (EMIS). Finally, GSOE should consider interacting with other campus CFAOs, Audit and Advisory Services, and the campus Controller to determine if its reporting approach reflects best practices and encompasses support for all GSOE fund types.

MANAGEMENT RESPONSE

The CFAO will work with the Dean to define a set of coherent and technically accurate monthly and annual reports based on the Dean and GSOE's requirements. The CFAO will consult with other campus CFAOs, Audit and Advisory Services, and the campus Controller to ensure the reports reflect best practices. This will lead to a defined set of reports to begin distribution to the Dean by September 30, 2011, and each and every month subsequent, with an annual report finalized by June 30, 2012.

B. Purchasing

We noted insufficient proof of receipt on Purchase Order (PO) items and an opportunity to improve controls over the receiving log and by further restricting access.

COMMENTS

Our tests of ten P-Card and eBuy transactions disclosed that one (or 10%) lacked proper proof of receipt; two (or 20%) had receiving documents, but we could not determine who received them; and two (or 20%) appeared to be received by the purchaser, who was also the requestor. In our prior audit, we noted lack of proper proof of receipt and items received by the purchaser or unknown individuals.

As recommended in our prior audit, GSOE implemented a central receiving log on January 1, 2010. All items that are received by the department and require signature are logged and signed upon receipt. While the log appears to be used (over 1,000 entries for 17 months) the Purchase Order number doesn't always appear to be referenced on the log. For the log entries noted, only 11 purchase orders were referenced which makes verifying the recipient of the items very difficult.

The purchasing function is highly decentralized. In addition to purchases made by the centralized purchasing division of UCR, there are six individuals in GSOE with eBuy (purchasing) transactor access (this was reduced from twelve in prior year's audit), and four individuals with P-Cards (this was reduced from eleven in prior year's audit). One of the individuals also has recording capabilities through the Procurement Card Transfer [PCT] function in UCRFS. We note that the PCT function appears to be performed by another individual. The individual with the P-Card access appears to be the backup.

RECOMMENDATIONS

Management should ensure that proper proof of receipt is maintained for PO and P-Card purchases goods received. This proof of receipt should include evidence of initial receipt of the goods on the receiving log and signature for receipt by the recipient. PO numbers should be entered on the receiving log, where applicable.

Management should consider access requirements for eBuy and further restrict access where possible while leaving sufficient backup. Management should consider removing PCT access from the individual that has a P-Card and consider if there is another individual that can perform that function as a backup to the current individual that does the PCT transactions.

MANAGEMENT RESPONSE

The GSOE will review its current procedures for receiving goods to integrate P.O. tracking to the receiving log so that this is carried out in a more consistent and effective manner. To maximize our human resources, we will focus on educating all GSOE requestors and receivers in the School. We expect to complete these efforts by October 1, 2011.

Recently, the number of (eBuy) transactors is 3, reduced from the previous 6.

The GSOE will remove PCT access from the individual that has a P-Card by August 1, 2011.

C. Ledger Reconciliation Storage System (LRSS) Certifications

We noted late LRSS certifications.

COMMENTS

The UCR policy on LRSS review and certifications states that certifications should be completed 45 days after month end. We noted that for the 9 months reviewed in FY 2011, 2 months' certifications were over 1 week late, 1 month's certification was over 2 weeks late, and 1 month's certification was over one month late.

RECOMMENDATIONS

We recommend that the LRSS reviews and certifications be performed on a timely basis in accordance with policy.

MANAGEMENT RESPONSE

The CFAO will ensure electronic certifications are timely and in accordance with campus policies. Paper reconciliation is performed on a monthly basis but electronic certifications are lagging. This lag will be addressed immediately.