

The logo for UC Irvine, featuring the text "UCIRVINE" in a large, black, serif font. The letters "U" and "C" are significantly larger than the other letters, and the "I" is a thin vertical line. The text is set against a light yellow background.

UCIRVINE

The logo for Internal Audit Services, featuring the text "INTERNAL AUDIT SERVICES" in a black, serif font. The text is set against a light yellow background.

INTERNAL
AUDIT SERVICES

School of Education
Internal Audit Report No. I2016-108
June 30, 2016

Prepared By

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Approved By

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INTERNAL AUDIT SERVICES
IRVINE, CALIFORNIA 92697-3625

June 30, 2016

MARK J. WARSCHAUER, Ph.D.
INTERIM DEAN AND PROFESSOR
UC IRVINE SCHOOL OF EDUCATION

Re: School of Education Audit
No. I2016-108

Internal Audit Services has completed the review of the School of Education 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
Patricia Collette – Assistant Dean, School of Education
Lynn Wong – Finance Director, School of Education

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2015-2016 audit plan, Internal Audit Services (IAS) reviewed business operations and other financial activities within the School of Education (SoE). Many internal controls within SoE business operations and financial activities appear to be functioning satisfactorily. However, certain internal controls could be improved to ensure compliance with University policies and procedures and/or best business practices. The following concerns were noted.

Non-payroll Expenditures – Concerns were noted with PALCard purchase transactions. Purchase requisitions are not always prepared; a business purpose is not always provided for purchases that are made. Concerns were also noted with disbursement voucher transactions. Reimbursements are sometimes made for items that should have been purchased by PALCard; unauthorized purchasers are reimbursed for items purchased. This observation is discussed in section V.1;

Payroll Certification – Payroll certification reports are not always completed in a timely manner. This observation is discussed in section V.2;

Travel and Entertainment Reimbursements – Support documentation for entertainment reimbursements is not always sufficient or accurate. This observation is discussed in section V.3;

Conflict of Commitment Reporting – Concerns were noted regarding the proper completion and timely submission of the annual “Report of Category I and II Compensated Outside Professional Activities and Additional Teaching Activities” and related forms. This observation is discussed in section V.4;

Account-Fund Review and Reconciliation – Reconciliations of general ledger account-funds are not always completed in a timely manner. This issue is discussed in section V.5;

Information Technology – Opportunities for improvement exist in the areas of asset inventory, vulnerability assessment, and remediation, controlled use of administrative privileges, controlled access based on the need to know and risk assessment and security plan. These issues are discussed in section V.6.

II. BACKGROUND

In 1971, UC Irvine established the Office of Teacher Education to contribute to the vitality of public schools in Orange County. For twenty years, this unit focused on professional preparation and high-quality training for teachers and administrators. Subsequently in 1991, the Office became the Department of Education, and in 1994, the first graduate degree program was offered, a joint UCI/UCLA Doctorate of Education in Educational Administration. In 2007, the UC Irvine Ph.D. in Education was introduced. The doctorate degree would allow students to focus on one of three areas of specialization. Subsequently, in July 2012 SoE was established. In 2014, SoE initiated the first undergraduate major in the University of California that focuses on education as an academic discipline.

The mission of the SoE is to promote educational success and achievement of ethnically and economically diverse learners of all ages through its research, teaching, and service activities that foster learning and development in and out of school. The School achieves its mission through delivery of undergraduate, teacher education, and Ph.D. in Education programs; an array of research activities; and collaborative work with K-16 schools and community organizations.

Two Associate Deans are responsible for academic oversight, and report to the SoE Dean. Business operations and other financial/administrative activities are primarily the responsibility of the Assistant Dean, who also reports to the Dean. The Assistant Dean is supported by a Director of Finance, a Director of Personnel, an Information Technology (IT) Director, a Facilities Manager, and various other SoE staff members.

III. PURPOSE, SCOPE AND OBJECTIVES

The purpose of the audit was to assess SoE business risk, internal controls, and compliance with University policies and procedures. The review was designed to determine whether sufficient internal control measures are in place to prevent or detect inappropriate, non-compliant and/or fraudulent transactions, while ensuring efficiency and effectiveness in business operations. The audit scope

included FY 2014-2015 and FY 2015-2016 year-to-date business operations and financial activities.

The following audit objectives were included in the review:

1. Verification of internal controls pertaining to employee payroll and leave usage/accruals;
2. Verification of payroll certification processes for federal contracts and grants;
3. Verification of internal controls for non-payroll expenditures;
4. Review of employee travel and entertainment;
5. Verification of outside professional activities;
6. Verification of completeness and timeliness in account/fund reconciliations;
7. Assessment of internal controls in information technology (IT) operations.

IV. CONCLUSION

Many internal controls within SoE business operations and financial activities appear to be functioning satisfactorily. However, concerns were noted with non-payroll expenditures, payroll certification, travel and entertainment reimbursements, conflict of commitment reporting, and account-fund reconciliations.

Additional IT concerns were noted with asset inventory, vulnerability assessment and remediation, controlled use of administrative privileges, controlled access based on need to know and risk assessment and security plans.

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

V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Non-payroll Expenditures

a. PALCard Transactions

Background

The purchasing card (PALCard) is used by employees with purchasing responsibilities to buy equipment, supplies, and services. Employees with low value purchase training (including PALCard cardholders) have delegated authority to make low value purchases with University funds. Delegated authority is required for low value purchases; purchases made without delegated authority are unauthorized.

Observation

IAS reviewed a sample of SoE FY 2015-16 PALCard purchases. The following concerns were noted.

Purchase Requisitions: Internal requisitions are not always prepared for PALCard purchases and do not always include the preparation date.

Stated Business Purpose: The business purpose for some PALCard purchases is not always clearly stated in Kuali Financial System (KFS) documents, the internal requisition, and/or other supporting documentation.

Receipt of Purchased Goods: Receipts, packing slips or other documentation for received goods are not always retained for PALCard purchases. Missing or incomplete receiving documentation impedes the timely review/approval of PALCard purchases.

Strategic Sourcing Agreements: Strategic sourcing agreements are not always used for PALCard purchases. As a best practice, supporting documentation should always indicate why strategic sourcing was not utilized when strategic sourcing is applicable to a purchase;

Accounting Distributions: Accounting distributions for PALCard purchases are not always accurate. In one PALCard purchase, an event registration fee was accounted for as general office supplies. In addition, the transaction approver failed to detect and correct the error; the purchase was inaccurately recorded on the general ledger.

Failure to maintain adequate internal controls over PALCard purchases may delay the review and approval process and hinder management's ability to prevent or detect inaccurate, incomplete, or improper purchase transactions.

Management Action Plan

SoE management will meet with the School's PALCard holders and reviewers to address the issue of adequate documentation and proper internal control for PALCard purchases. The meeting will be held by October 31, 2016. The UC Purchasing policy will be redistributed at the meeting along with a new internal policy that will incorporate a checklist for proper internal controls. The checklist will require two separate signatures, one from the shipment receiver and one from the person who picks up the package, if persons are different. The checklist should address proper documentation for receipt of goods.

b. Disbursement Vouchers

Background

In FY 2015-16, UC Irvine employees utilized KFS to request reimbursement for various non-travel and entertainment expenditures. Sampled disbursement voucher reimbursement requests included a facility rental, gifts/non-cash awards, memberships/subscriptions, and out-of-pocket expenditures.

Observation

IAS reviewed a sample of FY 2015-16 disbursement vouchers from SoE faculty, staff and students. The following concerns were noted.

- 1. Improper Payment Method / Unauthorized Purchasers:** One reimbursement request was made for a statistical software purchase. The software should have been purchased with a PALCard or low value

purchase order. Additionally, the student employee making the purchase and requesting reimbursement had not completed Low Value e-training and did not have purchasing authority;

2. **Improper Use of a Disbursement Voucher Document:** One reimbursement request involved a \$65,136.00 payment for a summer facility rental. The rental should have been paid through a University purchase order or a KFS e-doc;
3. **Lack of Stated Business Purpose:** A business purpose is not always clearly stated in the disbursement voucher documents and/or supporting documentation.

Improper or incomplete disbursement vouchers may hinder the prevention and/or detection of improper or fraudulent purchase transactions.

Management Action Plan

As a result of these findings, SoE management recognizes that reducing the number of out of pocket purchase reimbursements is a campus priority. We will address this priority and issues of improper payment methods by communicating UC policy for Low Value Purchasing to faculty, staff, and students. These issues will also be presented at the Senior Management Meeting in the fall quarter. A KFS Payment Chart will be provided to managers as a reference tool for determining best payment methods and practice. We plan to have the information distributed by October 31, 2016.

2. Payroll Certification

Background

To properly substantiate salaries charged directly to federally funded projects, UC Irvine uses an annual Payroll Certification System. Payroll certification is required for the salaries of all employees of the University who are paid from federal funds.

Observation

A review was completed of payroll certification reports for eighteen sampled SoE federal and federal flow-through awards that had a budget year end-date between July 1, 2014 and June 30, 2015. The review disclosed that eleven payroll certification reports (PCRs) were not completed in a timely manner.

Discussions with SoE management disclosed that, of these eleven PCRs, one award was established a year after the budget year-end date and four awards had “no cost time extensions” that extended a year beyond the original budget year-end date. Nonetheless, the remaining six awards had not been completed on time.

University policy states that the PI must certify for each sponsored project within 70 days of the end of the budget year for that project. Failure to complete payroll certifications within the required timeline is in violation of policy and may adversely impact past and/or future federal funding.

Management Action Plan

The SoE management agrees that securing principal investigator (PI) review and certification on a timely basis is important and will distribute an internal policy to faculty regarding best practice for payroll certification submission. The internal policy will be distributed by October 31, 2016, and will include the necessity to incorporate meetings with PI’s whose PC reports remain unsigned prior to the submission deadline.

3. Travel and Entertainment Reimbursements

Background

Travel and entertainment expenditures are governed by UC/UCI policies. Reimbursement processes are required to comply with these policies.

Observation

IAS reviewed a sample of SoE travel and entertainment reimbursement requests prepared between May and November 2015. The review disclosed

that supporting documentation was insufficient or inaccurate for some entertainment reimbursements.

1. Proof-of-payment, exceptional approval, expenditure justification, and other key documentation were not always documented in KFS for certain entertainment events. Insufficient documentation may hinder review/approval processes for travel and entertainment expenditures;
2. Certain entertainment events were inaccurately described in KFS. One sampled entertainment event was documented as a dinner event. However, only light refreshments were served at the event. Under UC policy, the allowable maximum spending limit for dinner events greatly exceeds the allowable maximum spending limit for light refreshments. An inaccurate description of entertainment events may conceal excessive spending that requires exceptional approval from senior management and/or the UC Irvine chancellor.

Management Action Plan

The SoE management concurs with the importance of proper supporting documentation for travel and entertainment reimbursement (TEM) requests and will re-distribute campus wide policies and procedures regarding TEM requests to unit managers and staff by October 31, 2016. We will also develop a checklist of required TEM reimbursement documents for our internal processes. The checklist will help our processors ensure that sufficient and proper documentation has been provided for review, approval and processing.

4. Conflict of Commitment Reporting

Background

UC Academic Policy Manual (APM) 025, the University policy governing conflict of commitment and outside activities, requires all affected faculty members to complete an annual report of Category I and II compensated outside professional activities (OPA). Information from these reports is summarized annually in the Dean's Office Survey.

Observation

IAS reviewed the SoE FY 2014-2015 annual disclosure report for OPA, and twenty-one corresponding annual report forms submitted by faculty members. The review disclosed one concern regarding the pre-approval of Category I activities. In addition, concerns were noted in the proper completion and timely submission of the annual disclosure report and annual report forms, as follows.

1. **Category I Activities:** One faculty member reported Category I activities in FY 2014-15. However, prior approval was not obtained by the faculty member prior to the commencement of Category I activities, as required by policy.
2. **Proper Completion:** The annual report forms submitted by twenty-one reporting faculty members were not always properly completed as follows:
 - Two report forms were signed but not dated by the faculty members;
 - One report form was neither signed nor dated by any reviewer; and
 - The interim dean's report form was not signed and dated by any reviewer.
3. **Timely Submission:** The annual disclosure report for OPA and annual report forms for the twenty-one reporting faculty members were not always submitted in a timely manner, as follows:
 - Only thirteen of twenty-one reporting faculty members had submitted their annual report forms by the requested November 1, 2015 deadline set by the Academic Affairs Office;
 - The SoE FY 2014-2015 Dean's Office Survey (which had a December 4, 2015 submission deadline to the Academic Affairs Office) was not submitted until December 15, 2015.

Failure by faculty members to request pre-authorized approval for Category I activities hinders the Office of Academic Affairs' ability to ensure that faculty members' outside activities are in compliance with UC policy. Annual report forms prepared by faculty members should be properly completed in a timely

manner to ensure that the Dean's Office Survey can be submitted by the required deadline.

Management Action Plan

By September 19, 2016 (and therein after the beginning of fall quarter service period each year), the Dean's office will send the first notification to faculty to submit their annual report to the Dean's office by October 31, 2016. An additional reminder will be sent to faculty two weeks prior to the deadline. This will allow time for the Personnel office staff to review the forms to ensure they are completed fully and correctly, including date and signature by faculty and reviewer, as well as the appointment box checked to identify academic or fiscal year. With the additional notifications from the Personnel office to the faculty to request for timely, completed forms, the Dean's Office Survey will be submitted in a timely manner to the Academic Affairs Office.

By spring quarter service period end date of each year, faculty will be reminded of pre-approval for Category I activities for the upcoming academic year that begins July 1st. As of March 21, 2016, all deadline and reminder dates have been added to the Personnel Office calendar as a yearly recurring task item.

5. Account-Fund Review/Reconciliation

Background

University policy requires that responsible individuals monitor and verify transactions, and reconcile balances in the general ledger. Additionally, UC Irvine key internal controls require that responsible individuals review/reconcile account-funds on a periodic (preferably monthly) basis. As a best practice, initialing and dating the completed reconciliation provides accountability for the process.

Observation

A review of account reconciliation processes revealed that account-funds are not reconciled on a monthly basis. Discussions with management disclosed that, although both payroll and general ledgers are reconciled by fiscal officers monthly, KFS account-fund reconciliations are completed monthly for the

month prior to last. Management has expressed difficulties in preparing timely reconciliations of account-funds within KFS.

Timely review and reconciliation of school and extramural account-funds helps to detect the occurrence of inaccurate, improper and/or fraudulent financial transactions.

Management Action Plan

The KFS Management Advisory group has formed the Reconciliation Focus Group to develop and implement a new campus ledger reconciliation framework for KFS. The SoE Finance Director will serve as a representative on the focus group. In the meantime, SoE management is performing a review and reconciliation of account-funds monthly for the month prior. SoE management is aware of the challenges of account reconciliation within the KFS system. We will request additional staff assistance from the Dean’s Office to support reconciliations on a monthly basis by October 31, 2016.

6. Information Technology Observations and Management Corrective Actions

Background

IAS conducted an IT review of the SoE and noted that opportunities for improvement exist in the areas of asset inventory, vulnerability assessment and remediation, controlled use of administrative privileges, controlled access based on the need to know and risk assessment and security plan. IAS issued a separate memo with additional details of these observations to the department. Below is a summary of the issues.

Observation	Criteria	MCA
1. A comprehensive inventory of authorized and unauthorized devices and software is lacking	University policy (Electronic Information Security IS-3) requires an up-to-date inventory and classification of computing assets (hardware and software)	SoE will implement procedures to ensure a comprehensive inventory. Completion Date: December 31, 2016

2. Vulnerability assessment and remediation procedures should be implemented	IS-3 and best practice require implementation of processes that proactively and continuously identify vulnerabilities and remediate flaws in computer systems	In partnership with OIT, SOE will implement procedures. Completion Date : December 31, 2016
3. Controlled use of administrative privileges needs improvement	Administrative privileges should be limited and only used when required. Also, use of privileged functions should be monitored for unusual behavior	SoE Tech Services will minimize the authorization of administrative privileges and focused auditing of privileged functions Completion Date: December 31, 2016
4. Controlled access based on the need to know needs improvement	IS-3 requires that administrative controls be in place to authorize access, both logical and physical, to only those individuals who have a legitimate business reason to access specific Resources	In partnership with other stakeholders, SoE will review the current security measures in place and endeavor to have a solid solution to security issues observed. Completion Date: December 31, 2016
5. IT risk assessment and security plan have not been completed	IS-3 requires that a risk assessment and information security plan should be developed	SOE will partner with the OIT security team to complete. Completion Date: December 31, 2016