



UCSB Audit and Advisory Services

Internal Audit Report

Stewardship of Student Funds

December 4, 2015

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Report No. 08-16-0004

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AUDIT AND ADVISORY SERVICES
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December 4, 2015

To: Vice Chancellor for Student Affairs Margaret Klawunn
Vice Chancellor Administrative Services Marc Fisher

Distribution

Re: **Stewardship of Student Funds**
Audit Report No. 08-16-0004

As part of the 2015-16 annual audit services plan, Audit and Advisory Services has completed an audit of the stewardship of University of California, Santa Barbara (UCSB) student funds. Enclosed is the report detailing the results of our work.

The purpose of this audit was to identify and document the range of special student funds on campus, and to review internal controls to determine whether the funds are properly safeguarded and accounted for. We also determined whether fund disbursement practices are consistent with University of California and UCSB policies and procedures and the rules of the programs associated with the funds. The scope of the internal control work for this audit included all funds/programs identified through a questionnaire distributed to Student Affairs and Housing & Residential Services.

Our work identified required improvements in processes and internal controls to help ensure that funds are properly safeguarded, used, and accounted for. Recommended improvements include better documentation of program governance matters, policies, and procedures, and better oversight and reporting processes. We did not identify any inappropriate disbursements.

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 that positive measures have been taken or planned to implement the management corrective actions. We sincerely appreciate the cooperation and assistance provided by Student Affairs and Housing & Residential Services personnel during the review. If you have any questions, please feel free to contact me.

Respectfully submitted,

A handwritten signature in cursive script that reads "Robert Tarsia".

Robert Tarsia
Director
Audit and Advisory Services

Vice Chancellor for Student Affairs Margaret Klawunn
Vice Chancellor Administrative Services Marc Fisher
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Enclosure

Distribution:

Student Affairs

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Jim Corkill, Controller and Director, Business and Financial Services
Leslie Griffin, Associate Director, Business and Financial Services
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cc: Chancellor Henry Yang
UCSB Audit Committee
Senior Vice President and Chief Compliance and Audit Officer Sheryl Vacca

PURPOSE

The purpose of this audit was to identify and document the range of special student funds on campus, and to review internal controls to determine whether the funds are properly safeguarded and accounted for. We also determined whether fund disbursement practices are consistent with University of California (UC) and University of California, Santa Barbara (UCSB) policies and procedures, and the rules of the programs associated with the funds. This audit is part of our fiscal year 2015-16 audit services plan.

SCOPE, OBJECTIVES, AND METHODOLOGY

The scope of our internal control work included all funds and programs initially identified through a data collection questionnaire distributed to Student Affairs and Housing & Residential Services. These include programs that provide grants or loans to individual students, as well as programs that provide social, recreational, cultural, and educational programming.

Using information from the data collection questionnaire, the results of our internal control review, and other sources, we selected the following funds for detailed transaction testing:

- Student Initiated Outreach Program (SIOP)
- Community Financial Fund (CFF)
- Residence Halls Association (RHA)

Our detailed transaction testing included disbursements initiated from July 2014 through May 2015.

Our audit objectives were to:

- Identify and document the range of special student funds on campus.
- Determine whether internal controls are sufficient to properly safeguard and account for funds.
- Evaluate whether internal controls are sufficient to ensure that fund and program disbursements are consistent with UC and UCSB policies and procedures, the rules of the programs associated with the funds, and other requirements.

We did not perform a financial audit of the funds or determine whether all appropriations, assessments, and collections were properly accounted for in fund balances.

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To accomplish our objectives, our detailed work included interviews, direct observations, review of documentation, detailed testing of transactions, and other steps. We:

- Researched and reviewed UC and UCSB policies and procedures covering cash controls, disbursements, and student funds and programs, including:
 - Business and Finance Bulletin BUS-49, *Policy for Cash and Cash Equivalents Received*.
 - *University of California Accounting Manual* – Section C-173, *Cash: Cash Controls*.
 - *University of California Accounting Manual* – Section D-371-16, *Disbursements: Approvals*.
 - *University of California Accounting Manual* – Section C-173-78, *Cash: Unclaimed and Uncashed Checks*.
 - *The Legal Code of the Associated Students*, including the *By-Laws of the Associated Students of UCSB* (fiscal year 2014-15).
 - *UCSB Student Medical Emergency Relief Fund (SMERF) - Jack Canfield Chicken Soup For the Soul® - Committee Procedure By-Laws*.
 - *Residence Halls Association By-Laws*.
 - *Residence Halls Association Constitution*.
 - *The Legal Code of the Student Apartment Community Council*, including the *Constitution of the Student Apartment Community Council (SACC) University of California, Santa Barbara* and the *By-Laws of the Student Community Council (SACC)*.
 - *The Legal Code of the Graduate Student Apartment Community Council*, including the *Constitution of the Graduate Student Apartment Community Council (GSACC) University of California, Santa Barbara* and the *By-Laws of the Graduate Student Community Council (GSACC)*.
 - *Graduate Student Apartment Community Council Accounting Policies and Procedures*.
- Gained and documented an understanding of each student fund and program through detailed internal control interviews with personnel responsible for administration.
- Completed an evaluation of internal controls for each fund/program, through the internal control interviews, follow-up interviews, and other work.
- Performed a risk analysis of the student funds and programs that considered years of activity, value of funding and disbursements, governance and policy framework, procedures and rules, the results of our internal control evaluation, previous audits, the use of non-Regents bank accounts (accounts outside of the University), other issues and concerns, and the results of our interviews and observations.
- Based on our risk analysis, selected three student funds for detailed transaction testing to determine whether:
 - Grant or loan applications (as applicable) and supporting documentation met program criteria.
 - Requests for expense reimbursements and other payments (as applicable) met program criteria.

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- o Disbursements were consistent with the stated purpose of the grant, loan, or reimbursement request.
- o Quantities were consistent with invoices or other source documents.
- o Rules regarding maximum disbursements per student (as applicable) were complied with.
- o There was sufficient documentation that disbursements were approved by authorized personnel and were appropriately received and signed for.

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

BACKGROUND

The funds and programs included in the scope of the audit are described in Table 1; financial and other metrics for each are included in Table 2.

Student Affairs

The following Student Affairs departments and units manage most of the funds and programs we reviewed:

- Associated Students is a non-profit organization and a UCSB department that provides services, employment opportunities, and leadership experience. Every undergraduate student is a member upon payment of required quarterly registration fees, and Associated Students relies on student fees to support its operations. The organization has an annual financial audit by a CPA firm.
- The Office of Student Life (OSL) is part of Student Affairs and reports to the Associated Dean of Student Live & Activities. OSL performs administrative functions for campus organizations, fraternities, and sororities; and administrative development programs, including After Dark, CommUnity Grants, and Student-Initiated Outreach Programming. OSL acts as the fiscal agent for approximately 450 organizations, including student government, academic and community service organizations, and sports and social clubs.
- The Recreation Department offers activities, programs, and services for students, faculty and staff, and the community.
- The Educational Opportunity Program (EOP) assists students in preparing for the job market and/or graduate/professional school admission. EOP services all students, while focusing on those who are income-eligible and first-generation undergraduates. According to the Executive Director of Associated Students, processes and internal controls for this program were significantly improved during the last fiscal year.

During annual elections, students have the ability to approve new lock-in fees or reaffirm existing lock-in fees, some of which are used to fund some of the programs in the scope of this audit.

Housing & Residential Services

UCSB Housing & Residential Services provides housing and associated residential life services for UCSB's undergraduate student, graduate student, and faculty population.

- Residential & Community Living is responsible for the well-being and quality of life for students living in campus apartments and residence halls. The organization supervises the live-in staff who facilitate social, academic, and educational programming; provides counseling and campus resource referrals; and oversees resident placement services, community councils, student conduct, and the Community Housing Office. This department also supports community associations in the stewardship of Housing & Residential Services student funds.
- Budget & Finance is responsible for fiscal and administrative services and maintains program oversight in Administrative & Residential Information Technology, Campus Conference Services, and Faculty Housing Services. Budget & Finance oversees Housing & Residential Services student fund disbursements.

Responsibility for Oversight

The administration of a typical UCSB student fund is typically shared among two or more units or departments within the same department or division. The role of one unit or department is to manage programmatic activities, such as student applications and the initial authorization process. The second unit or department typically oversees the authorization process and manages the payment process and reporting.

Relevant Policies

The Appendix to this report outlines the principal policies we considered most relevant to the scope of this audit.

SUMMARY OBSERVATIONS

Our work identified required improvements in processes and internal controls to help ensure that funds are properly safeguarded, used, and accounted for. Recommended improvements include better documentation of program governance matters, policies, and procedures, and better oversight and reporting processes. We did not identify any inappropriate disbursements.

Audit and Advisory Services
Stewardship of Student Funds

Table 1		
Student Funds and Programs in Audit Scope		
Fund Name	Funding Source	Description
1. Student Childcare Grants	Lock-in Fees	Associated Students provides grants for students who need extra childcare coverage during midterms and finals.
2. Short-Term Emergency Student Loans	Lock-in Fees	Associated Students currently offers emergency undergraduate student loans. While loans are interest free, there is an administrative processing fee. Loans are generally issued to all eligible applicants during all academic quarters.
3. Associated Students Community Financial Fund (CFF)	Lock-in Fees	The CFF was passed in the 2010-2011 school year; a \$2.10 lock-in student fee was created to assist students by providing grants and helping supplement Associated Students emergency loans.
4. Student Initiated Outreach Program (SIOP)	UC Office of the President Funds	The SIOP allocates funds to facilitate outreach projects by currently registered campus organizations. Consideration is given to projects that are designed to increase the eligibility and college attendance rates of underrepresented, low-income, and other specifically identified disadvantaged populations.
5. Educational Opportunity Program Grant (EOP)	Lock-in Fees	The By-Laws of the Associated Students of UCSB provides for funds to EOP to pay emergency expenses for student members who are currently enrolled. Grants awarded under the program usually include payment of medical, dental, optical, and emergency rental costs, as well as graduate fees, textbooks, and school supplies.
6. After Dark Late Night Social Programming Funds (After Dark)	Lock-in Fees	The After Dark Club, a campus organization funded by the University, puts on fun events on the weekends as an alternative to Isla Vista. The After Dark Late Night Social Programming Funds allocates funds to registered campus organizations for student-initiated, alcohol-free, and non-alcohol-centered social events and activities.
7. Student Medical Emergency Relief Fund (SMERF)	Lock-in Fees	The objective of SMERF is to ensure that students with medical needs are supported in obtaining their educational goals. Students pay 89 cents per quarter to support student medical emergencies.
8. Graduate Student Apartments Community Council (GSACC)	Membership	The GSACC is a group of residents living in UCSB's San Clemente Villages and Westgate Apartments. GSACC plans community events and social activities and addresses resident concerns.
9. Student Apartments Community Council (SACC)	Membership	The UCSB undergraduate Student Apartment Community Council is a student board devoted to making sure student life in University-owned undergraduate apartments (Santa Ynez, El Dorado, Sierra Madre, and Westwinds) is fun and satisfying.
10. Residence Halls Association (RHA)	Membership	The RHA is UCSB's student government for the residence halls. The organization conducts social, educational, cultural, and recreational programming for all of their residents, and advocates for its residents in the larger campus community. Programs/initiatives are funded by a yearly fee of \$30 per resident.

Source: Auditor analysis.

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Table 2		Student Funds by the Numbers			
Division / Department	Fund or Program Name	Years of Activity	Maximum Awards or Loans	Allowable Awards or Loans	FY 2014-15 Funding
Student Affairs	1. Student Childcare Grants	15	\$200	2 per Academic Quarter	\$33,000
	2. Short-Term Emergency Student Loans	25	\$600	1 per Academic Quarter	\$800,000
	3. Associated Students Community Financial Fund (CFF)	4	\$400	1 per Academic Year	\$149,000
	4. Student Initiated Outreach Program (SIOP)	17	\$6,000	1 per Academic Year	\$70,000
	5. Educational Opportunity Program Grant (EOP)	25	\$700 ¹	1 per Academic Year	\$70,000
	6. After Dark Late Night Social Programming Funds (After Dark)	10	N/A	1 per Academic Quarter	\$50,000
	7. Student Medical Emergency Relief Fund (SMERF)	10	\$3,500	1 per Academic Quarter	\$65,000
Housing & Residential Services	8. Graduate Student Apartments Community Council (GSACC)	7	N/A	N/A	\$35,000
	9. Student Apartments Community Council (SACC)	25	N/A	N/A	\$49,000
	10. Residence Halls Association (RHA)	Approx. 50	N/A	N/A	\$300,000

Source: Auditor analysis. Associated Students manages funds 1, 2, 3, and 5; Office of Student Life manages funds 4 and 6; and the Recreation Department manages fund 7.

1: There are five grants of \$1,000 and 15 of \$1,500 per academic year.

DETAILED OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS

A. Student Affairs Should Enhance Governance, Written Guidance, and Other Internal Controls

Our review of Student Affairs funds and programs in the scope of the audit identified areas requiring improvement to help ensure that these funds are properly safeguarded, used, and accounted for.

Evaluation of Internal Controls

Table 3 summarizes the results of our evaluation of established processes and internal controls. Our evaluation of Short-Term Emergency Student Loans, Associated Students Community Financial Fund, After Dark Late Night Social Programming Funds, Student Initiated Outreach Program, and Student Medical Emergency Relief Fund identified the most need for improvements. For example:

- Documentation of governance processes is limited:
 - There is no charter or other governing document for After Dark or Student Initiated Outreach Program that outlines authorities, roles and responsibilities, etc., and there are no formal organizational charts.
 - There is generally insufficient documentation of established financial authority that details who is authorized to approve grants and disbursements.
 - Governance documentation for Short-Term Student Emergency Loans and Community Financial Fund was limited to *the Legal Code of the Associated Students*. However, this document does not provide enough information related to governance practices for these funds, such as organizational charts and documentation of roles and responsibilities.
- Documentation and communication of applicable policies, procedures, and guidance (written and via in-person training) are also not sufficient. For example:
 - For After Dark and Student Initiated Outreach Program, this documentation is limited to application forms, which include a brief description of program requirements.
 - Written policies and procedures and formal training sessions have been minimal for After Dark and Student Initiated Outreach Program. In the past, training for SIOP was provided in annual conference calls led by the UC Office of the President Office of Diversity & Engagement; however, attendance was not documented and there have been no conference calls for almost two years.
 - Student Medical Emergency Relief policies and procedures are focused on HIPPA¹ compliance and not on the stewardship of the fund and program.

¹ The Health Insurance Portability and Accountability Act of 1996, which includes protections for personally identifiable health information.

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- We found limited financial and accounting controls in place for the administration of After Dark, including limited separation of duties, disbursement approval requirements, and reconciliation processes. For example:
 - This fund has been primarily administered by a student employee with limited participation of other Student Affairs personnel.
 - Grant approvals and requests for checks are sent to the Office of Student Life by email. These transactions should require signatures (or digital signatures), since emails alone are susceptible to manipulation.
 - The program does not receive sufficient reporting from the Office of Student Life to enable reconciliation of disbursements to the general ledger or other accounting records, which is needed to ensure that the fund is used only for authorized disbursements.
- With the exception of Student Medical Emergency Relief, there is limited reporting to stakeholders on the financial aspects of the programs, such as the volume of transactions and value of disbursements:
 - The Office of Student Life provides limited transactional or financial reporting to the managers of the After Dark and Student Initiated Outreach Program programs.
 - Associated Students does not regularly provide detailed transactional or financial reporting to the Associated Student Senate or other stakeholders.

Results of Detailed Transaction Testing

The results of our detailed transaction testing for the two Student Affairs programs we tested are included in Table 4. The transactions we tested complied overall with fund/program rules and University policies; however, some of the results do further support the conclusion that processes and internal controls should be improved.

Associated Students Community Financial Fund

- We found some grants that did not comply with program rules regarding maximum awards per student/grantee. Four students received two grants totaling more than the \$400 annual maximum per student; two students received \$800, one student \$700, and another student \$466.
- Compliance with existing procedures and documentation requirements requires improvement:
 - The program uses a log to document that grant applications are reviewed. However, the log does not include grantee/student names, application numbers, or other specific references that clearly document which applications were reviewed.
 - The program produces periodic reports detailing disbursements for approved awards. Although the reports include a signature line for the Associated Students Executive Director to indicate her review and approval, most examples we reviewed lacked the Executive Director's signature.

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- Grant application forms include a signature line for grantees/student to sign to indicate their receipt of the award check. The grantee/student signature was missing for four of the ten disbursements we reviewed.

Student Initiated Outreach Program

- Required committee approvals for disbursements were not documented.
- Supporting documentation requires improvement:
 - In one case, a student-employee was reimbursed for \$600 in costs for bus transportation services, based on an unsigned one-page combination contract-invoice form. The supporting documentation included a handwritten note on the form that states that the request was denied because it lacked the required two signatures.
 - There is a log to document that reimbursement and payment checks are received by payees, including whether they were picked up or mailed. However, at the time of our audit work, the Office of Student Life had only retained the logs for the current academic year. We were subsequently informed that the Office of Student Life plans to retain these logs for at least five years.

To ensure that student funds are properly safeguarded and accounted for, and that disbursement practices comply with fund/program rules and University policies, we recommend that Student Affairs develop, distribute, and provide training on a set of procedures outlining requirements for the proper administration of student-funded programs. This set of procedures could be in the form of a handbook, with a section or sections covering minimum requirements for all such programs, along with brief sections (possibly with standard templates) with specifics of each individual fund/program. The following areas should be covered:

- Required governance documentation, including organizational charts and financial authorities.
- Basic program policies and procedures and workflows.
- Training requirements to ensure that all employees and student employees receive training on program policies, procedures, and rules, and that this training is documented.
- Minimum internal control requirements, including adequate separation of duties, documented disbursement approval processes and authorities, and appropriate reconciliation processes.
- Minimum requirements for oversight and reporting to stakeholders.

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Table 3		Student Affairs – Summary of Governance, Guidance, and Other Internal Control Observations				
Internal Control		Emerg. Loans¹	CFF	After Dark	SIOP	SMERF
Governance	Program Charter- Definition, Duties, and Responsibilities	Limited	✓	✗	✗	✓
	Current Organizational Charts	✓	✗	✗	✗	✓
	Formalized Financial Authority	✓	✓	✗	✗	✓
Policies, Procedures & Guidance	Policy Coverage	✓	✗	✗	✗	Limited
	Written Procedures	✗	Limited	✗	✗	Limited
	Formal, Documented Training	✗	✗	✗	✗	Limited
Financial Controls	Adequate Separation of Duties	✓	✓	✗	✓	✓
	Formal Disbursement Authorization	✓	✓	✗	Limited	✓
	Appropriate Reconciliation Processes	✓	Limited	✗	Limited	✓
Oversight & Reporting	Independent Oversight	Limited	Limited	Limited	Limited	✓
	Reporting of Disbursements	Limited	Limited	Limited	✗	✓
	Financial Reporting (e.g., Bank Account Activity vs. Program Disbursement Records)	Limited	Limited	✗	✗	✓

Source: Auditor Analysis

✓: Appropriate processes and/or internal controls are in place and operating as intended.

✗: Appropriate processes and/or internal controls are not in place and/or operating as intended.

Limited: Processes and/or internal control require enhancement.

1: Short-Term Emergency Student Loans.

Management Corrective Actions

Student Affairs will develop, distribute, and provide training on a set of procedures outlining requirements for the proper administration of student-funded programs. This set of procedures may be in the form of a handbook, with specifics of each individual fund/program. The following areas will be covered:

- Required governance documentation, including organizational charts and financial authorities.
- Basic program policies and procedures and workflows.

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- Training requirements to ensure that all employees and student employees receive training on program policies, procedures, and rules, and that this training is documented.
- Minimum internal control requirements, including adequate separation of duties, documented disbursement approval processes and authorities, and appropriate reconciliation processes.
- Minimum requirements for oversight and reporting to stakeholders.

We estimate to have implemented this action plan by June 30, 2016.

Audit and Advisory Services will follow up on the status of this management action plan by June 30, 2016.

Table 4	Testing of Fund Disbursements		
Internal	CFF	SIOP	RHA
1. Expenditures and supporting documentation meet program criteria.	Limited	Limited	✓
2. Disbursement type agrees with purpose of the program.	✓	✓	✓
3. Quantities are consistent with the invoices or other source documents.	✗	✓	✓
4. Disbursements comply with maximum award.	✗	✓	✓
5. Formal approvals are documented.	Limited	✗	✓
6. There is evidence checks were received/signed for.	✗	Limited	✓

Source: Auditor Analysis

✓: Full compliance with selected requirement and/or best practices.

✗: No compliance with selected requirement and/or best practices.

Limited: Partial compliance with requirement and/or best practices.

B. Modest Enhancements Would Benefit the Housing & Residential Services Programs We Reviewed

Table 5 summarizes the results of our evaluation of established processes and internal controls for Housing & Residential Services funds; Table 4 includes the results of our detailed transaction testing for one Housing & Residential Services program. We identified no serious internal control or other concerns. We did find that:

- Organizational charts have not been formalized for two of the three programs we reviewed.
- Written procedures are limited for two of the three programs, and training on procedural matters has not been documented.
- SACC and GSACC councils only perform high-level oversight of these programs.

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We recommend that Housing & Residential Services:

- Maintain organizational charts for all three programs.
- Prepare more complete written procedures for Student Apartments Community Council (SACC) and Graduate Student Apartments Community Council (GSACC), and provide training on the procedures that includes step-by-step guidance.
- Establish a process for more independent oversight.

Table 5		Housing & Residential Services - Summary of Governance, Guidance, and Other Internal Control Observations		
Internal Control		SACC	GSACC	RHA
Governance	Program Charter- Definition, Duties, and Responsibilities	✓	✓	✓
	Current Organizational Charts	✗	✗	✓
	Formalized Financial Authority	✓	✓	✓
Policies, Procedures & Guidance	Policy Coverage	✓	✓	✓
	Written Procedures	Limited	Limited	✓
	Formal Documented Training	✗	✗	✓
Financial Controls	Adequate Separation of Duties	✓	✓	✓
	Formal Disbursement Authorization	✓	✓	✓
	Appropriate Reconciliation Processed	✓	✓	✓
Oversight & Reporting	Independent Oversight	Limited	Limited	✓
	Reporting of Disbursements	✓	✓	✓
	Financial Reporting (e.g., Bank Account Activity vs. Program Disbursement Records)	✓	✓	✓

Source: Auditor Analysis

✓: Appropriate processes and/or internal controls are in place and operating as intended.

✗: Appropriate processes and/or internal controls are not in place and/or operating as intended.

Limited: Processes and/or internal control require enhancement.

Management Corrective Actions

Housing & Residential Services will implement the following enhancements in the Housing & Residential Services programs:

- Maintain organizational charts for all programs.
- Prepare more complete written procedures for Student Apartments Community Council (SACC) and Graduate Student Apartments Community Council (GSACC), and provide training on the procedures that includes step-by-step guidance.
- Establish a process for more independent oversight.

Completion of these enhancements is planned by May 31, 2016.

Audit and Advisory Services will follow up on the status of these issues by May 31, 2016.

Audit and Advisory Services
Stewardship of Student Funds - Appendix

Appendix	Relevant University of California Policies	
Name	Description	
<i>Policies Applying to Campus Activities, Organizations and Students (PACAOS)</i>	The policies applying to campus activities, organizations and students are a compendium of University-wide policies relating to student life.	
Business and Finance Bulletin BUS-49, <i>Policy for Cash and Cash Equivalents Received</i>	Includes 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.	
<i>University of California Accounting Manual – Section C-173, Cash: Cash Controls</i>	This section of the <i>University of California Accounting Manual</i> includes requirements governing the establishment of University bank accounts and the delegation of signature authority to other University representatives.	
<i>University of California Accounting Manual – Section C-173-78, Cash: Unclaimed and Uncashed Checks</i>	This section of the <i>University of California Accounting Manual</i> contains general procedures for the disposition by accounting offices of unclaimed and uncashed checks.	
<i>University of California Accounting Manual – D-371-16, Disbursements: Approvals</i>	This section of the <i>University of California Accounting Manual</i> summarizes the level of approval required for various types of non-payroll payments made by the University.	

Source: Auditor analysis.