

The logo for UCIrvine, featuring the text "UCIRVINE" in a large, serif font. A vertical line is positioned to the right of the text, separating it from the "INTERNAL AUDIT SERVICES" text.

INTERNAL
AUDIT SERVICES

Center for Educational Partnerships

Internal Audit Report No. I2014-110

May 26, 2014

Prepared By

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INTERNAL AUDIT SERVICES
IRVINE, CALIFORNIA 92697-3625

May 26, 2014

STEPHANIE REYES-TUCCIO
DIRECTOR
CENTER FOR EDUCATIONAL PARTNERSHIPS

RE: Center for Educational Partnerships Audit
No. I2014-110

Internal Audit Services has completed the review of the Center for Educational Partnerships (CFEP) 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
Brent Yunek, Assistant Vice Chancellor, Enrollment Services
Patricia Realo, CFEP Director of Finance and Human Resources

I. MANAGEMENT SUMMARY

In accordance with the fiscal year 2013-2014 audit plan, Internal Audit Services (IAS) reviewed the business operations, internal controls, and policy compliance for the CFEP at the University of California, Irvine (UCI). The review disclosed some internal control/compliance weaknesses that should be improved to minimize risks and ensure compliance with University policies and procedures and/or best business practices. The following issues were noted.

Cash Handling – Cash collection and depositing processes are not adequately separated. Receipts were not completed and/or retained for each check payment received through the mail nor were checks restrictively endorsed immediately upon receipt. Improvement is also needed in safety measures for employees transporting cash/equivalents. Furthermore, refunds were not adequately reviewed or properly documented. The details for these observations are noted in section V.1a.

Also, a review of the petty cash fund disclosed that funds were not properly secured and quarterly cash counts were not documented in accordance with University policy. In addition, it should also be noted that the petty cash fund, in the amount of \$3,000, was excessive based on the amount of activity. The details for these observations are noted in section V.1b.

Non-payroll Expenditures – Concerns were noted with PALCard purchases. Pre-authorizations were not always obtained or properly documented. For some purchases, the required supporting documents were not always retained. In addition, a lack in the separation of duties was noted in a few transactions. This observation is discussed in section V.2a.

Concerns were also noted with PayQuest reimbursements. The requested reimbursements were not properly processed and reviewed. As a result, the following issues were noted: incomplete, unjustified, or poorly documented reimbursement requests, some over or under paid payees, and lack of exceptional approvals. This observation is discussed in section V.2b.

Payroll – Internal controls were not established to ensure that overtime for staff was accurate and valid. Overtime was not documented, approved in advance, or verified prior to payment. Similarly, vacation leave adjustments were not

properly documented, reviewed, or approved by the direct supervisor. Also, overpayments were noted during the review period. These observations are discussed in section V.3.

Risk Assessment and Security Plan – Formal risk assessments have not been performed, either on a regular basis or as part of ongoing operational processes. In addition, a documented information security plan has not been completed. These observations are discussed in section V.4.

II. BACKGROUND

CFEP's mission is to create and coordinate collaborations that support student academic preparation and success in higher education with a focus on equity and access for all students in order to achieve the University of California's goal of academic excellence. CFEP works with P-20 students and teachers throughout the region in various workshops to promote, support, and enhance future success in post-secondary and graduate schools.

III. PURPOSE, SCOPE, AND OBJECTIVES

The scope of the audit focused on fiscal years 2012-13 and 2013-14 CFEP business operations. The primary purpose of the audit was to assess whether the internal controls currently in place are adequate and sufficient to prevent or detect fraudulent or non-compliant transactions, while ensuring the overall efficiency and effectiveness of business operations.

Based on the assessed risks, the following audit objectives were established:

1. Reviewed cash handling processes for conformance with UC/UCI policies and procedures and for assurance that collected funds are properly recorded, secured, reconciled, and deposited;
2. Reviewed non-payroll expenditures for proper accountability and separation of responsibilities, adequate documentation, assurance of valid, properly pre-authorized and approved transactions, and compliance with UC/UCI policies and procedures;

3. Determined whether the aspects of employee time reporting comply with University policy;
4. Verified whether employees in positions deemed critical completed the required background check and if the results were properly maintained and filed in personnel records;
5. Reviewed controls over budgeting and accounting of federal awards; and
6. Assessed and reviewed selected information technology (IT) general controls.

IV. CONCLUSION

In general, internal controls and processes reviewed appear to be functioning as intended. However, several concerns were noted in the areas of cash handling, payroll and non-payroll expenditures, and IT risk assessment and security planning.

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

V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Cash Handling

Background

Business and Finance Bulletin 49 (BUS – 49) establishes the University’s policies related to handling and processing of 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 regards to collecting and accounting for cash and cash equivalents.

Observation

a. Currency Handling Procedures

Two programmatic units, the California State Summer School for Mathematics and Science (COSMOS) and the Gifted Student Academy (GSA), were selected for further review to determine if each unit complied with the established policies and procedures in handling, depositing, and securing checks, payments for tuition and application fees, received by mail. The following is a summary of the observations.

Separation of Duties

University policy requires that adequate internal control procedures should be established to ensure that no single individual is responsible for collection, handling, depositing, and accounting for cash and cash equivalents received in a unit. Failure to maintain adequate separation of duties over cash related functions may result in diversion of University funds.

A lack in separation of duties was noted in both units. An individual who reviewed the deposit advice forms (DAF) prior to deposit also transported the deposits to the Main Cashier's Office alone and reconciled the deposits to the general ledger. Also, mailed remittances were not verified and processed by two employees as required by policy. At least two qualified individuals must be assigned to carry out key duties of the cash handling process.

Deposits

IAS noted that checks were not restrictively endorsed immediately upon receipt in both units. Instead, checks were collected over several weeks and stamped at the time when DAFs were being prepared for deposit.

The review also disclosed that checks received were not deposited in a timely manner; not weekly or when collections exceed \$500 as required by policy. For example, a review of one deposit included 42 checks, totaling \$116,526

and dated from May 1, 2013 through May 30, 2013, that were kept in an unlocked desk drawer prior to deposit on June 4, 2013.

Lastly, deposits were not validated and prepared in dual custody as required by policy. Failure to validate deposits and prepare them in a timely manner weakens the control structure and may lead to loss or theft.

Security

In both units, checks were not locked in a secure receptacle or safe at all times. An appropriate lockable receptacle or burglarproof/fire resistant safe based on the cash limits as outlined in the policy was not used to store checks overnight. In addition, checks were not transported to the Main Cashiering Office in a secure manner as prescribed by policy.

Refunds

When program participants withdrew and requested refunds, the transactions were not supported by proper documentation in either unit. Furthermore, refunds were not adequately reviewed and/or refund approvals were not documented. University policy requires that refunds to be fully documented and explained as well as approved in writing by the supervisor. Inadequate management of refunded transactions increases the risks of fraudulent transactions being processed subjecting the University to unnecessary financial loss.

Receipts

Receipts were not produced for check payments received through the mail in both units as appropriate supporting documentation. Policy states that a collection not recorded on cash register or point of sale equipment must be recorded on an official pre-numbered, multiple-part cash receipt and used sequentially.

Management Action Plan

By September 30, 2014, management will establish procedures and internal controls that comply with policy and train current and new employees accordingly. To comply with the policy, steps will be taken to ensure that

sequentially numbered receipts are used internally to support each check, checks are endorsed immediately upon receipt, checks are deposited daily to ensure security and to meet established maximum limits for collections. Furthermore, deposit amounts will be validated in dual custody, and appropriate internal controls will be established for the collection and handling of deposits and refunds. Also, managers and employees in all programs that collect cash and cash equivalents will review BUS-49.

b. Petty Cash Fund

IAS reviewed the current petty cash fund (totaling \$3,000) handling processes for compliance with policy. The following is a summary of the observations.

- The fund custodian had not submitted to a background check (LiveScan) since taking custody of the fund in November 2005.
- The petty cash funds are not properly secured; funds were kept in a lock-box. University policy requires that \$3,000 be secured in a safe with a one-inch door and half-inch walls.
- Quarterly cash counts were not documented as required by policy.
- The \$3,000 amount appears to be excessive based on the amount of activity. IAS noted some months with petty cash activity of less than \$50 and none over \$1,000.

Management Action Plan

By September 30, 2014, the petty cash fund will be returned to the Accounting Office and in future all programmatic expenses will be purchased by staff and reimbursed through PayQuest instead.

Also, effective immediately, the fund custodian has undergone a background check as required by policy.

2. Non-Payroll Expenditures

a. PALCard Transactions

Background

The UCI purchasing card (PALCard) is used by faculty and staff members responsible for purchasing University equipment, supplies and services. UC purchasing policies require purchases to be pre-authorized either formally through an internal requisition or informally, such as an email. In addition, UCI PALCard policies require an administrative reviewer to review PALCard supporting documentation and account/fund for appropriateness for each transaction in a timely manner.

Observation

A sample of 29 PALCard transactions was selected from July 1, 2012 through present for further review and the following observations were noted.

- Purchases were not authorized in advance and/or documented properly on internal requisitions.
- Three PALCard holders were approving their own purchases. In addition, the CFEP Director approved the payment for her own cell phone service charges.
- The required supporting documents, such as agreements, invoices, and packing slips, were not maintained on file as appropriate supporting documentation and for administrative review in accordance with policy.

For example, Electronic Equipment Agreements were not completed and maintained on file in the department for all faculty, staff, and students that use electronic communications equipment and services for the purpose of conducting official University business as required by policy. Furthermore, a PALCard purchase requiring a signed contract was not reviewed and approved by Materiel Risk Management in advance as required by policy.

- A CFEP program did not recharge another department in order to recoup a transportation expense, in the amount of \$1,035, that was initially paid with a PALCard.

It should also be noted that although administrative reviews were performed in a timely manner, the reviewer approved transactions when there were instances of improper purchases and lack of adequate supporting documentation.

Implementation of internal controls, such as obtaining prior authorization, establishing separation of duties, maintaining proper documentation, and thorough administrative review, minimizes the risks of error, fraud, waste, and improper use of University funds.

Management Action Plan

By September 30, 2014, policy requirements will be communicated to all PALCard holders, reviewers, and approvers to ensure compliance in acquiring approvals prior to any purchase with the required signature and date; documenting business purpose; maintaining necessary supporting documentation; and reviewing transactions properly in a timely manner. In addition, all PALCard holders, reviewers, and approvers will be required to take additional training.

b. PayQuest Transactions

Background

UC Irvine employees utilize the PayQuest automated system to request reimbursement for various expenditures and certain other payments. Reimbursement requests pertaining to travel expenditures must comply with Office of the President (UCOP) Business and Finance Bulletin G-28; expenditures for business meetings, entertainment, and other occasions must comply with UCOP Business and Finance Bulletin BUS-79. Reimbursement requests must also comply with all applicable UCI policies.

Observation

A sample of 12 PayQuest transactions from July 1, 2012 to present was selected for review to determine if CFEP complied with policy. The following is a summary of the observations.

- Some PayQuest reimbursement requests were not properly completed, justified, or documented. IAS noted that some PayQuest cover sheets were not properly completed, required notes to justify discrepancies or circumstances for certain expenses were not documented, or necessary support documentation were not submitted for review as required.

Furthermore, IAS noted that service agreements or independent consultant agreements were not processed or approved and signed by Materiel and Risk Management as required by policy for 43 payments, totaling \$35,868, made to 22 individuals.

- Three reimbursements were inaccurate and payees were either overpaid or underpaid. In addition, for one travel reimbursement, some meal expenses were improperly reimbursed on federal funds.
- Two reimbursements required an exceptional approval that was obtained or documented. The observations include reimbursements where a hotel folio was not submitted and an electronic tablet purchase that exceeded \$500.

Internal controls such as appropriate review of reimbursement requests and separation of duties reduce the potential for reimbursement of improper expenses and overpaying/underpaying payees, as well as errors/inaccuracies, waste, and fraud to go undetected.

Management Action Plan

By September 30, 2014, the audit observations and policy requirements will be communicated to faculty and staff to ensure compliance in completing PayQuest reimbursements accurately, submitting required supporting documentation, and documenting justification as needed.

In addition, all PayQuest preparers will be required to take additional training.

3. Payroll Transactions

Background

Personnel policy on overtime for staff members requires the department head to approve overtime for non-exempt employees to meet essential operating needs. The department is responsible for ensuring an employee requested advance approval for overtime work and properly report the overtime worked in a timely manner prior to compensation.

Observation

IAS reviewed the payroll data for pay periods during fiscal year 2013 and noted the following transactions: vacation and sick leave adjustments, overtime compensation (either compensatory time off or overtime payment), and overpayments.

Further review of the overtime compensation process disclosed that CFEP did not comply with policy or have appropriate internal controls to ensure best business practices. Supporting documentation were not maintained and filed to substantiate that overtime was approved as required by policy. Due to lack of proper records, the Department Timesheet Administrator (DTA) did not validate the accuracy of reported overtime at the time of compensation. Also, a compensatory time agreement was not obtained and maintained on file for one of the seven employees reviewed. Furthermore, although four employees agreed to compensatory time off, they were paid a total of \$3,308.98 in overtime.

Similarly, for all 23 vacation leave adjustments reviewed, justifications for the adjustments were not documented. IAS noted that all of the adjustments were made without the supervisor's prior review or approval.

Also, IAS noted that some employees were overpaid due to human or system errors. The corrections were made in a timely manner but proper approval was not obtained and documented prior to submitting the correction requests to the payroll department.

Compliance with the policies and procedures ensures that payroll is not only properly approved and processed in accordance with regulatory requirements, but also valid for compensation.

Management Action Plan

By September 30, 2014, the proper policies and procedures will be communicated to all faculty and staff. The DTA will review and verify that reported overtime is accurate and properly supported prior to compensation. In addition, all vacation and sick leave adjustments as well as overtime and overpayment correction requests will be documented with a justification and reviewed and authorized by the appropriate supervisor.

4. IT Risk Assessment and Security Plan

Background

IS-3 requires that a risk assessment be formally documented to identify vulnerabilities and threats to departmental informational resources, as well as major enterprise systems. Risk assessments should take into account and prioritize potential adverse impact on the University's reputation, operations, and assets. In addition, it should be conducted by units or departments on a periodic basis by teams composed of appropriate campus administrators, managers, faculty, and information technology and other personnel associated with the activities subject to the assessment. Additionally, IS-3 requires that an information security plan should be developed that takes into consideration the acceptable level of risk for systems and process.

Observation

Formal risk assessments have not been performed, either on a regular basis or as part of ongoing operational processes. In addition, a documented information security plan has not been completed. Given resource constraints, the risk assessment can be completed in phases, with the first phase focusing on the primary data system, Center Wide Information System (CWIS). Additional comprehensive risk assessments should be conducted to identify vulnerabilities and threats to the CFEP computing environment. Risk assessments can be completed using the Office of Information Technology (OIT) Security Risk Assessment Questionnaire (SRAQ) templates.

Performing periodic formal risk assessments, either on a regular basis or as part of an ongoing operational process, will help detect unidentified or unmanaged risk to informational resources. A security plan helps lay out a path for addressing identified risks and also describes the controls that are in place or planned to ensure an acceptable level of risk for systems, processes or the IT environment.

Management Action Plan

The CFEP IT Manager and Resources Owner will complete the SRAQ and an actionable security plan for CWIS by the end of August 2014. CFEP will also complete a comprehensive risk assessment and security plan for the IT environment by early 2015.