# RIVERSIDE: AUDIT & ADVISORY SERVICES

February 11, 2022

To: Wesley Mallette, Director

Intercollegiate Athletics

Subject: Internal Audit of Intercollegiate Athletics

Ref: R2020-02

We have completed our audit of Intercollegiate Athletics in accordance with the UC Riverside Audit Plan. Our report is attached for your review. We will perform audit follow-up procedures in the future to review the status of management action. This follow-up may take the form of a discussion or perhaps a limited review. Audit R2020-02 will remain open until we have evaluated the actions taken.

We appreciate the cooperation and assistance provided by your staff. Should you have any questions concerning the report, please do not hesitate to contact me.

Gregory Moore

Director

cc: Ethics & Compliance Risk and Audit Controls Committee

Administrative Services & Strategic Executive Team CFAO Ruiz

Student Affairs Administration and Athletics Interim CFAO McDade

UNIVERSITY OF CALIFORNIA AT RIVERSIDE

AUDIT & ADVISORY SERVICES

MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS

INTERNAL AUDIT REPORT R2020-02

INTERCOLLEGIATE ATHLETICS

FEBRUARY 2022

Approved by:

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Gregory Moore

Director

**UC RIVERSIDE**

INTERCOLLEGIATE ATHLETICS

**INTERNAL AUDIT REPORT R2020-02**

**FEBRUARY 2022**

**I. MANAGEMENT SUMMARY**

Based upon the results of work performed within the scope of the audit, we observed some Intercollegiate Athletics internal control weaknesses as well as certain financial and administrative processes that present opportunities to improve operating efficiency and compliance with University policies and procedures.

1. We observed some areas that need enhancement to strengthen internal controls and/or effect compliance with University policy.

(Observation III.A.)

1. The impact of COVID-19 on campus operations and sports activities and the consequential declines in revenue and funding are critical issues to consider in evaluating the long-term sustainability of the athletics program.

(Observation III.B.)

1. Intercollegiate Athletics does not always deposit cash receipts with the Main Cashiers Office on a weekly basis or when collections exceed $500.

(Observation III.D.)

These and other items are discussed below. Minor items that were not of a magnitude to warrant inclusion in the report were discussed verbally with management.

**II. INTRODUCTION**

**A. PURPOSE**

UC Riverside Audit & Advisory Services (A&AS), as part of its Audit Plan, performed a limited review of Intercollegiate Athletics operations to evaluate compliance with certain University policies and procedures, efficiency and effectiveness of selected operations, and adequacy of certain internal controls.

The specific audit objectives are to:

1. Review and evaluate internal controls and financial and administrative procedures.
2. Determine if procedures ensure operational efficiency and effectiveness as well as provide adequate accounting control.
3. Evaluate the reasonableness, validity, and propriety of selected expenditures including whether expenditures incurred contributed to the achievement of program objectives.
4. Evaluate compliance with applicable University policies and procedures.

**B. BACKGROUND**

Intercollegiate Athletics (IA) sponsors seventeen (17) intercollegiate programs. UCR is a full member of NCAA Division I and the Big West Conference.

IAoperates on an annual budget in excess of $12 million. Overall management of the department rests with the Director of Intercollegiate Athletics. Significant management and staff turnover occurred within the past 5 years. The former Director of Intercollegiate Athletics who was hired in July 2015 left in 2021 and the current Director of Intercollegiate Athletics was appointed at the end of 2021. The Senior Associate Athletics Director / CFAO hired in April 2015 and the Assistant Athletics Director for Business Operations hired in July 2017 both left in the summer of 2021. IA continues to emphasize fund raising and recruitment activities.

The Director of Intercollegiate Athletics reports to the Chancellor and operationally, IA has been integrated into the Vice Chancellor of Student Affairs (VCSA) Organization as of July 1, 2021. VCSA now serves as the control point.

**C. SCOPE**

A&AS reviewed selected records supporting transactions that occurred between July 2017 and June 2020, and examined procedural controls relating to the following major administrative areas:

**1. Internal Controls**

Reviewed and evaluated administrative and accounting procedures and internal controls based on management representations and written responses to an internal control questionnaire.

The review and evaluation of internal controls was limited to IA management policies, processes, and control activities in place at the time the audit was performed.

**2. Financial Analytic Review**

Performed a financial analytical review of revenues and expenditures for Fiscal Year (FY) 2017-2018, FY 2018-2019, and FY 2019-2020 as well as for Periods 1 to 10 (10 months) of FY 2020-2021 to detect unusual trends or fluctuations and determine reasons for significant variances. Identified funds with significant deficit balances as of the end of FY 2019-2020 and, for context and analysis, as of the end of FY 2018-2019 and FY 2017-2018, to evaluate the reasonableness of those balances.

Due to the extensive range of IA activities and the considerable volume of underlying financial data, not all significant matters were appraised. Because of the nature of the audit’s overall perspective, sampling methodology, and other inherent limitations, review procedures could not be relied on to ensure that errors or irregularities are detected, especially minor or isolated incidents.

**3. Travel Expenses**

Reviewed a judgmental sample of 36 travel expense reports underlying total travel costs of $46,695 incurred by IA unit/department managers and/or athletic coaches. Transactions were reviewed for validity, reasonableness, proper approvals, completeness of supporting documentation, and compliance with applicable University policies.

**4. Cashiering Operations**

Reviewed IA cash collections records in financial data warehouse UCRFStotals for FY 2017-2018, FY 2018-2019, and FY 2019-2020, as well as for the first 10 months of FY 2020-2021, to identify trends or variations and learn significant prevailing conditions. Evaluated IA cashiering operations for efficiency and compliance with University policy and procedures.

**D. INTERNAL CONTROLS AND COMPLIANCE**

As part of the review, internal controls were examined within the scope of the audit.

Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

\* effectiveness and efficiency of operations

\* reliability of financial reporting

\* compliance with applicable laws and regulations

Substantive audit procedures were performed during April to December 2020. Accordingly, this evaluation of internal controls is based on our knowledge as of that time and should be read with that understanding.

**III. OBSERVATIONS, COMMENTS, AND RECOMMENDATIONS**

**A. Internal Controls**

Management is responsible for establishing and maintaining an effective system of internal controls. An effective internal control system provides reasonable assurance that policies, processes, tasks, behaviors and other aspects of the organization, taken together, facilitate effective and efficient operations and help ensure the quality of financial reporting and compliance with applicable laws and regulations.

COMMENTS

We identified some opportunities to strengthen internal controls, improve efficiency and effectiveness of operations, and/or effect compliance with University policy.

1. **Control Environment**
2. Not all employees in IA have current written job descriptions. Ideally, every employee/position would have a written job description that discusses the employee’s responsibility and accountability for achieving the business objectives of the organization.
3. IA staff responsible for custody of confidential records have not been required to sign confidentiality statements. To mitigate the risk of unauthorized release and/or use of private information (e.g., student medical / personal records), IA staff who handle sensitive information should undergo special instructions regarding their responsibilities and should be required to sign confidentiality statements.
4. IA acknowledges the need to develop new and enhanced training programs for every employee to ensure that each person has the skills, knowledge, and ability to perform their duties and responsibilities adequately.
5. **Risk Assessment**
6. Changes in workforce, remote working, and in UCR and IA operations and business controls as a result of responding to the coronavirus (COVID-19) pandemic may result in or increase control deficiencies.
7. Some IA staff are working with outdated computers that are no longer supported by Information Technology Services (ITS). Lack of proper equipment to support remote working could affect the ability of people to use applications and services to perform their duties.
8. Renewal and replacement of equipment or upgrades of systems may be delayed due to COVID-19, even as there may be a significant need for these to be completed on schedule or sooner from business continuity, information technology, and internal control perspectives.
9. The ability to perform controls may be more challenging because of employee illness, loss of connectivity due to remote work from home, or a reduction in workforce.
10. **Control Activities**
11. Travel

* Procedures are not yet in place in that will require travelers who are delinquent/late in clearing previous travel advances to clear those advances before receiving additional advances. Athletic teams may frequently travel on consecutive trips as required by sports season schedules. IA has been working with Financial Services on travel policy exception approvals for multiple travel cash advances.

1. Personal Use of University Property

* Athletics Compliance reviews coaches’ cell phone bills to assure there are no NCAA violations. However, procedures or controls have not been established for maintaining inventory of phone lines and charges. Personal phone calls and photocopier use are not monitored and the associated costs are not determined or required to be paid by employees.

1. Equipment and Supplies (Uniforms) Inventory

* The employee who receives, maintains, or issues equipment and/or uniforms also maintains records of the use, location, disposal, or loss of inventory, as well as compares the equipment listing to equipment on hand. Adequate segregation of incompatible duties prescribes that the same individual should not maintain custody of equipment, take inventory, adjust inventory records, and be responsible for reviewing equipment inventory ledgers.
* Annual uniform inventory procedures uncovers discrepancies between physical count and inventory records. However, IA does not thoroughly investigate the reasons for the discrepancies or determine the precise costs of such losses.

1. Cash Receipts

* IA does not always deposit cash receipts with the Main Cashiers Office on a weekly basis or when collections exceed $500. Policy XB.2 of UC Business and Finance Bulletin BUS-49 (Policy for Cash and Cash Equivalents Received) requires all sub-cashiering stations and departments to deposit collections at the designated main cashiering station at least weekly or whenever collections exceed $500.

1. **Reporting and Monitoring**
2. Changes in workforce, remote working, and in UCR and IA operations and business controls as a result of responding to the coronavirus (COVID-19) pandemic may result in or increase control deficiencies. The effectiveness of management review controls may be affected by the inability of personnel to meet live and conduct meetings due to employee illness and/or the closure of business offices. Management control procedures that entail reviewing and monitoring could break down due to personnel not being available on site to immediately provide information essential to the effective operation of controls.
3. **Information and Communication**
4. Resources may not be sufficient to develop new or enhanced information systems as needed.
5. IA does not routinely obtain feedback from students, campus departments, and other parties regarding performance and/or ways to improve services.

RECOMMENDATIONS

Management should assess the performance of internal controls by undertaking reviewing and monitoring activities or by arranging separate evaluations such as independent audits, or by employing a combination of the two. Procedures for monitoring the appropriateness and continuing effectiveness of controls or for implementing new controls should be embedded in normal operations.

MANAGEMENT RESPONSE

**Section III.A.1.a-d: Control Environment**

*Athletics Human Resources will work with Student Affairs Human Resources to establish controls, update job descriptions, assure those needing to sign confidentiality statements due so and establish a list of trainings based on job functions. Expected due date: September 30, 2022.*

**Section III.A.2.a-d: Risk Assessment**

*Remote work, social distancing, and other changes to traditional ways of doing business are deemed appropriate and necessary responses to COVID-19. However, these changes introduce an inherent risk that new or increased control deficiencies may arise due to various and concurrent challenges in conducting business during a pandemic, including a reduction in person-to-person interaction and communication, employee illness, inefficiency and/or inadequacy of remote work equipment/resources /connectivity, and other issues.*

*Outdated computers introduce an inherent risk as if the technology crashes, staff may be without a system to process their work, which have institutional deadlines (Deposits, etc.). As Athletics works on the financial sustainability plan, funding for equipment and software systems will be incorporated into the budget going forward.*

**Section III.A.3.a-d: Control Activities**

*Athletics worked with the Controller’s Office to establish an Exceptional Approval memo, which covers individuals having multiple cash advances out at once due to the nature of back-to-back travel in Athletics scheduling. The memo was approved through FY22. Athletics will work with the Controller to evaluate FY22 to date and to renew the memo for FY23 by March 31, 2022, based on Controller’s availability. In addition, Athletics will document expectations for all staff to submit receipts for reconciliation within 3 business days after returning from travel. Expected completion: March 31, 2022.*

*Athletics will assign management of cell phone inventory and invoice review to the Director of Business Operations. Personal use will be monitored and reimbursement from coaches and staff will be enforced. Expected completion: April 30, 2022.*

*In order to achieve adequate separation of duties in the area of accounting for equipment and supplies (uniforms) inventory, certain incompatible duties will be assigned to different individuals. Expected completion: June 30, 2022*

*Athletics is working with its vendors to have all monies owed sent directly to the Cashier’s Office. In addition, Athletics has already moved to a fully online ticketing system; thereby reducing the number of deposits. Expected completion: June 30, 2022*

**Section III.A.4.a: Reporting and Monitoring**

*With Athletics integration with Student Affairs, the Student Affairs/Athletics CFAO will review and determine best approach forward. Expected completion: June 30, 2022*

**Section III.A.5.a-b: Information and Communication**

*Athletics has an established annual senior exit survey for student-athletes. The Assistant Athletics Director, Student-Athlete Services/SWA and the Assistant Athletics Director, Compliance Services will determine best approach forward as it relates to obtaining feedback from campus departments and other parties regarding performance and/or ways to improve services. Expected completion: June 30, 2022.*

**B. Financial Analytic Review**

Analytic review procedures explored financial information available in UCRFStotals for FY 2017-2018, FY 2018-2019, and FY 2019-2020, as well as for the first 10 months of FY 2020-2021. Due to the high volume of financial data and the broad range of IA activities, not all significant areas were studied. Because of the nature of the audit’s overall perspective, sampling methods, and other inherent limitations, review procedures could not be relied on to ensure that errors or irregularities are detected, especially minor or isolated incidents.

COMMENTS

1. **Summary**

Review of revenues and expenditure for FY 2017-2018, FY 2018-2019, and FY 2019-2020, as well as for the first 10 months of FY 2020-2021 disclosed the following:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **FY 2020-2021**  **(10 months)** | **FY 2019-2020** | **FY 2018-2019** | **FY 2017-2018** |
| **Total Revenues\*** | $ 2,912,982 | $ 4,017,881 | $ 4,146,987 | $ 3,828,856 |
| **Total Expenditures** | $ 6,885,363 | $ 10,377,106 | $ 12,058,075 | $ 10,699,827 |

**\***Excludes general funds

IA continues to rely heavily on University funding to support athletic activities in spite of operating losses. The impact of COVID-19 on campus operations and sports events and the consequential declines in revenue and funding are critical issues to consider in evaluating the long-term sustainability of the athletics program. The size of the athletics program (the number of student athletes and teams) to keep, as well as the appropriate level of institutional support, are campus management decisions that should be both prudent and pragmatic.

1. **Revenues**

The net decrease in Total Revenues from $4,146,987 in FY 2018-2019 to $4,017,881 in FY 2019-2020 was due mainly to decreases in Sales & Service Revenues and Restricted Gifts that were partly offset by an increase in Division I / Compulsory Student Fees.

While the changes in revenue amounts in FY 2019-2020 when compared to those in FY 2018-2019 are not deemed unusual or extraordinary, the precipitous drop in Sales & Service and Restricted Gift Revenues in the first 10 months of FY 2020-21 when compared to those in FY 2019-2020 portend funding challenges for IA operations in the near future. The following table illustrates.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **FY 2020-2021**  **(10 months)** | **FY 2019-2020** | **FY 2018-2019** |
| Div I / Compulsory Student Fees | $ 2,540,352 | $ 2,449,938 | $ 2,294,731 |
| Sales & Service Revenues | 235,404 | 1,293,801 | 1,468,433 |
| Restricted Gift Revenues | 137,226 | 256,693 | 377,715 |
| Recharge Revenues | 0 | 17,449 | 6,108 |
| **Total Revenues** | **$ 2,912,982** | **$ 4,017,881** | **$ 4,146,987** |

1. **Expenditures**

When expenditures in FY 2019-2020 are compared to those in FY 2018-2019, UCRFStotals information show a $1,680,969 decrease in Total Expenditures. The decrease is mainly due to the combined effects of a $356,735 decrease in Staff and Academic Benefits, a $708,966 decrease in General Supplies and Expenses (mostly due to a $583,664 decrease in Travel, Conferences, and Social Activities Expenses), and a $590,255 decrease in Equipment / Other Inventorial and Facilities Expenses.

In March 2020, the coronavirus (COVID-19) pandemic prompted the campus response that comprised closure of most university facilities, changes in workforce, remote working, and other measures that have resulted in a cutback of IA activities and a significant reduction of expenditures, as the following table illustrates.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **FY 2020-2021**  **(10 months)** | **FY 2019-2020** | **FY 2018-2019** |
| Staff and Academic Salaries | $ 3,569,434 | $ 5,137,265 | $ 5,162,278 |
| Staff and Academic Benefits | 1,528,603 | 2,030,061 | 2,386,796 |
| General Supplies and Expenses | 1,202,654 | 3,128,916 | 3,837,882 |
| Equipment/Other Invt’l & Facilities | 584,672 | 80,864 | 671,119 |
| **Total Expenditures** | **$ 6,885,363** | **$ 10,377,106** | **$ 12,058,075** |

1. **Fund Deficits**

Review of Deficit Analysis Reports in UCRFS revealed significant fund deficits as of June 30, 2020.

The following table presents IA funds with deficit amounts of about $100,000 (negative) or greater as at the end of FY2019-2020. Also presented for comparison, context, and analysis are deficit amounts, if any, for the selected funds as at the end of FY 2018-2019.

|  |  |  |  |
| --- | --- | --- | --- |
| **Activity Code**  **Activity Description** | **Fund Code**  **Fund Description** | **FY 2019-2020**  **Deficit Amount** | **FY 2018-2019**  **Deficit Amount** |
| A01201  Athletic Gate | 64410  Athl Assoc Non-Gift | ($ 1,547,943) | ($ 1,044,190) |
| A01202  Marketing & Promotions | 64425  Game Operations | ( 97,262) | ( 96,392) |
| A01746  Administration | 20029  Division I Fee | ( 2,077,681) | ( 376,776) |
| A01746  Administration | 64410  Athl Assoc Non-Gift | ( 307,374) | ( 315,488) |
| A01751  Sports Medicine | 19900  General Funds | ( 186,200) | ( 50,941) |
| A01752  Men's Baseball | 19900  General Funds | ( 119,184) | ( 10,154) |
| A01753  Men's Basketball | 19900  General Funds | ( 288,101) | - |
| A01758  Men's Track | 19900  General Funds | ( 104,612) | ( 64,566) |
| A01768  Women's Volleyball | 19900  General Funds | ( 180,074) | ( 106,737) |
| A01978  Operations | 64410  Athl Assoc Non-Gift | ( 385,713) | ( 286,089) |
| A02419  Big West | 19900  General Funds | ( 135,624) | ( 135,432) |
| A02431  Academic Recess | 20029  Division I Fee | ( 166,403) | - |
| **TOTALS** | | **($ 5,596,171)** | **($ 2,486,765)** |

The fact that certain funds have significant deficits during multiple fiscal years indicates that IA has been operating for years with expenditures in excess of revenues in the activities associated with those funds.

RECOMMENDATIONS

Management should develop a plan of action to secure IA’s future revenue / funding sources, improve operating results, address fund deficits, and strengthen its overall financial condition.

MANAGEMENT RESPONSE

*With Athletics’ integration with Student Affairs, a 3-year financial sustainability plan is in development with an expected completion date of February 15, 2022.*

**C. Travel Expenses**

Based on the results of the review, we determined that travel transactions reviewed were generally in compliance with the University policies and procedures BFB G-28.

COMMENTS

We selected and reviewed a judgmental sample of 36 travel expense reports for IA unit/department managers’ and/or athletic coaches’ travels that altogether cost $46,695. These travel expense reports were selected from subsets of expense reports that included all out-of-state travel by IA management and all IA personnel with trips in FY 2017-2018 through FY 2019-2020 that in total costs more than $10,000. Athletic team travels were not selected for review. For each of the IA personnel in the audit sample, the travel expense reports for the trips with the highest costs were selected.

Reviewed selected travel expense reports for validity, reasonableness, proper approvals, completeness of supporting documentation, and compliance with applicable University policies. No exceptions were noted.

The following table is a summary of information regarding completed IA travel expense reports in iTravel, the campus Travel Planning and Expense Reporting System.

|  |  |  |  |
| --- | --- | --- | --- |
| **Type of Travel** | **FY 2019-2020** | **FY 2018-2019** | **FY 2017-2018** |
| Team | $ 792,798 | $ 1,119,211 | $ 1,072,675 |
| Recruiting | 77,610 | 108,702 | 83,645 |
| Administration | 21,213 | 51,762 | 47,701 |
| Other | 13,232 | 18,156 | 20,334 |
| **Totals** | **$ 904,853** | **$ 1,297,831** | **$ 1,224,355** |

The impact of COVID-19 on campus operations and athletic events has resulted in significant reductions in IA travel, entertainment, and related activities.

**D. Cashiering Operations**

Based on management representations and written responses to an internal control questionnaire, the review identified certain control weaknesses in IA cashiering operations.

COMMENTS

IA does not always deposit cash receipts with the Main Cashiers Office weekly or when collections exceed $500. Policy XB.2 of BUS-49 requires that collections at Sub-cashiering Stations and Departments be deposited at the designated Main Cashiering Station at least weekly or whenever collections exceed $500.

Review of IA cash collections records in UCRFStotals for FY 2017-2018, FY 2018-2019, and FY 2019-2020, as well as for the first 10 months of FY 2020-2021, show the following:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **FY 2020-2021 (10 months)** | **FY 2019-2020** | **FY 2018-2019** | **FY 2017-2018** |
| Sales & Service Revenue | $ 293,892 | $ 1,075,695 | $ 1,254,123 | $ 791,430 |
| Restricted Gifts Revenue | 0 | 311,117 | 377,715 | 246,554 |
| Other Collections | 0 | 23,332 | 7,519 | 10,282 |
| Total Collections | $ 293,892 | $ 1,410,144 | $ 1,639,357 | $ 1,048,266 |

The COVID-19 pandemic continues to adversely affect campus community life and IA activities that may have an impact on the long-term sustainability of the athletics program. The significant decline in revenue and collections may not immediately reverse itself and IA operating results may not soon improve.

RECOMMENDATIONS

IA employees involved in cashiering operations should prioritize processing collections of cash and cash equivalents. Cash receipts should be processed no later than the next business day after receipt. Cash receipts exceeding $500 should be deposited at the Main Cashiers Office no later than the next business day after receipt.

Management should address the planning, budgeting, and resource allocation challenges resulting from the effects of the pandemic.

MANAGEMENT RESPONSE

*Athletics is working with its vendors to have all monies owed sent directly to the Cashier’s Office. In addition, Athletics has already moved to a fully online ticketing system; thereby reducing the number of deposits. Expected completion: June 30, 2022*

*With Athletics’ integration with Student Affairs, a 3-year financial sustainability plan is in development with an expected completion date of February 15, 2022.*