

UCSB AUDIT AND ADVISORY SERVICES

January 20, 2012

To: George Thurlow
Assistant Vice Chancellor, Alumni Affairs

Re: **Alumni Affairs**
Audit Report No. 08-12-0013

As part of the 2011-12 annual audit plan, Audit and Advisory Services performed an audit of Alumni Affairs. Enclosed is the audit report detailing the results of our review.

The purpose of the audit was to determine whether appropriate business practices and internal controls have been implemented by Alumni Affairs to ensure compliance with University policies and procedures. The review included discussions with Alumni Affairs staff and limited testing. The scope of the audit included:

- Mosher Alumni House Room Rentals
- Family Vacation Center Business Practices
- Alumni Association Revenue and Expense Practices
- Information Systems

Based on the results of the work performed within the scope of the audit, the department has established appropriate procurement procedures and controls. However, improvement in the department's oversight and management practices are needed for Mosher Alumni House room rentals, the Family Vacation Center, receiving and depositing mail remittances, and establishing billing and recharge rates.

We have included a copy of our detailed observations and management corrective actions with this cover memo. The management corrective actions provided indicate that each audit observation was given thoughtful consideration and that positive measures have been taken or planned to implement the management corrective actions. The cooperation and assistance provided by Alumni Affairs management and staff during the review was sincerely appreciated. If you have any questions, please feel free to contact me.

Respectfully submitted,



Robert Tarsia
Acting Director
Audit and Advisory Services

Assistant Vice Chancellor, Alumni Affairs George Thurlow
January 20, 2012

Enclosure

cc: Chancellor Henry Yang
Assistant Chancellor Todd Lee
Associate Vice Chancellor Ron Cortez
UCSB Audit Committee
Senior Vice President and Chief Compliance and Audit Officer Sheryl Vacca
Assistant Director John Lofthus
Financial Officer Hazra Kamal

Alumni Affairs

Audit Report No. 08-12-0013

Performed by:

Albert Rojas, Staff Auditor

Approved by:

Robert Tarsia, Acting Director

**UCSB Audit and Advisory Services
Alumni Affairs
Audit Report No. 08-12-0013**

Purpose

The purpose of the audit was to determine whether appropriate business practices and internal controls have been implemented by Alumni Affairs to ensure compliance with University policies and procedures.

Scope, Objectives and Methodology

The scope of the review included Alumni Association and Alumni Affairs programs conducted during fiscal year 2011. Audit objectives were developed for:

- Mosher Alumni House Room Rentals
- Family Vacation Center Business Practices
- Alumni Association Revenue and Expense Practices
- Information Systems

Table 1 in this section details the audit objectives for each review area.

To accomplish our objectives, we obtained an understanding of current University and Alumni Affairs policies and procedures. We held discussions with Alumni Affairs management and staff to gain an understanding of Alumni Association and Alumni Affairs programs and business processes. We evaluated the business practices of Alumni Association and Alumni Affairs programs to determine whether they incorporated adequate internal controls, and performed detailed testing in several areas to determine whether internal controls are in place and operating as intended.

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Table 1		Audit Objectives	
Review Area	Objectives		
Mosher Alumni House Room Rentals	<p>To determine whether:</p> <p><u>Paid Rooms</u></p> <ul style="list-style-type: none"> • Correct rental rates were charged. • Renters paid in accordance with established policy, e.g. off-campus renters paid before the time the room was rented. • Rental was covered by a signed agreement, when required. <p><u>Complimentary Rooms</u></p> <ul style="list-style-type: none"> • Complimentary room rentals were properly approved and appeared reasonable. 		
Family Vacation Center Business Practices	<p>To determine whether:</p> <p><u>Staff Tabs</u></p> <ul style="list-style-type: none"> • Employees paid for all expenses incurred. • Expenses were appropriate. • Appropriate prices were charged. • Transactions were otherwise reasonable. <p><u>Guest Bills</u></p> <ul style="list-style-type: none"> • Appropriate prices were charged. • Guests paid for all expenses incurred during their stays. • Transactions were otherwise reasonable. <p><u>Expenditures</u></p> <p>To determine whether expenditures were:</p> <ul style="list-style-type: none"> • For official University business. • Properly approved per UC procurement policies and procedures. • Supported by adequate documentation. • Otherwise reasonable and supported. 		
Alumni Association Revenue and Expense Practices	<p><u>Revenue</u></p> <p>To determine whether cash receipts were:</p> <ul style="list-style-type: none"> • Deposited in a timely manner. • Properly documented. <p><u>Expenditures</u></p> <p>To determine whether expenses were:</p> <ul style="list-style-type: none"> • For official University business and properly approved. • Supported by adequate documentation. • Otherwise reasonable and supported. 		
Information Systems	<p>To determine whether user access and permissions were:</p> <ul style="list-style-type: none"> • For active employees of Alumni Affairs. • Appropriate to each user's role. • Removed for former employees in a timely manner. 		

Source: Auditor Analysis

Background

The University of California, Santa Barbara (UCSB) Alumni Association was incorporated as a non-profit organization (Section 501(c)(3) of the Internal Revenue Code) in 1965, and has been established in accordance with *UCOP Administrative Guidelines for Campus Alumni Associations and Constituency Alumni Groups*. The Alumni Association is overseen by a Board of Directors to help retain the interest and involvement of UCSB alumni. The Board of Directors also offers counsel and advice, serves as a legislative advocate, and oversees policies for the operation of the Alumni Association.

The Alumni Association is currently organized and operated as an administrative department (Alumni Affairs) of the University, with the purpose of providing service and support to UCSB alumni and students in support of its mission to serve the University. All career and student staff are employees of Alumni Affairs and are paid by the University, although some of their responsibilities relate to the Alumni Association’s programs. Alumni programs have been divided between the Alumni Association and Alumni Affairs; Table 2 lists the programs for both Alumni Affairs and Alumni Association.

Table 2		Departmental Programs	
Alumni Affairs		Alumni Association	
<ul style="list-style-type: none"> • Family Vacation Center • Mosher Alumni House • Summer Inn 		<ul style="list-style-type: none"> • Membership Services • All Gaucho Reunion • Alumni Activities/Gatherings • Coastlines Magazine • Career Services • Chapter and Club Support • Travel Program 	

Source: Auditor Analysis

The Mosher Alumni House (MAH), completed in fall 2007, is a privately funded conference and reception center that serves UCSB alumni, the campus, and the community. According to the Assistant Vice Chancellor, Alumni Affairs, the intent of the donors who contributed to the construction costs of the MAH was to provide a “living room” for the campus that could be used to engage alumni, promote philanthropy to UCSB, and provide students with the knowledge that their connection to UCSB would last their entire life. The operation of the MAH is a careful balance by the Alumni Affairs management to stay true to the donors wishes, as well as provide financial support for the ongoing operation of the MAH. The facility contains four conference rooms, two outdoor patios, and an unfinished 1st floor that are available for rent by campus departments, student organizations, and off-campus users. Room rental prices have been developed to charge campus departments and off-campus users, while use by student organizations is free, as long as the organizations are officially recognized by the University.

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The Alumni Association created the Family Vacation Center (FVC) in 1969. The FVC is an all-inclusive family vacation venue that operates from June until August. FVC hosts approximately 1,800 guests each summer and is staffed by 50 college-age students and two full-time staff. Additional oversight is provided by Alumni Affairs finance staff and the Associate Director, Alumni Affairs. Families are given the option to choose a weeklong session during the nine-week program, and guests are provided with meals, lodging using the San Rafael dorms, childcare, activities, programs, and events. Program rates have been established for each age group, including weekly and mini week (half-week) rates.

In 2007, the Alumni Association Board of Directors, in conjunction with UCSB, approved moving the FVC and the Summer Inn programs to Alumni Affairs.¹ With the approval of both parties, the University has therefore accepted responsibility for administering and monitoring the revenue and expenditures that result from the program's operation.

The Alumni Association uses a non-University commercial checking account for the cash operations of its programs, while the cash operations for Alumni Affairs programs are handled through the University. Alumni Affairs uses QuickBooks accounting software to maintain financial records for both the Alumni Association and Alumni Affairs. All expenditures for both the Alumni Association and Alumni Affairs are processed by the University.

In March 2004, the Vice Chancellor for Institutional Advancement directed the Alumni Association to comply with the *UCOP Administrative Guidelines for Campus Alumni Associations and Constituency Alumni Groups* by establishing and utilizing agency accounts through the Campus Controller and using the agency accounts for Alumni Association expenditures. This policy direction was taken to improve management's oversight of Alumni Association operations; respond to increasing budget constraints; and achieve compliance with expenditure policies, particularly regarding travel and entertainment, reimbursements to employees for other business expenses, general purchase of supplies and equipment, and review of contracts. In addition, the Alumni Association was granted an exception for the use of FlexCard procurement cards, to purchase items necessary for programs that are ordinarily unallowable, but for which it has a valid business need.

The Alumni Association engages an external auditor to perform an annual financial audit of its financial statements, and to prepare federal and state and tax returns. According to the audited financial statements, the Alumni Association/Alumni Affairs programs received \$2,431,989 in revenue and incurred \$2,095,642 in expenses for fiscal year 2010-11. There were 12 full-time staff and

¹ Summer Inn, located on campus during the summer months, is operated as reasonably priced lodging for guests who have a campus-related reason for visiting.

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approximately 75 student employees during the year. The head of the department holds a dual appointment for both Alumni Affairs (Assistant Vice Chancellor, Alumni Affairs) and Alumni Association (Executive Director).

Summary Opinion

Based on the results of the work performed within the scope of the audit, the department has established appropriate procurement procedures and controls. However, improvement in the department's oversight and management practices are needed for Mosher Alumni House room rentals, the Family Vacation Center, receiving and depositing mail remittances, and establishing billing and recharge rates.

The audit observations and management corrective actions are detailed in the remainder of the audit report.

Detailed Observations and Management Corrective Actions

A. Mosher Alumni House Room Rentals

The audit found that business practices and procedures for Mosher Alumni House room rentals are not sufficient to ensure that all rental revenue is correctly billed and collected. Improvements in several Alumni Affairs practices are needed to ensure that all room rental transactions are proper, correct, and consistent with UC policies. The following was noted:

1. Incorrect Rental Rates and Complimentary Rentals

The audit found that room rentals are not always correctly billed and paid, and that there is not proper documentation of complimentary room rentals and other transactions.

Conference Programmer (CP) is a University conferencing program that is used by both Housing and Residential Services and Alumni Affairs. CP is used for storing reservations, generating invoices, documenting payments, and generating management reports. A sample of 15 paid room rentals and 10 complimentary rooms, mostly from fiscal year 2010-11, was selected from CP for detailed review of rental rates, receipt of revenue, etc. Table 3 summarizes the results of this review, which found a high incidence of incorrect room rental rates and inadequate documentation in support of complimentary room rentals.

2. Business Practices Require Improvement

Our evaluation of business practices in this area found that improvements are necessary to ensure that all rental revenue is correctly billed and collected. We found the following weaknesses in current practices:

- There is inadequate separation of duties. The Office Manager is responsible for taking and entering reservations into CP, invoicing renters, and receiving and entering payments into CP.
- There is no written policy covering the provision of complimentary room rentals. In addition, approval of complimentary room rentals is not documented in writing and noted in CP. As a result, these transactions could appear to some to be improper.
- Security deposits are not taken prior to the renter's reservation, as required in some cases by Alumni Affairs procedures. Additionally, a process has not been developed to handle security deposits.
- Renters are not always billed for additional rooms that are used during their reserved time or for additional time if they exceed the original agreed reservation time.

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- Reservation information (e.g. room and time rented) and payments are not always properly entered into CP to ensure accurate invoicing and reporting. Additional fees are not always selected when completing the reservation or added after the event occurs.
- Preliminary and final bills for room reservations are not provided to renters, a practice that would help ensure that all parties agree on the appropriateness of all charges. In addition, invoices do not include detailed reservation information such as room rates, rental time, and the room rented.
- Multiple account profiles are completed for the same individual or group in CP, which makes it difficult for users to generate basic management reports that detail transactions for individual renters.
- Rental confirmations are not always completed, as required.
- Procedures have not been established to reconcile payments received to amounts shown as due in CP.

Table 3		Mosher Alumni House Room Rentals – Audit Results
Testing Areas	No. of Instances	Audit Observations and Issues
Paid Room Rentals Sample Size = 15	12	Incorrect rental rates (not per published rates) were used to bill the renters. In most cases, the renters were undercharged, resulting in \$2,025 in uncollected revenue.
	3	Off-campus renters were charged lower on-campus rates. Although Alumni Affairs staff indicated that the renters were UCSB employees, we found that all three individuals were not former or current UCSB employees.
	6	Off-campus renters paid after the room was rented, though current policy provides for payment in advance.
	3	One instance of each of the following: correct rental rates could not be confirmed, since the reservation was not documented in CP; renter was not billed for the rental; and the renter did not pay for the rental invoiced.
Complimentary Rooms Sample Size = 10	10	Approval of complimentary room rentals was not adequately documented, although the Executive Director stated that he believes that the rooms were rented for official University business.

Source: Auditor Analysis

To improve business practices over Mosher Alumni House room rentals and help ensure that all rental revenue is correctly billed and collected, Alumni Affairs should evaluate its current

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procedures, including its use of CP, and develop and implement a detailed corrective action plan to address the identified weaknesses. The corrective action plan should include:

- Developing written procedures covering the room reservation process, pricing, rental agreements, invoicing, and all related areas. The procedures should specifically address separation of duties issues.
- Establishing and documenting a policy covering the provision of complimentary room rentals, and a procedure for reviewing complimentary room rentals for appropriateness on a regular basis (e.g. by generating a monthly report from CP for management review and approval).
- Staff training on the new procedures, and sufficient oversight to ensure they are followed.

Management Corrective Actions

Management concurs with the findings noted above. The following were implemented by Alumni Affairs during the course of the audit.

- CP is now being used for all MAH rentals to ensure correct billing and payment. A process of documenting complimentary room rentals is now in place.
- The duties of taking and entering reservations into CP, receiving payments, and entering payments into CP have now been separated between the Office Manager and Alumni Affairs finance staff.
- Management concurs that renters should be billed for all additional rooms used and/or additional time. Procedures have been put in place to better monitor renter usage during their stay. It should be noted that complete monitoring of all rental groups is difficult due to the staffing restrictions of the MAH and the “open” nature of the public areas.
- Alumni Affairs finance staff will be responsible for reviewing all rentals and submitting billing. Additionally, CP reports have been modified to include additional information on rentals.
- Preliminary and final bills for room reservations are now being provided to renters.
- The CP Database has now been configured so that groups only have one account, even if they book multiple times.
- Signed rental confirmations are now completed for all room reservations.
- All billing will now be done by Alumni Affairs finance staff with payments reconciled with CP.
- A policy covering the provision of complimentary room rentals has been created, along with procedures for reviewing complimentary room rentals.
- Alumni Affairs has been conducting regular staff meetings to discuss the general operations of the MAH room reservation program and to ensure staff is familiar with all procedures. Alumni

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Affairs will continue to hold staff review sessions to ensure that all policies and procedures are being followed.

Additionally, Alumni Affairs will be responsible for implementing the following:

- A policy for complimentary room has been created, stating that all complimentary rentals require approval by the Assistant Vice Chancellor, Alumni Affairs. The policy for complimentary rooms will be reviewed and approved by the Assistant Chancellor.
- Alumni Affairs will work with Accounting Services & Controls on the proper process for receiving and handling security deposits. Although management concurs that security deposits have not been taken on a regular basis, it should be noted that current Alumni Affairs policy states that security deposits are required only for select non-campus groups.
- Alumni Affairs will complete a set of written procedures covering the entire room reservation process; development of the procedures is already in progress.

Audit and Advisory Services will follow-up by March 31, 2012, to ensure that the corrective actions have been implemented by Alumni Affairs.

B. Family Vacation Center

The audit found that business practices and procedures for the Family Vacation Center (FVC) are not sufficient to ensure that revenue generated from guests and staff is correctly billed and collected. FVC uses CP for storing FVC reservations, generating preliminary and final bills, documenting payments, and generating management reports. A sample of 10 staff tabs, 15 guest bills, and 10 FVC expenditures, mostly from fiscal year 2010-11, was selected for detailed review. Table 4 summarizes our findings in these areas.

Table 4 Family Vacation Center – Audit Results		
Testing Areas	No. of Instances	Audit Observations and Issues
Staff Tabs Sample Size = 10	1	Employee received a complimentary meal pass for his/her family.
	1	Multiple meal passes were purchased for an employee's relatives at a discounted (staff) rate.
	2	Approval procedures and documentation for complimentary meal passes were inadequate, which resulted in 13 complimentary meal passes for Counselors in Training (high school aged students) and Alumni Affairs management noted on two career employee tabs.
Guests Bills Sample Size = 15	3	Guests were charged rates for FVC activities that were different than established rates.
	1	Activity was provided to a guest on a complimentary basis.
	1	Guest received a UC faculty and staff discount for his/her stay without verification that the individual was employed by UC.

Source: Auditor Analysis

Other issues noted during the review include:

- There are no written policies covering room and board and FVC activity rates for FVC staff family and friends. Family and friends are charged at staff rates for all FVC activities. (Alumni Affairs is now in the process of developing polices covering this area.)
- Employees are permitted to modify and delete charges on their own tabs in CP without prior review and approval from their supervisor.
- Although pricing controls have been programmed in CP, employees still have the ability to charge guests and their coworkers different rates for certain items.
- Guest bills are not thoroughly reviewed by FVC staff to ensure the accuracy of the charges.
- Available CP reports do not capture all FVC guest charges and payment information.
- Imprints of guest credit cards are stored in a safe for both FVC and Summer Inn. This practice is inconsistent with campus best practices for ensuring the security of this information, which include using Authorize.net, the approved campus credit card processing vendor.

To ensure there are appropriate controls over FVC billing practices, Alumni Affairs should evaluate its current practices and develop and implement a detailed corrective action plan to address the identified weaknesses. The corrective action plan should include training of employees and sufficient management oversight of FVC billing and collection practices.

Management Corrective Actions

Management concurs with most of the findings noted above, and will be responsible for implementing the following:

- A policy for FVC staff family and friends as well as campus employees has been developed and will be implemented for future summer seasons. The policy will be reviewed and approved by the Assistant Chancellor.
- CP will be modified by the start of the 2012 summer season so that employees are not permitted to modify or delete charges on their own tabs.
- Management concurs that imprints of guest credit cards are stored in safes for both the FVC and Summer Inn. Alumni Affairs is currently working with Accounting Services & Controls to devise an alternative method of capturing credit card info in the event that the guest fails to pay prior to leaving.

Alumni Affairs management believes that guest bills and staff tabs are thoroughly reviewed by FVC staff and Alumni Affairs management to ensure the accuracy of the charges, and that CP reports capture all FVC guest charges and payment information. However, we will review and revalidate our practices in these areas.

Audit and Advisory Services will follow-up by September 1, 2012 to ensure that the corrective actions have been implemented by Alumni Affairs.

C. Establishing Prices and Recharges Rates

The audit found that current Mosher Alumni House room rental and FVC rates have not been reviewed and approved by the campus Rate and Recharge Committee, as required by existing UC rate and recharge policies. Campus room rental rates were decreased in the summer of 2009, due to low demand, and additional fees (e.g. night/weekend surcharge, cleaning fees, etc.) were recently established by Alumni Affairs. FVC rates are created on an annual basis by reviewing market rates for similar programs and are generally increased by 5% from the previous year's rates.

To comply with the UC rate and recharge policies, Alumni Affairs should submit the Mosher Alumni House room rental and FVC rates to the Rate and Recharge Committee for review and approval.

Management Corrective Actions

Management concurs with the audit finding. Alumni Affairs will work with the Rate and Recharge Committee to ensure that any rates changes comply with University policy and procedures.

Audit and Advisory Services will follow-up by September 1, 2012, to ensure that the corrective actions have been implemented by Alumni Affairs.

D. Alumni Association Revenue and Expense Practices

The audit found that Alumni Affairs has established appropriate controls to ensure that procurement and expenditure practices are consistent with University requirements. However, our review found that procedures for receiving and depositing mail remittances are not functioning as intended.

We tested a sample of 10 University and non-University bank account deposits from fiscal year 2010-11, and found:

- In eight instances, checks were not deposited in a timely manner. The time between the check date and the deposit date ranged from 6 to 25 days, while the amounts ranged from \$981 to \$14,000.
- In one instance, timeliness could not be determined since Alumni Affairs did not have adequate documentation.
- Mail remittances are not properly secured before they are given to finance staff for processing; they are stored in an unlocked drawer.
- Mail remittances were not processed by two employees or documented in a log when checks are received. Mail remittances are documented on a Cash Receipts Log when there are an accumulation of checks to be deposited.

Current practices increase the risk of misplaced or lost mail remittances, along with inaccurate account balances for those sending payments.

To ensure remittances are processed and deposited in a timely manner, Alumni Affairs should establish procedures to ensure mail remittances are reviewed by two individuals, properly documented, secured, and deposited in a timely manner.

Management Corrective Actions

Management concurs with the audit finding. Alumni Affairs is currently developing procedures to ensure mail remittances are reviewed by two individuals, properly documented, secured, and deposited in a timely manner.

Audit and Advisory Services will follow-up by September 1, 2012, to ensure that the corrective actions have been implemented by Alumni Affairs.