



UCSB Audit and Advisory Services

Internal Audit Report

**Intercollegiate Athletics and Department of Recreation
Procurement and Contracting**

January 4, 2017

Performed by:

Antonio Mañas-Melendez, Principal Auditor

Approved by:

Jessie Masek, Acting Director

Report No. 08-17-0002

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AUDIT AND ADVISORY SERVICES
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January 4, 2017

To: John McCutcheon, Director Intercollegiate Athletics
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Distribution

Re: **Intercollegiate Athletics and Department of Recreation - Procurement and Contracting
Audit No. 08-17-0002**

As part of the 2016-17 annual audit services plan, Audit and Advisory Services has completed a cross-department purchasing audit including both Intercollegiate Athletics and Department of Recreation. Enclosed is the report detailing the results of our review.

The purpose of this review was to determine whether Intercollegiate Athletics and Department of Recreation have adequate compliance assurance measures in place over their procurement and contracting activities. The scope of this audit was limited to Intercollegiate Athletics and Department of Recreation.

Our work found required improvement in procurement and contracting processes for Intercollegiate Athletics and the Department of Recreation to help ensure compliance with UC and UCSB policies and procedures and best practices. Required enhancements in both departments include limiting the use of Form-5, improving supporting documentation of procurement transactions, and implementing processes for accounting of low value goods. We also found opportunities to improve the management of non-procurement contracts in Intercollegiate Athletics.

Detailed observations and management corrective actions are included in the following sections of the report. The management corrective actions provided indicate that each audit observation was given thoughtful consideration, and positive measures have been taken or planned in order to implement the management corrective actions.

We sincerely appreciate the cooperation and assistance provided by both Intercollegiate Athletics and the Department of Recreation personnel during the review. If you have any questions, please feel free to contact me.

Respectfully submitted,

A handwritten signature in blue ink that reads "Jessie Masek".

Jessie Masek
Acting Director
Audit and Advisory Services

Enclosure

Distribution:

Finance and Resource Management
Acting Assistant Chancellor Chuck Haines

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Andrea Carr, Associate Director, Business and Finance, Department of Recreation

Intercollegiate of Athletics
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cc: Chancellor Henry Yang
Vice Chancellor Administrative Services Marc Fisher
UCSB Audit Committee
Interim Senior Vice President and Chief Compliance and Audit Officer John Lohse

PURPOSE

The purpose of this review was to determine whether Intercollegiate Athletics and the Department of Recreation practices for procurement and contracting activities are in place and are consistent with University of California (UC) and University of California, Santa Barbara (UCSB) policies, procedures, and best practices. This audit is part of the fiscal year 2016-17 audit services plan of UCSB Audit and Advisory Services.

SCOPE, OBJECTIVES AND METHODOLOGY

The scope of this audit included a cross-department purchasing and contracting audit in Intercollegiate Athletics and in the Department of Recreation. We selected samples of transactions from the period July 1, 2014, through June 30, 2016, for detailed review and testing.

The objectives of our review were to determine whether:

- The use of Form-5 for procurement complied with established processes and controls.
- Purchases of goods were properly received and accounted for.
- Non-procurement contracting practices were in accordance with UC and UCSB policies and signature authority delegation and revenues were properly recorded.
- Strategic Sourcing procurement agreements were appropriately used.

To accomplish our objectives, we:

- Reviewed previous, related UCSB Audit and Advisory work (see Table 1).
- Reviewed UC and UCSB policies, best practices, and other guidance concerning information security, including:
 - Business and Finance Bulletin BUS-43, *Materiel Management*.
 - Business and Finance Bulletin BUS-28, *Travel Regulations*.
 - Business and Finance Bulletin BUS-77, *Independent Contractor Guidelines*.
 - Business and Finance Bulletin BUS-79, *Expenditures for Business Meetings*.
 - Business and Finance Bulletin BUS-G-43, *University Membership in Organizations*.
 - *University of California Accounting Manual* – Section D-371-16, *Disbursements Approvals*.
 - *2015-16 UC Santa Barbara Student-Athlete Handbook*, an Intercollegiate Athletics guideline.
 - UC Santa Barbara Intercollegiate Athletics Department Policy and Procedures Manual, *Intercollegiate Athletics manual*.
 - Procurement Services manuals, guidelines published on Business and Financial Services website.
- Interviews with the Assistant Chancellor and with personnel from Intercollegiate Athletics, Department of Recreation, and Business and Financial Services, to obtain a better understanding of the processes and internal controls in place and to identify areas of concern.

UCSB Audit and Advisory Services
Intercollegiate Athletics and Department of Recreation

- Assessment of risks in selected areas based on the results of interviews, visibility of procurement and contracting activities, concentration of vendor usage, potential conflict of interest, and prior audit results.
- Based on our risk assessment, we conducted detailed testing of a sample of procurement transactions for compliance in the following areas:
 - Compliance with Form-5.
 - Receiving and accounting for goods and services.
 - Non-procurement contracting practices.
 - Use of strategic sourcing.

This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

BACKGROUND

Intercollegiate Athletics

The primary mission of UCSB Intercollegiate Athletics (ICA) is to provide an opportunity for widespread participation in intercollegiate athletics and to enhance the student-athlete's education through competition at the Division I intercollegiate level.

As part of its mission, ICA administers several sports camps and clinics for middle to high school-aged athletes that provide specialized instruction in a particular sport, mostly held over the summer. The campus also welcomes camps organized by UCSB coaches or other promotional partners. All of these camps are hosted at the University; both institutional and non-institutional camps rent facilities from the University's Department of Recreation, with some also providing overnight accommodations through a contract with a nearby non-University residence facility. The classification of a camp or clinic as institutional or non-institutional is determined by NCAA regulations. The NCAA defines an institutional sports camp or instructional clinic as "any camp or clinic that is owned or operated by a member institution or an employee of the member institution's athletic department, either on or off its campus, and in which prospective student athletes participate."

As part of the fiscal year 2014-15 annual audit services plan, Audit and Advisory Services performed an audit of ICA Camps and Clinics to assess whether they were operating consistently with regulations, policies, and procedures applicable to their operations. Our report for that audit, issued December 16, 2014, highlighted opportunities for improvement in written camps and clinics procedures to ensure that risks associated with the operation of camps and clinics are adequately managed.

Department of Recreation

The Department of Recreation at UC Santa Barbara is committed to creating a healthy and welcoming campus environment for all students, faculty, staff and community members. The department seeks to promote an active, balanced lifestyle that contributes to the development of the social, emotional, and physical skills essential to long-term health and well-being. Quality and innovation are guiding principles in all programming and student development efforts. They also strive to be an industry leader in environmental conservation and sustainability.

Department facilities include the Recreation Center and Aquatics Complex, Events Center, Robertson Gymnasium, tennis courts (20), Stork Field, sand volleyball courts (2), Recreation

UCSB Audit and Advisory Services
Intercollegiate Athletics and Department of Recreation

Center fields, Lacrosse Pit, Campus Pool, Santa Barbara Harbor Sailing Facility, Softball Field, Caesar Uyesaka Baseball Stadium, Cachuma Lake Rowing Facility and Harder Stadium.

| Table 1 Relevant Previous Work by UCSB Audit and Advisory Services | | |
|--|----------------|-------------|
| Report Name | Date | Type |
| ICA Camps & Clinics Compliance Assistance - (08-15-0029) | May 2015 | Advisory |
| Intercollegiate Athletics Camps and Clinics - (08-15-0003) | December 2014 | Audit |
| University Center Internal Control Review - (08-15-0007) | March 2015 | Audit |
| Integration and Control of Auxiliaries Audit - Phase 2 Final Report - (08-15-0004) | September 2014 | Audit |
| Intercollegiate Athletics Field Audit Follow up - (08-13-0016) | March 2013 | Audit |
| Delegated Procurement Authorities - (08-15-0018) | October 2015 | Audit |
| Procurement and Contracting - (08-12-0008) | January 2013 | Audit |
| Intercollegiate Athletics - Audit - (08-10-00013) | October 2010 | Audit |
| Department of Recreation - (2009-10) | October 2010 | Advisory |
| Intercollegiate Athletics - Department Visitation - (2009-06) | March 2009 | Audit |

Source: Auditor analysis.

SUMMARY OPINION

Our work found required improvement in procurement and contracting processes for Intercollegiate Athletics and the Department of Recreation to help ensure compliance with UC and UCSB policies and procedures and best practices. Required enhancements in both departments include limiting the use of Form-5, improving supporting documentation of procurement transactions, and implementing processes for accounting of low value goods. We also found opportunities to improve the management of non-procurement contracts in Intercollegiate Athletics.

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

DETAILED OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS

A. Intercollegiate Athletics

The results of our interviews, review of documentation, and detailed testing of procurement activity and contracting practices in Intercollegiate Athletics identified areas of non-compliance with University policies and Procurement Services procedures. Our results are summarized in Table 2.

1. Compliance with Established Processes using Form-5

Our test of a sample of five purchases using Form-5 highlighted that Intercollegiate Athletics has limited the use of Form-5 to purchase only services, as is required by Business and Financial Services. However, we found the following issues:

- Intercollegiate Athletics approved three¹ of five purchases tested for amounts over the limit authorized for a campus department without delegated procurement authority. These payments also were for independent contractor services and paid using Form-5². However, these type of contracts must be processed using purchase orders and they approved by Procurement Services.
- Two of five purchases tested did not include sufficient support documentation to ensure that quantities were consistent with invoices. For example:
 - One sport event did not include a formal invoice and a calendar of the event to validate that the number of paid referees matched with the number played games.
 - One travel expense did not include the list of passengers.
- All purchases of our sample were approved by business personnel. University policies do not require that purchases be approved by business and functional personnel. However, a dual approval process would improve the oversight of the procurement process. Intercollegiate Athletics is updating their processes to include a dual approval process.

2. Receiving and Tracking Goods

We verified that all purchases of our sample were received by either business or functional personnel of Intercollegiate Athletics. However, we determined that there are opportunities for improving the receiving and asset tracking processes of goods in the department. For example:

- There is no dual signature requirement in the receiving process in order to include business and functional oversight. University policies do not require a dual signature in the receiving process of goods. However, a dual receiving process for this department would improve the oversight of the receiving process. The department is instituting a receiving process with dual signatures.
- There are no updated inventories of the department's low value items. These inventories should include logs for the distribution of apparel equipment to intercollegiate sport teams. The department is currently updating these inventories.

¹ Three purchases for value of \$167,000 total.

² Form-5 allows purchases without the participation of Procurement Services.

- There are no formal periodic physical reviews of low value items. We did observe however, that items in our sample were located.

3. Non-Procurement Contracts

We tested only one non-procurement contract during the audit period. We determined that:

- The purpose of the contract was reasonable.
- The pricing and other terms of the contract appeared reasonable.
- The contract was approved and signed by an authorized approver.

We could not conduct testing to determine if revenues were properly recorded in general ledger revenue accounts because supporting documentation could not be obtained during the audit period.

We recommend that Intercollegiate Athletics consult with Procurement Services to develop and implement procurement processes that fully comply with University policies, including:

- Limiting the use of Form-5 and encouraging the use of Gateway.
- Improving support documentation to validate that quantities are consistent with invoices.
- Implementing a consistent dual approval process, including business and functional approvals.
- Implementing a consistent dual receiving process, including business and functional receiving.
- Consulting Procurement Services about managing complex contractual agreements. The department should request periodic reporting from vendors that are providing services to the department.

We also recommend improving the accounting for the goods by implementing an inventory of low value items and a log of distribution of equipment to intercollegiate athletics teams.

Management Corrective Actions

Intercollegiate Athletics will consult Procurement Services to develop and implement procurement processes that fully comply with University policies, including the following areas:

- The use of Gateway and Form-5.
- Approval process.
- Supporting documentation.
- Receiving process.
- Formation and management of contractual agreements.

We will continue improving and updating our inventories of low value items, and we will implement a logging process to distribute equipment to intercollegiate athletics teams.

Audit and Advisory Services will follow up on the status of these issues by April 30, 2017.

UCSB Audit and Advisory Services
Intercollegiate Athletics and Department of Recreation

| Table 2 Purchasing and Contracting | | |
|---|------------|-------------------|
| Compliance | ICA | Recreation |
| Established Processes / Controls | | |
| 1. Use of Form-5 appeared reasonable | ✘ | Partial |
| 2. Costs were relevant to the department activity | ✓ | ✓ |
| 3. Cost amount agreed with supporting documentation | Partial | ✓ |
| 4. The type of cost fully agreed with any available supporting documentation | ✓ | ✓ |
| 5. The payment method was appropriately documented | Partial | Partial |
| 6. Rates and prices were reasonable | ✓ | ✓ |
| 7. Quantities were consistent with the invoices or other source documents | ✓ | ✓ |
| 8. Services and goods were received/signed for | ✓ | ✓ |
| 9. Approval process | Partial | ✓ |
| 10. No conflict of interest | ✓ | ✓ |
| Receiving and Tracking Goods | | |
| 1. Goods were received/signed for | ✓ | ✓ |
| 2. Accounting for the goods | Partial | Partial |
| 3. Physically account for the goods | Partial | Partial |
| Non-Procurement Contracting | | |
| 1. The purpose of the contracts was reasonable | ✓ | ✓ |
| 2. The pricing and other terms of the contract appeared reasonable | ✓ | ✓ |
| 3. The contract was approved and signed by an authorized approver | ✓ | ✓ |
| 4. Revenues were properly recorded in the proper revenue accounts in the general ledger | ✘ | ✓ |
| Use of Strategic Sourcing | | |
| 1. Strategic sourcing contracts bypassed | ✓ | ✓ |

Source: Auditor analysis.

✓: Full compliance.

Partial: Meets some of the compliance requirements or there are compensatory controls.

✘: No compliance or very limited compliance.

B. Department of Recreation

The results of our interviews, review of documentation, and detailed testing of procurement activity and contracting practices indicated that the Department of Recreation overall complies with University policies and Procurement Services requirements in procurement and contracting activities. However, we found opportunities to improve the use of Form-5, supporting documentation, and accounting of low value goods. Our results are summarized in Table 2.

1. Compliance with Established Processes using Form-5

Our test of a sample of five purchases using Form-5 highlighted that the Department of Recreation has not completely restricted the use of Form-5 to purchase services, as is required by Procurement Services. We found:

- Two of five transactions tested were purchases of goods for \$5,000. Procurement Services does not allow to use Form-5 to purchase goods. These expenses should have been processes in Gateway.
- One of the purchases mentioned in the prior issue was a reimbursement for sport equipment to a University employee. This purchase was made by a University employee. The department reimbursed this employee using a Form-5 two years after the purchase date. We confirmed that the sport equipment was physically located at the Department of Recreation.
- All purchases of our sample were approved either by business or by functional personnel. University policies do not require that purchases be approved by business and functional personnel. However, a dual approval process would improve the oversight of the procurement process.

2. Receiving and Tracking Goods

We verified that all purchases of our sample were received by either business or functional personnel of the Department of Recreation. However, we determined that there are opportunities for improving the receiving and asset tracking processes of goods in the department. For example:

- There is no dual signature requirement in the receiving process in order to include business and functional oversight. University policies do not require a dual signature in the receiving process of goods. However, a dual receiving process for this department would improve the oversight of the receiving process.
- There are no updated inventories of the department's low value items. These inventories should include logs for the distribution of apparel equipment to sport clubs.
- There are no periodic physical reviews of low value goods. We performed a physical review of all items in our sample and we located all of them.

3. Non-Procurement Contracts

We tested five non-procurement contracts. We determined that:

- The purpose of these contracts was reasonable.
- The pricing and other terms of the contracts appeared reasonable.

- Contracts were approved and signed by an authorized approver.
- Revenues were properly recorded in the proper revenue accounts in the general ledger.

We recommend that the Department of Recreation consult with Procurement Services to develop and implement procurement processes that fully comply with University policies, including:

- Limiting the use of Form-5 for services and encouraging the use of Gateway.
- Implementing a consistent dual receiving process, which includes business and functional personnel in the receiving process.

We also recommend improving the accounting for the goods by implementing an inventory of low value items and a log of distribution of equipment to sport clubs.

Management Corrective Actions

The Department of Recreation will consult with Procurement Services to develop and implement procurement processes that fully comply with University policies, including the following areas:

- The use of Gateway and Form-5.
- Receiving process.

We will continue improving and updating our inventories of low value items and we will implement a logging process to document the distribution of equipment to sport clubs.

Audit and Advisory Services will follow up on the status of these issues by April 30, 2017.

4. Strategic Sourcing

Selection of strategic sourcing vendors for procurement is not mandated by UC or UCSB policy. The use of strategic sourcing vendors is only recommended, therefore procuring departments do not have to justify why non-strategic sourcing vendor are selected when a strategic sourcing vendor is also available. We were informed that Intercollegiate Athletics and the Department of Recreation seek to use strategic sourcing vendors if they are available for their business needs.