UCIRVINE | INTERNAL AUDIT SERVICES

Graduate Division
Internal Audit Report No. I2018-104

January 7, 2018

Prepared By
Julie Chung, Senior Auditor
Evans Owalla, IT Principal Auditor
Reviewed and Approved By
Mike Bathke, Director

UNIVERSITY OF CALIFORNIA, IRVINE

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January 7, 2018

FRANCES M. LESLIE
VICE PROVOST FOR GRADUATE EDUCATION
DEAN OF THE GRADUATE DIVISION

Re: **Graduate Division Audit**
      No. I2018-104

Internal Audit Services has completed the review of the Graduate Division 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
    Court Crowther, Assistant Dean
    Dessislava Pickett, Director of Finance, Operations & Data Management

I.   MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2017-2018 audit plan, Internal Audit Services (IAS) reviewed business operations and other financial activities within the Graduate Division. The review identified internal control and compliance weaknesses that should be improved to minimize business risks and ensure compliance with University policies and procedures and/or best business practices. The following observations were noted.

Travel Expenses – Travel was not approved in advance as required by policy. A traveler was reimbursed for lodging expenses at a hotel although there was an overlap of five night stays at lodging at another hotel as well as an overlap of two night stays at third hotel.   Travelers were reimbursed for meal expenses that exceeded the meals and incidental expenses (M&IE) cap of $74. Advance or exceptional approvals were not obtained when required by policy. In addition, one traveler was reimbursed for meal expenses on a personal day in violation of policy. Further details related to these issues are provided in section V.1**.**

Business Meetings and Entertainment Expenses – Requested reimbursements were not properly approved and/or lacked proper separation of duties. Supporting documentation, such as an agenda and/or the purpose for the business meeting meals, were not submitted as required. In addition, exceptional approvals were not obtained. Also, the official host certification was not signed and submitted as required by policy. These observations are discussed in section V.2.

Disbursement Voucher – For six disbursement vouchers reviewed, the preferred method of payment was not used. For four payments, an exceptional approval was not obtained as required. The Graduate Division did not initiate the request for exceptional approval reimbursement for an unauthorized supply purchase that exceeded $500.00 in accordance with policy. In addition, the reimbursement was not requested in a timely manner as required by policy.   The payee certification was not signed and submitted along with the reimbursement requests for four disbursement vouchers.   Lastly, proper supporting documentation was not submitted to explain or justify the disbursement for an emergency fellowship stipend payment.   Details related to these issues are provided in section V.3**.**

Cash Handling – A lack of separation of duties was noted. One person who prepared the deposit also performed the general ledger reconciliation and continued to prepare all deposits into one account although another individual was trained to prepare deposits. Checks were not endorsed immediately upon receipt. A background check was not performed prior to employing an individual in a critical position as required by policy. A check was not made payable to UC Regents as required by policy. Deposits were not validated and prepared under dual custody in accordance with policy. These observations are detailed in section V.4.

Information Technology (IT) Environment – IAS performed a high level and limited review of the IT environment and noted opportunities for improvement in the areas of vulnerability scans and remediation, risk assessment, and encryption of personally identifiable information (PII). These observations are found in section V.5-V.7.

II.   BACKGROUND

The Graduate Division provides leadership on all graduate education matters, working with scholars from all over the world to engage in study, teaching, and research in the pursuit of a master's or Ph.D. degree or of postdoctoral training. The Graduate Division promotes academic integrity and greater understanding by supplying information, guidance, and support to the campus community and beyond. The Graduate Division also aims to enhance the educational experience by engaging and leading on all matters related to graduate student life: academic progress and advocacy, fellowships, funding and financial support, diversity, employment and professional development.

With over 100 graduate programs, the Graduate Division is a thriving generator of innovation and discovery. Graduate and postdoctoral scholars are equipped with the tools of analysis, expression, and cultural understanding necessary for leadership in today's world. The Graduate Division is a community of individuals from a broad range of backgrounds, all in pursuit of making a meaningful difference in the world we share.

III.   PURPOSE, SCOPE AND OBJECTIVES

The purpose of the audit was to assess the Graduate Division's 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 fiscal year 2016-2017 business operations and financial activities.

The following audit objectives were included in the review.

1. Review travel expenses for proper accountability and separation of duties, adequate supporting documentation, assurance of valid and pre-authorized transactions, as well as compliance with policies and procedures.

2. Review business meeting and entertainment expenditures for proper accountability and separation of duties, adequate supporting documentation, assurance of valid transactions, as well as compliance with policies and procedures.

3. Review disbursement vouchers for proper accountability and separation of duties, adequate supporting documentation, assurance of valid and pre-authorized transactions, as well as compliance with policies and procedures.

4. Review cash handling processes for compliance with policies and procedures and for assurance that collected funds are properly recorded, secured, reconciled, and deposited timely.

5. Determine if self-supporting graduate programs were properly and timely recharged for administrative services provided and whether the recharge rate was properly and timely assessed.

6. Determine whether the Graduate Division properly and timely invoiced third party payers for sponsorship of graduate students' tuition and/or fees.

7. Determine whether the following aspects of payroll complied with University policy: overtime approval.

8. Conduct a high level and limited assessment of the Graduate Division IT Environment.

IV.   CONCLUSION

Many internal controls within Graduate Division business operations and financial activities have been established and implemented. However, concerns were noted with the practices and processes in travel expenses, business meeting and entertainment expenditures, disbursement vouchers, and cash handling. Additional observations were noted with regard to the IT environment, specifically, vulnerability scans and remediation, risk assessment and encryption of PII.

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. Travel Expenses

Background

As of July 1, 2014, reimbursements for various transactions such as entertainment, travel, and other expenses are processed through the Kuali Financial System (KFS), a comprehensive enterprise financial system used to process most of the campus' financial transactions. Reimbursement requests pertaining to travel expenditures must comply with UCOP policy on travel regulations (G-28) in addition to UCI policies.

Observation

A sample of travel expense claims from July 1, 2016 to June 30, 2017 were selected for review to determine if the Graduate Division complied with policy and procedures. The following is a summary of the observations.

- For all of the travel expense claims reviewed, prior approval for travel was not obtained as required by UCI Policy 715-01. The policy states, "Authorization is to be obtained prior to undertaking official University travel."

- One traveler did not submit hotel folios with itemized charges for the room for three travel reimbursements and exceptional approval was not documented or obtained for the missing hotel folios as required by policy. In addition, for one of the travel expense claims, the traveler was reimbursed $1,435.14 for lodging expenses at a hotel (11/30/16 – 12/07/16 – no hotel folio) although there was an overlap of five night stays at another hotel (11/30/16 – 12/05/16) as well as an overlap of two night stays at a third hotel (12/05/16 – 12/09/16), and no explanation was given for the overlaps.

- One traveler's meal expense reimbursements exceeded the M&IE cap of $74. Policy states that meal expenses are reimbursed at actual cost or capped at $74 with no exceptions. In addition, the traveler did not meet policy requirements for meal expense reimbursements (an overnight stay).

- Required information such as the business purpose was not always documented. In addition, the most economical mode of transport was not always used and/or justification for the mode of transport was not compared or explained as required by policy.

Internal controls, such as a proper documentation, prior travel authorization, and review, reduce the potential for reimbursement of improper expenses as well as errors/inaccuracies, waste, and fraud to go undetected.

Management Action Plan

The management team has reviewed Section 715-01: Policy on Travel Authorization and Approval which includes G-28, and Section 701-20:

Business Meetings and Entertainment Guidelines which includes BUS-79 as well as the audit observations to determine the best way to proceed. The audit observations were carefully reviewed and discussed how best to present the information to the traveler, staff who prepare all travel expense claims, entertainment expense reimbursements, and disbursement vouchers, and fiscal officer who approves these KFS documents. It has been decided that an additional section is needed for the Graduate Division's binder, KFS & Purchasing Guidelines. This section will have the policies 715-01, 701-20 and the additional resources listed in these sections printed out for reference and review. Staff and fiscal officers have had their binder updated with this new section. An annual workshop which covers this Graduate Division's binder will be required by staff who prepare these documents and fiscal officers that approve these documents. This workshop will review policy/procedures and best practices. Any new hire who prepares these documents will be given a binder and trained on policies as well. We will use the audit observations as examples in these meetings so that all departmental preparers will understand the importance of following policies/procedures and best practices. Graduate Division expect this training to conclude on or before February 28, 2018.

2. **Business Meetings and Entertainment Expenses**

Background

As of July 1, 2014, reimbursements for various transactions such as entertainment, travel, and other expenses are processed through KFS. Reimbursement requests pertaining to business meeting and entertainment expenditures must comply with UCOP Policy on Expenditures for Business Meetings, Entertainment, and Other Occasions (BUS-79) in addition to UCI policies.

Observation

A sample of business meeting and entertainment expenses from July 1, 2016 to June 30, 2017 were selected for review to determine if the Graduate Division complied with policy and procedures. The following is a summary of the observations.

- Some reimbursements were not approved at the appropriate level. For two employee morale building events, the required additional approval at a higher level was not obtained. Two reimbursements for gift card purchases were not approved by the department head.   Policy states, "Only department heads have the authority to approve requests to reimburse expenses for non-cash gifts presented on behalf of the University."

  In addition, a required supporting documentation of the name, title, and occupation of the gift recipient(s) was not included with the reimbursement requests in accordance with policy.

- The business purpose for the meeting was not documented nor was an agenda attached as required by policy. In addition, an explanation of how the meal provided in the course of the business meeting was necessary and integral part of the business meeting was not documented on the reimbursements in accordance with policy.

- Some reimbursements were not submitted in a timely manner as required. Policy states, "Employees seeking reimbursement for University business-related meal and entertainment expenses incurred from their personal funds or travel and entertainment cards must submit their expense reports within a reasonable amount of time not to exceed forty-five days after the expenses were paid or incurred."   In addition, no justification was documented to explain why a reimbursement for a meal expense was approved when the receipt dated July 6, 2016 was submitted for an event that was held on May 24, 2016. Furthermore, exceptional approvals for these reimbursements were not obtained.

- The host certification was not signed and submitted as required by policy for some expenses. University policy states "The signature of the host must also be obtained for entertainment, recruitment, and employee morale-building activities. A request to reimburse entertainment, recruitment, or employee morale-building expenses must include a written statement signed by the host and/or the approving authority certifying that the hospitality expenses were incurred for an official University business purpose."

Management Action Plan

The management team has reviewed Section 715-01: Policy on Travel Authorization and Approval which includes G-28, and Section 701-20: Business Meetings and Entertainment Guidelines which includes BUS-79 as well as the audit observations to determine the best way to proceed. The audit observations were carefully reviewed and discussed how best to present the information to the traveler, staff who prepare travel expense claims, staff who prepare entertainment expense reimbursements, and disbursement vouchers, and fiscal officer who approves these KFS documents. It has been decided that an additional section is needed for the Graduate Division's binder, KFS & Purchasing Guidelines. This section will have the policies 715-01, 701-20 and the additional resources listed in these sections printed out for reference and review. Staff and fiscal officers have had their binder updated with this new section. An annual workshop/training which covers this Graduate Division's binder will be required by staff who prepare these documents and fiscal officers that approve these documents. This workshop will review policy/procedures and best practices. Any new hire who prepares these documents will be given a binder and trained on policies as well. We will use the audit observations as examples in these workshop/training so that all departmental preparers will understand the importance of following policies/procedures and best practices. Graduate Division expects this training to conclude on or before February 28, 2018. It is the Graduate Division's objective to comply with policy and procedures on expenditures, therefore the workshop/training will identify opportunities to improve reimbursement practices to ensure proper authorization and review, proper documentation is obtained and provide sufficient description of business purpose.

3. **Disbursement Vouchers**

Observation

A sample of disbursement vouchers from July 1, 2016 to June 30, 2017 were selected for review to determine if the Graduate Division complied with policy and procedures. The following is a summary of the observations.

- For some disbursement vouchers reviewed, the preferred method of payment, PALCard, was not used. In addition, some disbursement

vouchers reviewed were payments to a specific function, such as a conference or educational/research related study and lacked proper approval. Also, for five payments reviewed, a business justification describing how UC will benefit from making the contribution/donation was not stated and a transmittal letter on University letterhead to the vendor stating the contribution/donation is made "on behalf of UC" was not submitted as required.

- An unauthorized supply purchase exceeded $500.00 and thus required exceptional approval by policy. The Graduate Division did not initiate the request for exceptional approval through an ad-hoc routing to Purchasing and Risk Services in accordance with policy.

- For some of the disbursement vouchers reviewed, the KFS Payee Certification was not signed and submitted along with the reimbursement requests. According to policy, "A Payee Certification must be signed by the payee and submitted to scanning with supporting documentation."

- For an emergency fellowship stipend payment, proper supporting documentation was not submitted to explain or justify the disbursement.

Management Action Plan

The management team has reviewed Section 715-01: Policy on Travel Authorization and Approval which includes G-28, and Section 701-20: Business Meetings and Entertainment Guidelines which includes BUS-79 as well as the audit observations to determine the best way to proceed. The audit observations were carefully reviewed and discussed how best to present the information to the traveler, staff who prepare travel expense claims, staff who prepare entertainment expense reimbursements, and staff who prepare disbursement vouchers, and fiscal officer who approves these KFS documents. It has been decided that an additional section is needed for the Graduate Division's binder, KFS & Purchasing Guidelines. This section will have the policies 715-01, 701-20 and the additional resources listed in these sections printed out for reference and review. Staff and fiscal officers have had their binder updated with this new section. An annual workshop/training which covers this Graduate Division's binder will be required by staff who prepare these documents and fiscal officers that approve these documents. This

workshop will review policy/procedures and best practices. Any new hire who prepares these documents will be given a binder and trained on Policies as well. We will use the audit observations as examples in these workshop/training so that all departmental preparers will understand the importance of following policies/procedures and best practices. Graduate Division expect this training to conclude on or before February 28, 2018. It is the Graduate Division objective to comply with policy and procedures on expenditures, therefore the workshop/training will identify opportunities to improve reimbursement practices to ensure proper method of payment is used, proper approval is obtained, business justification describing benefit of expense, and Payee Certification signed and submitted to scanning.

4. Cash Handling

Background

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. Its purpose is to ensure that University assets are protected, accurately and timely processed, and properly reported. The bulletin also establishes basic internal control principles (accountability, separation of duties, security, and reconciliation) in regard to collecting and accounting for cash and cash equivalents.

Observation

The cash handling process was reviewed to determine if the Graduate Division was in compliance with University policy. The following is a summary of the observations.

- In reviewing the cash handling process, IAS noted a lack of separation of duties. One person who prepared the deposit also performed the general ledger reconciliation and continued to prepare all deposits into one account although another individual was trained to prepare deposits in December 2016. Policy states that the "person preparing the departmental deposit shall be someone other than the person performing the monthly review of the General Ledger."

- The Graduate Division did not restrictively endorse the checks "for deposit only" immediately upon receiving them. Instead the checks were endorsed by the depositor when preparing the deposits.

- A background check was not performed prior to employing an individual in a critical position, a student affairs officer, who receives cash and cash equivalents. Policy states, "Campus administrators who have management responsibility for cash handling must assure that each individual who has or will have access to cash resources (including temporary, casual and student employees) has been appropriately vetted before access is granted."

- Due to the lack of proper supporting documentation, it was not possible to determine if all checks were properly deposited. However, IAS determined that a check was not deposited in a timely manner as required. Policy states that departments shall deposit "at least weekly or whenever collections exceed $500."

- A check was not made payable to UC Regents as required by policy. Policy states, "All checks must be made payable to the Regents of the University of California ("UC Regents"). Notices accompanying a request for payment should instruct payers that checks will not be accepted if they are not properly made out to UC Regents."

- A deposit was not validated and prepared under dual custody in accordance with policy. Policy states, "Deposits must be validated and prepared under dual custody at all times in a safe and secure area."

BUS-49 states that the business unit head is responsible for establishing procedures that ensure that no single individual is responsible for collection, handling, depositing and accounting for cash received by that unit. At least two qualified individuals must be assigned to carry out key duties of the cash handling process. Failure to maintain adequate separation of duties over cash related functions may result in diversion of University funds.

Management Action Plan

Graduate Division will have the front desk employee endorse the checks "for deposit only" immediately upon receiving them. The checks will be given to the Dean's assistant that day. The employee who opens mail and endorses the checks will have a background check performed.

The deposit will be prepared under dual custody of the Dean's assistant and Dean's executive assistant and then will be delivered to Central Cashier by these employees. Checks will be deposited at least weekly or whenever collections exceed $500 with Central Cashier. Payment Services (Central Cashier) is the main repository for campus deposits as they are processed, secured, and posted directly to the financial system. Since Payment Services scans and deposits them to Bank of America, there is no reason for departments to assume the risk of storing checks or check copies.

The general ledger will be reconciled by a different employee in Graduate Division who reconciles and reviews Graduate Division's accounts.

A total of four different employees will be a part of the Cash Handling Process.

The above management action plans will be established and implemented by February 28, 2018.

5. Vulnerability Scans and Remediation of Vulnerabilities

Background

UC established policies and best practice requires processes for continuously assessing systems and taking action on vulnerabilities and risk exposures identified to minimize the window of opportunity for attackers. The Office of Information Technology (OIT) performs vulnerability scans and report on systems on the campus network including systems on the Graduate Division subnet. However, the departments or the supporting OIT staff team are expected to review the vulnerabilities and take action to remediate the risks. IAS reviewed the weekly vulnerability assessment report for the Graduate Division that showed the trend of vulnerabilities risks over the last three months.

Observation

In general, OIT staff supporting the Graduate Division is making a commendable effort in mitigating system vulnerabilities, especially critical/high risk vulnerabilities. At the time of this review, IAS noted only one system with a critical exploitable vulnerability. However, opportunity for improvement exists in mitigating medium and low risk vulnerabilities. In summary, for medium risk vulnerabilities, IAS noted 43 out of 135 were exploitable and for low risk vulnerabilities, 16 of 48 were exploitable. In addition, one machine with PII information had 12 medium and five low vulnerabilities. The ability to adequately manage systems, monitor, and quickly remediate all known and exploitable vulnerabilities within a reasonable time frame, would further reduce the risk that the Graduate Division computer systems could be compromised.

Management Action Plan

The Graduate Division and supporting OIT staff will implement procedures to mitigate all vulnerabilities identified on the Graduate Division systems. The expected implementation date of these procedures is February 28, 2018.

6. Risk Assessment

Background

Based on University policy (IS-3) and the National Institute of Standards and Technology (NIST) risk assessments should be conducted periodically to analyze the operational environment in order to discern the likelihood of a cybersecurity event and the impact that the event could have on the organization. The Graduate Division is supported by OIT.

Observation

The Graduate Division does not have a recent (within three years) documented risk assessment for their IT environment. However, OIT Graduate Division staff supporting the systems were collaborating with the OIT Risk and Compliance team to conduct a risk assessment and update pertinent

documents during the course of this review. A comprehensive risk assessment and analysis will help management with planning the necessary resources to protect the IT environment assets from potential cybersecurity threats and with implementing relevant policies and procedures that provide direction for continuous improvement of security activities.

Management Action Plan

Graduate Division management, Graduate Division OIT staff, and OIT Security Risk and Compliance team will work together to complete the Security Risk Assessment Questionnaire (SRAQ) for the Graduate Division IT environment, with an expected completion date of January 31, 2018.

7. **Encryption of Personally Identifiable Information (PII)**

Observation

IAS noted a database server that comprises the Graduate Division legacy systems that store sensitive and/or restricted information such as Social Security Numbers (SSN) and applicants' self-reported academic data that are not encrypted in the database. Although the system is internally located within the UCI network and protected by firewalls and other safeguards, unencrypted PII data can increase the risk of unauthorized individuals gaining access to this data or the data being accessed inappropriately. Additionally, in the event of a compromise, UCI may be required to notify individuals when their information is breached. IAS was informed this legacy system and others used by the Graduate Division are scheduled for replacement with a new Student Information System planned for implementation in fall of 2018.

Management Action Plan

Graduate Division management and Graduate Division OIT staff will continue to conduct periodic risk assessments and establish mitigating controls until all the legacy systems are retired. Graduate Division OIT staff expect to retire the legacy systems with PII data sometime in 2019.