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## Internal Audit Report

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### CONFERENCE SERVICES

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Benjamin Wong  
Auditor

**Approved**  
Barry Long, Director  
Internal Audit & Advisory Services

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## I. EXECUTIVE SUMMARY

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Internal Audit & Advisory Services (IAS) has completed an audit of Conference Services to evaluate compliance with university policies and effectiveness of controls in place; we focused our review in accounting methodology and financial management, operational processes, and system access management.

In general, Conference Services was in compliance with university accounting and management policies, except as identified below, and had established effective controls over operational processes necessary to carry out their business objectives. This included serving the needs of their conference customers and generating income to help support the cost of student housing.

The following issues requiring management corrective action were identified during the review:

### A. Sales Tax: Student Meals

Sales tax rules and regulations may not have been applied correctly and calculations omitted board credits on student meals.

### B. Cash and Cash Equivalents Received

Opportunities were identified for improving the efficiency of cash operations and for addressing BUS-49 compliance issues identified with cash and cash equivalent handling processes by converting cash payments to an automated clearing house (ACH) and cashless transaction process.

### C. Insurance Certificate or Certificates of Insurance Effective Period

An insurance certificate's effective period did not cover the conference period.

### D. Conference Programmer: User, Access, and Server

Individual user IDs were not assigned; user permissions were excessive and not based on least permissions needed to perform job duties; and server was housed in an insecure location.

In addition, use of agency funds by Conference Services was inconsistent with the fund's intent as intra campus income and expenditures were not completely eliminated at year-end, and operating expenditures were not reflected on the University's financial statements. We discussed the use of agency funds and its accounting methodology with Accounting Services and it was determined that the amounts involved do not materially impact the University's financial statements fair presentation.

Management agreed to all corrective actions recommended to address risks identified in these areas. Observations and related management corrective actions are described in greater detail in section III of this report.

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## II. INTRODUCTION

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### Purpose

The purpose of this audit was to evaluate the effectiveness of controls and compliance with university policies in Conference Services over accounting methodology and financial management; operation processes; and system access management.

### Background

Conference Services coordinates summer conferences, camps or other group activities; conference coordinators handle every detail of customer housing, meeting, dining and catering needs. Additionally, Conference Services offers registration services including setting up registration websites and collecting fees.

The mission of UCSC's Conference Services is to support the goals of the Colleges, Housing and Educational Services. This is achieved by utilizing campus facilities on a year-round basis and by planning, organizing and implementing academic, outreach, sport and professional programs and conferences. This generates income that helps to reduce the cost of housing to students during the academic year as well as providing summer employment for students.

Campus Provost and Executive Vice Chancellor and Business Administration Services Vice Chancellor approved Conference Services 2012-13 summer rates. These rates were also vetted by Rates, Recharges, and Fees Committee (Colleges, Housing & Educational Services - CHES); members of the committee included personnel from Business and Administrative Services, graduate and undergraduate students, and CHES.

Conference Services uses two software applications, Conference Programmer to manage conference activities and Highrise to track sales. Conference Programmer is a client server program specifically geared toward college and university conferencing programs; functions include reserving guest rooms, booking meeting space, arranging meals and catering, registering guests, generating invoices, etc. Highrise is a contact management program allowing Conference Services to track customer inquiries and responses.

Conference Services contracted fifty-eight conferences in 2011 summer, generated approximately \$4.1 million in revenue from room and board, catering, meeting room rental, recreation facility use, and other related charges. Of the approximately \$4.1 million income, about \$3.2 million came from external customers and about \$900 thousand came from intra campus departments.

The following five conferences accounted for more than half of the total \$4.1 million in income.

John Hopkins University	\$ 780,103
United Spirit Association	443,825
Neuro-Linguistic Programming University	344,450
California State Summer School for Mathematics and Science (COSMO)	323,697
<u>Awesome Math</u>	<u>260,230</u>
Total	\$ 2,152,304

Conference Services used multiple agency fund numbers to differentiate conferences; deposits, payments, charges, recharges all go through these funds and balances were transferred to campus departments providing the services and/or recognized as income at latest by fiscal year end. Management was cognizant of the unit's mission and 2011 summer conferences generated approximately \$811 thousand in net revenue.

Most of the summer conferences were youth groups staying on campus ranging from a couple of days to over three weeks. Groups were required to provide Certificates of Liability Insurance; enter into Conference Agreements and Addendums as applicable; and prepay 100% of the estimated room and board costs fourteen days prior to the conference start date. Final invoices were prepared by the end of October 2011 and final payments were due forty-five days after the invoice dates.

### Scope

The scope of the audit focused on the following:

- Reviewed and analyzed Conference Services account balances as of February 29, 2012, obtained understanding on account balances, usages, and related budgeting methodologies.
- Reviewed rates setting and approval processes.
- Reviewed sales and transient taxes applications and calculations.
- Discussed account and fund transaction flows with Conference Services Assistant Director and Accounting Services Director.
- Reviewed a small sample of transactions under administrative and summer conference related direct expenditures.
- Reviewed ten 2011 summer folders for compliance with Conference Services' policy and traced all transactions to their corresponding agency funds.
- Performed a walk-through on cash and cash equivalents handling at the Conference Services office, and reviewed check log on payments received from January 1st, 2012 to April 2nd, 2012.
- Reviewed 2011 summer cash and check sales records conducted by student employees.
- Reviewed 2011 summer student employee payroll records and training agenda.
- Reviewed UCSC campus alcoholic beverage policy and its applicability to Conference Services.
- Reviewed 2011 summer customer survey results and corresponding identified action items.
- Reviewed system access, authority, and server support.

A more detailed summary of work performed and results is included in Appendix A.

**Observation of Noteworthy Practices**

During the course of our assessment, we also made the following observations of noteworthy activities having a positive impact on Conference Services:

- Several conferences were long time repeat customers and appreciative on services provided.
- Management was cognizant of its mission and developed an active sales growth program; different channels have been identified on possibly generating new customers/income.

**III. OBSERVATIONS REQUIRING MANAGEMENT CORRECTIVE ACTION**

<b>A. Sales Tax: Student Meals</b>	
Sales tax rules and regulations may not have been applied correctly and calculations omitted board credits on student meals.	
<b>Risk Statement/Effect</b>	
Incorrect sales tax rules and regulations application and calculation could lead to overpayment or underpayment to California Board Of Equalization; underpayment, if any, may be subjected to interest and penalties.	
<b>Agreements</b>	
<b>A.1</b>	Conference Services will work with Financial Affairs - Accounting Services in researching a definitive ruling on sales tax treatment and determining the amount of over or under paid sales tax and the extent of required retro-adjustments.
	Implementation Date
	12/3/12
	Responsible Manager
	Conference Services Assistant Director

**A. Sales Tax: Student Meals - Detailed Comments**

The University of California Sales and Use Tax Manual, Section 2: The University as Seller, IV. Food Services/Student Cafeteria, B. Food Services: Meals to Students – provides an exemption of sales use tax for certain classes of students, as follows:

1. Exemption for Meals to Students California exempts meals and food products served to public or private school students when furnished by schools, student or parent-teacher organizations, or any qualified blind person operating a restaurant or vending stand in an educational institution (Section 6363). The exemption applies to both sales taxes on the sales of meals and food products and use tax on the purchase of items to be sold.
2. Students Persons formally enrolled in regularly scheduled courses, specialized short courses and special youth programs at UC qualify as "students" (Annotations 550.1435 through 550.1460). Persons attending a lecture series that are open to the general public without any requirement of enrollment do not qualify as "students" (Annotation 550.1440). The exemption does not extend to faculty, university staff (UC's or any other), or visitors.

The majority of summer conference attendees were not enrolled at UC and therefore did not qualify as "students" under UC sales tax policy. Conference Services was exempting sales tax on meals, board only, for all UC and UC sponsor conferences and youth groups lasting three weeks or longer, which was not in compliance with UC Sales and Use Tax Manual requirements. Additionally, sales tax calculations omitted board credits. Further review and interpretation of the appropriateness of student and adult

meals exempted from sales tax for conferences and applicable over or under payment applied is needed.

<b>B. Cash and Cash Equivalents Received</b>		
Opportunities were identified for improving the efficiency of cash operations and for addressing BUS-49 compliance issues identified with cash and cash equivalent handling processes by converting cash payments to an automated clearing house (ACH) and cashless transaction process.		
<b>Risk Statement/Effect</b>		
Manual cash and cash equivalents received and not processed in accordance with UC BUS-49 requirements may lead to fraud and/or loss of income.		
<b>Agreements</b>		
<b>B.1</b>	Conference Services will review the feasibility of accepting ACH payments.	Implementation Date
		11/15/12
		Responsible Manager
		Conference Services Assistant Director
<b>B.2</b>	Conference Services will pursue the possibility of implementing cashless transaction and eliminate the need for student employees to handle cash or cash equivalents. If the aforementioned cannot be achieved, student employee training will include BUS-49 requirements, and Conference Services will revise current summer conference cash and cash received process tightening controls to ensure accountability.	Implementation Date
		11/15/12
		Responsible Manager
		Conference Services Assistant Director
<b>B.3</b>	Conference Services will revise current practice to ensure the safe's combination is changed as required.	Implementation Date
		11/15/12
		Responsible Manager
		Conference Services Assistant Director

**B. Cash and Cash Equivalents Received - Detailed Comments**

Between January 2011 and December 2011, Conference Services prepared 262 transactions totaled \$3.3 million received from cash, checks, credit cards, and wires. The majority of the 262 transactions represented individual checks.



University of California Business and Finance Bulletin BUS-49 (UC BUS-49) - Policy for Cash and Cash Equivalents Received policy, require the following: –

- Policy VIII.A.1.3:  
Mailed remittances shall be verified and processed by two employees.
- Policy VIII.A.2:  
Individual accountability must be maintained and documented for all cash handling procedures.
- Policy VIII.A.2.3:  
Documentation of cash differences must be maintained for each cashier.
- Policy IX.11:  
A safe's combination must be changed whenever a person who knows the combination leaves the employ of a cash handling unit. In addition, the combination must be changed at least once a year.

Conference Services was out of compliance with the above policies.

2011 summer cash and cash equivalents received by student employees was approximately \$9,135; this amount was not accounted and reconciled completely and accurately. About \$6,834 of \$9,135 related to student employee housing rentals; and \$2,301 of \$9,135 related parking, rents, wristband, laundry card, linen rental, lost keys, and lost meal cards.

Receipts were issued on cash and cash equivalents received, however the receipts were not reconciled to the corresponding conferences and completeness could not be determined. Additionally, seven cash box daily reconciliation forms indicated \$6-\$10 missing with no explanations documented. Implementing cashless transactions will eliminate the need for student's to handle cash and cash equivalents.

A cash and cash equivalents processing walk-through and check log review disclosed mail remittances had not been verified and processed by two employees; and a safe's combination was not changed at least once each year. Management believed the risk on mail remittances not verified and processed by two employees was mitigated by a separate individual responsible for account reconciliation.

Operational efficiency and compliance over cash and cash equivalents received could be improved by converting payments to an automated clearing house (ACH) and cashless transactions. Using an ACH payments process could also reduce the risk of fraud or misappropriation of cash receipts.

<b>C. Insurance Certificate or Certificates of Insurance Effective Period</b>		
An insurance certificate’s effective period did not cover the conference period.		
<b>Risk Statement/Effect</b>		
Claims, demands, judgments, awards and lawsuits arising out of use of UCSC facilities may be filed exposing the University liable to compensation.		
<b>Agreement</b>		
<b>C.1</b>	Conference Services will add an additional verification item to the Financial Analyst’s checklist to include obtaining a promissory letter and/or current insurance certificate/certificates of insurance for conferences with insurance certificate/certificates of insurance whose effective period of coverage has lapsed prior to conference end date.	
		Implementation Date
		05/31/12
		Responsible Manager
	Conference Services Assistant Director	

**C. Insurance Certificate or Certificates of Insurance Effective Period - Detailed Comments**

UCSC has established Insurance Requirements for Use of Campus Facilities that is consistent with UC policy. According to policy, outside organizations and groups using any UCSC facilities are required to maintain throughout the period of such use at the sole cost and expense of such organization(s) or group(s), a policy of policies of general liability insurance protecting both the outside organization(s) or group(s) and the Regents of the University of California (Regents) from any and all claims, demands, judgments, awards and lawsuits arising out of use of UCSC facilities.

We selected nine folders to review out of fifty-eight 2011 summer conferences. In one conference reviewed, the insurance certificate effective period did not cover the timeframe of the event. The John Hopkins University (JHU) Certificate of Liability Insurance policy was effective from 07/01/2010 and expired on 07/01/2011, the JHU summer conference lasted from 06/26/2011 to 08/07/2011.

<b>D. Conference Programmer: User ID, Access, and Server</b>		
Individual user IDs were not assigned; user permissions were excessive and not based on least permissions needed to perform job duties; and server was housed in an insecure location.		
<b>Risk Statement/Effect</b>		
Unauthorized and inappropriate changes made in Conference Programmer may lead to errors and irregularities not easily identified.		
<b>Agreements</b>		
<b>D.1</b>	Conference Services will assign individual user IDs and access based on staff/group functions.	Implementation Date
		06/15/12
		Responsible Manager
		Assistant Director
<b>D.2</b>	Conference Services will work with data center to migrate the server locating in Conference Services office.	Implementation Date
		10/31/12
		Responsible Manager
		Conference Services Assistant Director

**D. Conference Programmer: User ID, Access, and Server - Detailed Comments**

Per discussion with Conference Services management, the Conference Programmer is not a mission critical system. The system is largely used for guest check in/check out and customer invoicing. These tasks can be performed manually as contract agreements and guest registers are kept in corresponding conference folders. Conference Programmer is housed in a server located at the Conference Services office; UCSC Information Technology Services performs backup on this server. Conference Services contacts the Conference Programmer vendor: Seattle Technology on issues or help needed.

We contacted Seattle Technology and were informed user IDs and access can be assigned locally. If Conference Services turns off the ability to delete charges and payments, but allows mark charges and payments as deleted, audit logging will be preserved. We reviewed Conference Programmer access by group and user ID and determined that the setup did not fully utilize the software’s functionality. User and group IDs were not assigned by individual and based on job functions. We also contacted the UCSC data center manager and determined the center has the capacity to house the server located in the Conference Services office.

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**APPENDIX A – Summary of Work Performed and Results**

Work Performed	Results
<b>Accounting Methodology and Financial Management</b>	
Reviewed account balances (usage and budgeting methodology) and funds float.	Account and fund balances appeared to be reasonable and budgeting methodology in line with Conference Services’ mission.
Reviewed sales tax and transient tax applications.	Sales tax rules and regulations were not applied correctly; and calculations omitted board credits. Transient tax exempted as according to UC policy.
Discussed conference services accounting methodology with Accounting Services.	Use of agency funds were not in line with the fund’s intent, however, amounts involved not materially impacted the University financial statements fair presentation (verbally notified Conference Services to move operating expenditures out of agency funds).
Reviewed administrative and summer related direct expenditures.	Back up documents supported legitimate business reasons.
<b>Operations</b>	
Reviewed rates setting and approval processes.	2012 rates were approved by EVC, VC, and vetted by Rates, Recharges, and Fees Committees (CHES).
Reviewed 2011 summer conference invoices and canceled conferences	Records indicated apartment occupancy was low and a few potential customers expressed UCSC rates were high. Conference Services brought this information to the attention of Rates, Recharges, and Fees Committee (CHES) and the possibility of improved apartment occupancy and conference attendance by lowering rates.
Reviewed ten 2011 summer conference folders.	Contract agreements executed and signed, final invoices prepared, payments/refunds processed, and billings supported. Except for one insurance certificate coverage period not adequate, and UC Berkeley was credited twice (verbally notified Conference Services management and immediate follow up action was taken).
Reviewed 2011 summer cash and check sales records.	Cash and cash equivalents handling not in accordance with BUS-49 requirements. Receipts not reconciled, missing cash reasons not documented.
Reviewed Conference Services check log and performed a walk-through on cash and cash equivalents handling.	Cash and cash equivalents handling not in accordance with BUS-49 requirements. Mail remittances not handled by dual employees and safe’s combination not changed as required.
Reviewed 2011 summer student employee payroll records and training agenda.	Taxes were withheld as required for UC employees. Training provided did not include BUS-49 requirements.

<p>Reviewed UCSC campus alcoholic beverage policy.</p>	<p>Unclear if the conferences contracted by Conference Services were considered as ‘sponsor events’ or ‘third party’ (verbally notified Conference Services to clarify ‘sponsor events’ and ‘third-party’ definitions; determine if UCSC campus alcoholic beverage policy is applicable to their customers and/or need to go through a third-party process with Real Estate Office).</p>
<p>Reviewed 2011 summer customer survey results.</p>	<p>Action items developed to address customer comments.</p>
<p><b>Systems</b></p>	
<p>Reviewed Conference Programmer and Highrise system access and authority.</p>	<p>Conference Programmer - individual user IDs were not assigned; and user permissions were excessive and not based on least permissions. No audit logging.</p>
<p>Reviewed server located in Conference Services office support.</p>	<p>Server not housed in a secured location.</p>