

UCSB AUDIT AND ADVISORY SERVICES

October 28, 2011

To: Jim Corkill
Director and Controller, Accounting Services and Controls

Re: **Online Form-5 System**
Audit Report No. 08-11-00015

As part of the 2010-11 annual audit plan, Audit and Advisory Services conducted a review of the recently implemented Online Form-5 System. Enclosed is the audit report detailing the results of our review.

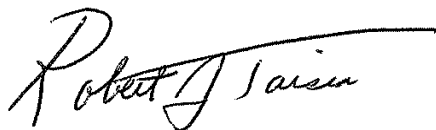
The purpose of the review was to determine whether adequate procedures and internal controls have been implemented at the University of California, Santa Barbara (UCSB) to ensure that disbursements processed through the Online Form-5 System comply with University policies and procedures, campus guidelines, and external regulations. The scope of the review included disbursement transactions processed through the Online Form-5 System during the period July 1, 2010, through May 31, 2011.

The review found no significant deficiencies or major weaknesses in internal controls. The design and programming of the Online Form-5 System generally incorporates controls that are appropriate for the type of processing system and data currently stored; also, AS&C review procedures appeared to provide assurance that disbursement transactions processed through the system are authorized, properly supported, and in compliance with University policy and procedures and external regulations.

The review did find opportunities to further strengthen information technology controls, transaction processing, and compliance review procedures, as well as potential opportunities for enhancing efficiency. These include updating system processing capabilities for AS&C employees on a more timely basis, upgrading system software to vendor-supported versions, and improving controls that ensure expenditures processed through the system comply with applicable policies and procedures.

We have included a copy of our detailed observations and management corrective actions. The management corrective actions provided indicate that each recommendation was given thoughtful consideration and that positive measures have been planned to implement the corrective actions. The cooperation and assistance provided by Accounting Services and Controls, Administrative Services Information Technology, and Office of Information Systems and Technology personnel during the review was sincerely appreciated. If you have any questions, please feel free to contact me.

Respectfully submitted,



Robert Tarsia
Acting Director
Audit and Advisory Services

Enclosure

cc: Chancellor Henry Yang
Associate Vice Chancellor Ron Cortez
UCSB Audit Committee
Senior Vice President and Chief Compliance and Audit Officer Sheryl Vacca
Doug Drury, Director, Administrative Services Information Technology
Steve Kriz, Assistant Director, Accounting Services and Controls
Asger Pedersen, Accounts Payable Manager, Accounting Services and Controls

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Performed by:
Sam Hartline, Principal Auditor

Approved by:
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**UCSB Audit and Advisory Services
Online Form-5 System
Audit Report No. 08-11-00015**

Purpose

The purpose of the review was to determine whether adequate procedures and internal controls have been implemented at the University of California, Santa Barbara (UCSB) to ensure that disbursements processed through the Online Form-5 System are in compliance with University policies and procedures, campus guidelines, and external regulations.

Scope, Objectives and Methodology

The scope of the review included disbursement transactions processed through the Online Form-5 System during the period July 1, 2010, through May 31, 2011. Our review objectives included determining whether:

- General system Information Technology (IT) controls were in place and operating effectively.
- Accounting Services and Controls (AS&C) Form-5 processing and review procedures were helping to ensure campus compliance with University disbursements policies and AS&C processing requirements.

To accomplish our objectives, we obtained an understanding of current University policies and procedures applicable to disbursements processing, AS&C disbursement guidelines, and the design and internal control features of the Online Form-5 System. We held discussions with AS&C, Administrative Services Information Technology (ASIT), and Office of Information Systems and Technology (OIST) personnel, and completed an internal control questionnaire covering IT general controls. We also selected a sample of employee reimbursement transactions processed through the Online Form-5 System during the period of scope, and reviewed supporting documentation to confirm that key system and disbursement processing controls were operating effectively.

Background

The "Payment Request–Misc. (Non-Payroll)" (Form U5-8), commonly referred to as a Form-5, is intended for use in the accounts payable process for approving and substantiating payments for which there is no underlying purchase order or contract. Forms-5 are commonly used for payment of miscellaneous reimbursements to employees, professional memberships and subscriptions, honorariums, stipends, student awards, and business meeting and entertainment-related expenditures. Accounting strongly discourages employees from using personal funds to procure goods and services, and encourages the use of more efficient forms

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of payment for low-value purchases, such as the Flex-Card (UCSB's procurement card used for low-value purchases), or the department's low-value purchase authorization number for on-campus and local, commonly-used vendors. Form-5 approval is required by an individual with appropriate delegated signature authority for the expenditure type and funding source, as is supporting documentation to substantiate the expenditure, before the department submits the expenditure to the AS&C Accounts Payable unit for compliance review and payment.

In early 2010, AS&C implemented a web-based system for Form-5 disbursement processing. The system was designed and programmed by ASIT and was modeled on the existing AS&C Online Travel Expense Voucher System. The system provides an electronic means for departments to submit a Form-5 to AS&C to expedite payment processing, but does not currently include a mechanism for departmental approvers to electronically authorize the payment request before submittal to AS&C. To complete a transaction, departments are required to print a paper Form-5 from the system, have it certified by the employee and signed by the approver, attach supporting documentation, and submit it to the Accounts Payable unit. Accounts Payable reviews the transactions and releases them to the accounts payable system for payment, or returns them to the department for correction if there are issues with compliance or supporting documentation. AS&C currently restricts system processing to campus employee reimbursements only, and has plans for future modifications that will allow system processing of other types of disbursements.

Users log into the system using their UCSB Net-ID, and all data entry/modification, data release, and payment approval actions are recorded with the user's ID and the date/time the action was performed. System features include several levels of user processing capability. In general, departmental preparers enter or modify the Form-5 data and ensure approvals and substantiating documents are obtained, and departmental releasers ensure that entered information is correct, properly approved, and supported before electronically releasing the data to AS&C. Accounting approvers review and approve payment of Form-5 payment requests entered and released by departments or Accounting preparers. System controls are in place to prevent a departmental releaser from releasing a disbursement voucher that they have prepared, and an Accounting approver from approving a disbursement voucher that they have prepared. A Departmental Security Administrator (DSA)¹ in AS&C is responsible for assigning the Accounting processor security groups for the Online Form-5 System to authorized AS&C employees.

¹ Departmental Security Administrators (DSAs) are the individuals responsible for assigning the departmental processor security groups to authorized employees in each department. In this case, the DSA is responsible for the assignment of financial systems privileged processor rights to authorized AS&C staff who perform oversight, review, and approval of financial transactions submitted by departments.

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Data transfer between the user's web browser and system servers is encrypted, and the servers are located behind a firewall. The system does not currently house any protected data that would require, under governmental or banking industry regulations, specialized encryption or other protection measures.

Summary Opinion

The review found no significant deficiencies or major weaknesses in internal controls. The design and programming of the Online Form-5 System generally incorporates controls that are appropriate for the type of processing system and data currently stored; also, AS&C review procedures appeared to provide assurance that disbursement transactions processed through the system are authorized, properly supported, and in compliance with University policy and procedures and external regulations.

The review did find opportunities to further strengthen information technology controls, transaction processing, and compliance review procedures, and potential opportunities for enhancing efficiency. These include updating system processing capabilities for AS&C employees on a more timely basis, upgrading system software to vendor-supported versions, and improving controls that ensure expenditures processed through the system comply with applicable policies and procedures.

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

Detailed Observations and Management Corrective Actions

A. System General Controls

Our review of general IT controls for the Online Form-5 System included an assessment of controls related to physical and logical security, application change management, data backup and recovery, and business continuity planning. We also reviewed the current assignment of Departmental Security Administrator (DSA) rights for AS&C financial systems, and the Online Form-5 System processing permissions established for AS&C staff.

1. Access

The review found that a former employee of the Computing Services unit of AS&C, who had transferred employment to another campus department in 2007, remained authorized as a DSA for AS&C in the Financial Systems Authorization System (FSAS), the system used for granting employee processing permissions. However, the OIST Campus Security Administrator, who is responsible for administrative oversight of the FSAS and the campus DSA assignment process, confirmed that the employee's access had been terminated in 2008, after which the employee had no capability to perform AS&C DSA functions.

The review also found that a current AS&C employee with assigned DSA rights for assigning privileged processing capability for AS&C financial systems also had high-level "accounting preparer" access rights to the system that had likely been retained, according to management, from the system testing phase. Although system controls are in place to ensure that any system transaction prepared by the individual would require release by a separate "accounting approver" before being released for payment, the DSA and accounting preparer functions should be distinct to ensure appropriate segregation of duties. Otherwise, there is the potential for the processing of unauthorized payments through the system.

Additionally, the review found that, although Accounting preparers do not have the capability to modify Form-5 data that has been entered to the system by a departmental preparer, the function does allow the processor to initiate a new Form-5 transaction for payment from the funds of campus departments. Management indicated this capability was needed during the system testing phase but is not being used in production.

2. Software Vendor Support

The operating system and database software versions currently in place for the Online Form-5 System are not vendor-supported. The operating system software is one version behind the versions supported by the vendor, and there are plans in place to upgrade to supported software versions. However, according to management, the plans are dependent on budget and staff resources.

To improve Online Form-5 System IT controls, Audit and Advisory Services recommends removing DSA capability for the former AS&C employee and the accounting preparer permissions assigned to the current financial systems' DSA. Procedures should be implemented to ensure that system processing permissions for AS&C employees are updated on a more timely basis and periodically reviewed for appropriateness. Also, to ensure the continued viability of the Online Form-5 system, the operating system and database software for the system should be upgraded to versions currently supported by the software vendor.

Additionally, we recommend that management review the system processing permissions for the Accounting preparer function and remove the capability for the processor to initiate payments against the funds of other campus departments if it is no longer considered necessary.

Management Corrective Actions

Upon review of the recommendations provided by UCSB Audit and Advisory Services, management has identified the following management corrective actions:

- **DSA Access Controls** - Management has removed the DSA capability for the former AS&C employee and the accounting preparer permissions assigned to the current financial system DSA.
- **System Permissions** - Management acknowledges the need for the timely update of system processing permissions and has discussed this matter with the current DSA. Management will commence quarterly reviews of system processing permissions on December 15, 2011.

Audit and Advisory Services will follow-up on the corrective actions above by December 31, 2011, to ensure they have been implemented.

- **Software Support** - Management acknowledges the need to upgrade the operating system and database software employed by the Online Form-5 system.

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Due to conflicting IT projects and resource constraints, this issue will need to be deferred until resources are available to address the upgrade. It is anticipated that the upgrade will be completed no later than June 30, 2013.

- **System Processing Permissions** - Management has reviewed the system processing permissions for the Accounting Preparer role and has determined that there is a valid business requirement to allow selected central office staff the ability to initiate payments against the funds of other campus departments. It should be noted that this capability is limited to central office staff charged with the role of processing reimbursements for campus departments and testing the system, and any input performed by an Accounting Preparer must be released by a second individual prior to the disbursement of funds.

B. Form-5 Transaction Processing and Compliance Controls

Our testing of a sample of ten Online Form-5 System transactions found several issues of compliance with UC policy and procedures and AS&C disbursement processing guidelines. These included:

- The Online Form-5 System was not the most appropriate and/or efficient payment method for eight transactions, and the reimbursement amount in five of these cases ranged from \$1,000 to almost \$5,000. A departmental Flex-Card could have been used for each of these transactions instead of employee reimbursement via Form-5, which is discouraged by AS&C procurement guidelines. Several of the expenditures included reimbursement to employees for purchases from the UCSB Bookstore, where the department's low-value purchasing authorization code could also have been used.
- In three cases, the employee certification statement on the printed Form-5 reimbursement form had not been signed by the employee who incurred the expense. In all cases, the employee signature line contained a reference to the employee's signature or emailed approval included in supporting documents submitted by the department, but none of those documents contained the specific certification verbiage, which states: "I certify that the above is a true statement, that the expenses claimed were incurred by me on official University business on the dates shown, and that I have attached original receipts for each expense as required by University policy."
- The reimbursement amount in one case totaled almost \$14,000, and was for payments to human subjects that the employee incurred for a research project. However, no receipts supporting expenditure of the funds to the human subjects were provided to AS&C by the department. The supporting documentation submitted indicated that

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receipts were on file with the principal investigator (employee). AS&C payment authorization guidelines require that the human subjects protocol be submitted as authorization support for such payment requests; however, a brief explanatory email from the principal investigator and the notice of approval of the protocol through the Office of Research were the only support items attached to the Form-5 request.

Our review of a number of other Online Form-5 payments made during the audit period also found reimbursements for entertainment and employee professional memberships. However, other specialized disbursement request forms are required for these transactions, which may require departmental delegated approval that differs from the level of approval for Form-5 reimbursements.

To improve Form-5 reimbursement processing practices and enhance compliance with University policies and procedures, campus guidelines, and external regulations, Audit and Advisory Services recommends that management consider implementing the following:

- Better system controls to help limit the types of transactions processed through the Online Form-5 System. This could include flagging disbursements within the system that have certain object codes² or that exceed dollar thresholds, or for which a more thorough review by Accounts Payable staff would be prudent
- Restricting system processing to only those expenditures with object codes that are allowed by AS&C disbursement guidelines and UC policy authorization restrictions.
- More robust review procedures to help ensure that disbursement transactions comply with applicable policies and guidelines and are appropriately supported.
- Controls necessary to ensure that employee certification statements or the equivalent are completed.

Reimbursements that do not meet the controls or processing requirements implemented should be returned to the department for appropriate correction, consistent with current practices.

Management should also enhance campus disbursements processing training to specifically address the need to use the most appropriate and efficient procurement methods.

² Object codes in UCSB's accounting system classify expenditures into categories that generally describe the goods or services purchased.

Management Corrective Actions

Upon review of the recommendations provided by UCSB Audit and Advisory Services, management has identified the following management corrective actions:

- **Limit Types of Transactions Processed Through the Online Form-5 System -**
Management is currently in the process of implementing an eProcurement system that should significantly reduce the number of transactions processed through the Online Form-5 System. The eProcurement system go-live date is projected to take place on or before June 30, 2012. In addition, management intends to begin quarterly targeted reviews of Online Form-5 disbursements starting no later than December 15, 2011.
- **Restricting Processing via Object Codes –** A review of the audit findings identified several cases where the department preparer used an Object Code that did not properly identify the expenditure included on the reimbursement form and that the use of the Miscellaneous Reimbursement form was found to be appropriate. Management is currently in the process of reviewing the current list of object codes with the goal of making modifications that will better define their usage. In addition, a system enhancement has been identified to limit the types of transactions linked to object codes currently allowed within the Online Form-5 System. It is anticipated that this system enhancement will be completed no later than September 30, 2012.
- **Review Procedures –** Management is working with accounts payable processors to improve their understanding of University policies and review procedures, including the need to ensure that all reimbursement requests include appropriate supporting documentation. In addition, the Online Form-5 system has a function that allows the processor to flag forms that require additional review. Management will continue to review and follow-up on transactions flagged by accounts payable processors for additional review.
- **Ensure Employee Certification Statements are Completed –** Management has instructed accounts payable processors to return reimbursement forms to the department requestor when forms are received without the required employee certification.
- **Requests That Fail to Meet Controls or Processing Requirements –** Management has instructed accounts payable processors to continue to return forms that fail to meet stated processing and controls requirements.

Audit and Advisory Services will follow-up on the above three corrective actions by December 31, 2011, to ensure they have been implemented.

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- **Campus Disbursements Training** – With the deployment of the new campus eProcurement System, management intends to provide guidance and training to campus departments with the goal of identifying the most appropriate and efficient procurement methods and thereby reduce the number of miscellaneous reimbursement requests. It is anticipated that initial training will be completed on or before June 30, 2012.