



UCSB Audit and Advisory Services

Internal Audit Report

**University Center
Internal Control Review**

March 17, 2015

Performed by:

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Approved by:

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Report No. 08-15-0007

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AUDIT AND ADVISORY SERVICES
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March 17, 2015

To: Gary Lawrence, Director, University Center & Events Center Administration
Sue Hawkins, Dining Services Director
Mark Beisecker, Bookstore Director
University Center

Re: **University Center Internal Control Review**
Audit Report No. 08-15-0007

As part of the 2014-15 annual audit services plan, Audit and Advisory Services has completed our audit of University Center (UCen) internal controls; enclosed is the report detailing the results of our work.

The purpose of this project was to assess the current state of UCen internal controls and compliance with University of California (UC) and University of California, Santa Barbara (UCSB) policies and procedures. The scope of the audit focused on internal controls governing UCen's major lines of business: Dining Services, the Bookstore, and Conference Services. We also performed a limited review of the Events Center, a separate department under the purview of the Director, University Center & Events Center Administration.

The results of our work identified several opportunities for improvement, including modifying current processes to ensure compliance with UC and UCSB procurement, hiring, IT security, and cash handling requirements. We also found that UCen management should evaluate the capabilities of the Bookstore's point-of-sale system to ensure that it meets the department's needs, and to ensure that revenue accounting and recording procedures reflect actual results.

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 recommendations. We greatly appreciated the assistance on this project that was provided by UCen personnel. If you have any questions, please contact me.

Respectfully submitted,

A handwritten signature in black ink that reads "Robert Tarsia".

Robert Tarsia
Director
Audit and Advisory Services

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cc: Chancellor Henry Yang
Vice Chancellor Administrative Services Marc Fisher
UCSB Audit Committee
Senior Vice President and Chief Compliance and Audit Officer Sheryl Vacca

PURPOSE

The purpose of this audit was to assess the current state of University Center (UCen) internal controls and compliance with University of California (UC) and University of California, Santa Barbara (UCSB) policies and procedures. This audit was performed as part of UCSB's 2014-15 annual audit services plan.

SCOPE, OBJECTIVES AND METHODOLOGY

The scope of the audit focused on internal controls governing UCen's major lines of business: Dining Services, UCSB Bookstore, and Conference Services. We also performed a limited review of the Events Center, a separate department under the purview of the Director, University Center & Events Center Administration.

The objectives of this audit were to determine whether procedures and controls in the following areas are adequate:

- Disbursements
- New Hire Onboarding Processes
- Revenue Collection / Recording

To meet these objectives, we also performed limited work to evaluate certain UCen information technology (IT), procurement, inventory, and cash processes and controls.

Our preliminary work emphasized:

- Gaining an understanding of UCen operations, including processes related to UCen's income streams, which include revenues generated from Dining Services, UCSB Bookstore, Conference Services, and other sources.
- Gaining and documenting an understanding of critical compliance requirements relevant to the scope of the audit, including applicable laws, regulations, policies, and procedures.
- Reviewing other audits and reviews relevant to this audit, including work by UCSB Audit and Advisory Services and other UC campuses.

Our audit fieldwork included:

- Testing a sample of department disbursements to validate internal controls and evaluate compliance with University policies and procedures, including UC Policy BUS-43, *Materiel Management*.
- Evaluating UCen new hire onboarding procedures to ensure that they comply with UC and UCSB policies and procedures, including the University's New Hire Checklist and other relevant Human Resources requirements.
- Reviewing the UCen's application and hiring procedures and forms to determine if they include any redundant or unnecessary steps that could be eliminated to streamline the process.

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- Evaluating revenue accounting and collection procedures to determine whether internal controls are sufficient to ensure that revenues are properly calculated, collected, and recorded.

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

BACKGROUND

The UCen is an auxiliary unit of UCSB within the Administrative Services Division. As an auxiliary unit, it is self-supporting and provides non-instructional support in the form of goods and services to students, faculty, staff, and occasionally the general public. The center's operations consist of three major lines of business: Dining Services, the UCSB Bookstore, and general operations, including Conference Services. Daily operations are managed by the directors and their respective staff. In addition to 62 full-time equivalent (FTE) career staff, the UCen employs approximately 500 student employees over the course of an academic year.

Table 1		University Center Operating Results – Fiscal Year 2013-14		
	Bookstore	Dining Services	FY 2014 Total	
Sales	\$10,799,593	\$6,648,598	\$17,448,191	
Cost of Sales	\$8,375,328	\$2,832,163	\$11,207,491	
Other Income	\$988,531	\$129,520	\$3,588,892 *	
FTEs	21.5	22.5	62 *	

Sources: FY 2013-14 audited financial statements, UCen personnel

* Includes other operations.

The UCen is overseen by a Governance Board. The board has authority over the operations and development of the center with respect to any matters involving policy, including short and long term planning for the financial viability of the UCen. The board's voting membership consists of one student chairperson, four at-large undergraduate students, two graduate students, one Multicultural Center Board Student representative, one Office of Student Life Student representative, a faculty member, a staff member, and a representative of the Alumni Association. The Governance Board also includes five non-voting ex officio members: the UCen, Bookstore, and Dining Services directors; the Associated Students President; and the Graduate Student Association President. There are also six non-voting advisors: the Multicultural Center Director; the Associated Students Executive Director, Internal Vice President, and Assistant Director of Student Programs, Events, and Services; an Office of Student Life representative; and the UCen's Student Manager representative. Decisions of the Board are subject to review and final approval of the Chancellor or his/her designee.

Relevant Policies

Policies and procedures considered most relevant to the scope of this audit include:

- UC BFB BUS-43, *Materiel Management* (BUS-43), governs University procurement procedures and establishes bid thresholds and selection criteria. The policy incorporates the California Public Contract Code Chapter 2.1 requirement that any single University of California purchase contract or purchase order involving an estimated expenditure of more than \$100,000 annually “be awarded to the lowest bidder meeting specifications.” It also outlines bid selection and contract formation requirements, including the inclusion of standard University terms and conditions of purchase.
- UC BFB BUS-49, *Policy for Cash and Cash Equivalents Received* (BUS-49), establishes 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.
- Personnel Policies for Staff Members 21, *Appointment* (PPSM-21), provides departments with onboarding guidance, including the selection process for potential appointments, the scope of background checks for each applicant, and the employment of near relatives.
- UC BFB IS-12, *Continuity Planning and Disaster Recovery* (IS-12), provides recommendations and guidelines for campus IT continuity planning and disaster recovery activities in an effort to ensure the protection of, and accessibility to, information resources.

SUMMARY OPINION

The results of our work identified several opportunities for improvement, including modifying current processes to ensure compliance with UC and UCSB procurement, hiring, IT security, and cash handling requirements. We also found that UCen management should evaluate the capabilities of the Bookstore’s point-of-sale system to ensure that it meets the department’s needs, and to ensure that associated revenue accounting and recording procedures reflect actual results.

DETAILED OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS

A. Improve Procedures and Controls Involving Revenue

1. Bookstore Revenue Accounting / Point-of-Sale System Limitations

UCSB Bookstore sales for fiscal year 2013-14 were \$10,799,593. Our review of Bookstore inventory procedures found that point-of-sale cost of goods data maintained on the MBS¹ stock ledger cannot be completely reconciled to the numbers available in the UCen general ledger. Instead, adjustments are manually made to the general ledger's cost of goods sold figures to match the information from the MBS inventory module. For fiscal year 2013-14, the adjustments resulted in a \$601 thousand increase in cost of goods sold. According to UCen personnel, the variance in cost of goods sold figures is the result of point-of-sale system limitations; however, they also informed us that the system vendor believes that Bookstore markdown and other practices are the cause. Based on the information available, it is difficult to assess the propriety of these adjustments, which appear to us to partially invalidate the internal control benefits of a point-of-sale system. In addition, because only one UCen employee currently has sufficient understanding of the adjustments to calculate and enter them, it appears that adjustments with a material financial impact are, in effect, being made without adequate, knowledgeable review and approval.

Because of the apparent lack of clarity regarding the reliability of the cost of sales numbers using the current system, we recommend that the UCen evaluate the cost and benefits of the acquisition of a new bookstore management or point-of-sale system vs. working with the vendor to overcome current system limitations.

2. Dining Concession Tenant Revenues

According to UCen personnel, revenues from dining concession² leases totaled \$356,330 for fiscal year 2013-14. Operators submit monthly reports detailing their sales; however, we found that the UCen does not require tenants to submit documentation to support reported sales figures, such as reports from the tenants' point-of-sale systems. In addition, UCen Accounting has not taken advantage of contract clauses that provide for annual audits and review of tenant business records for two years.

To ensure that reported sales revenues and percentage rent payments are completely accurate, we recommend that the UCen require tenants to submit documentation to support reported monthly sales figures, such as reports from the tenants' point-of-sale systems. In addition, the UCen should conduct or request periodic audits of tenant revenues.

3. Bookstore Cash Handling Procedures

Our evaluation of Bookstore cash handling procedures identified separation of duties and documentation of cash handling procedures as areas for improvement to ensure better

¹ Missouri Book Systems (MBS) is a bookstore management system that includes a point-of-sale system.

² This term is used here to describe dining tenants whose leases require rent payments based, in whole or in part, on a percentage of sales.

compliance with BUS-49 and sound internal control practices. The Bookstore does not currently:

- Perform background checks for all student employees with cash handling responsibilities, as required by PPSM 21 and BUS-49.
- Comply in all respects with the “individual accountability” requirement of BUS-49, including assigning separate cash register drawers and maintaining documentation for cash discrepancies for each cashier (as opposed to each register).

We also found that it would be prudent for the UCen to evaluate the applicability of BUS-49 central reporting requirements, including reporting cash recorded, cash deposited, and cash collections that are over and short daily to accounting, as well as PCI compliance results annually to the Campus Cash Handling Coordinator.

We recommend that the UCen work with the campus Cash Handling Coordinator and Business and Financial Services to review current cash handling processes, and make procedural changes or obtain exemptions to policy requirements, as necessary, to ensure full compliance with BUS-49.

Management Corrective Actions

The UCen agrees to a management action plan to include the following:

- Bookstore Point-of-Sale System Limitations – We will evaluate the cost and benefits of the acquisition of a new bookstore management or point-of-sale system vs. working with the vendor to overcome current system limitations. This will be completed by December 31, 2015.
- Dining Concession Tenant Revenues – We will develop an appropriate tenant documentation package to support reported monthly sales figures, and start requiring tenants to submit the packages by June 30, 2015. In addition, UCen Dining Services will consult with our financial accounting firm and/or Audit and Advisory Services on a cost-effective approach to periodic audits of tenant revenues, to be implemented by June 30, 2015.
- Bookstore Cash Handling Procedures - The UCen will work with the campus Cash Handling Coordinator and Business and Financial Services to review current cash handling processes, and make procedural changes or obtain exemptions to policy requirements to ensure compliance with BUS-49. This will be completed by June 30, 2015.

Audit and Advisory Services will follow up on the status of this management action plan by June 30, 2015, with additional follow-up on the point-of-sale system issue by December 31, 2015.

B. Procurement Procedures Are Not Compliant With University Requirements

We tested a sample of 25 department expenditures from fiscal year 2014-15 to assess internal controls and evaluate compliance with University policies and procedures. Our review identified significant areas of non-compliance with University requirements. The more significant risk areas included the following:

- Until 2012, the UCen had delegated procurement authority. Because the delegation expired with the departure of the former UCen Director, Procurement Services confirmed that the UCen does not appear to currently have any formal purchasing authority, even as an auxiliary unit, and is subject to Regents' procurement requirements as detailed in BUS-43. Our review, however, found that the UCen is not currently consulting with Procurement Services before entering into supplier contracts, which is required in the absence of delegated procurement authority.
- Internal procurement approval procedures need to be updated. The UCen has not kept all UCSB University Center Signature Authorization or Cancellation forms updated with employees' current positions, along with the corresponding procurement authorization categories and dollar limits. We found that at least one UCen Director's current form reflects his prior position's authorization requirement of a "counter-signature" by the Vice Chancellor of Administrative Services or a former UCen employee.
- The UCen is not currently soliciting bids for a number of contracts in excess of \$100,000 per year, as required by BUS-43. Although BUS-43 includes a provision permitting exceptions to the bid requirement when only one supplier is capable of meeting University requirements within the time available, the UCen has not obtained and documented the required sole source justifications, as required by BUS-43. UCSB Bookstore had 16 vendors from which it made purchases totaling \$100,000 or more for fiscal year 2013-14 without adequate bidding or sole source procedures, ranging from \$119,396 to \$1,493,152.
- There were differences in understanding regarding the current status of two key contracts. During fiscal year 2013-14, UCen Dining Services purchased a total of \$602,501 in frozen foods and groceries from Jordano's; however, a campus contract with that vendor expired in December 2012, and Procurement Services and the UCen had a different understanding as to whether UCen Dining Services was covered by a contract extension. UCen Dining Services also purchased \$153,403 in goods from Challenge Dairy Products during fiscal year 2013-14, but it was unclear that all types of goods purchased were covered under the contract. As a result, there is a question as to whether the department would be able to enforce required University terms and conditions in the case of a dispute.³
- Required standard, University terms and conditions have not been included in purchase orders and contracts, and University RFP templates were not being used when bids were solicited.

We recommend that the UCen work with Procurement Services to clarify all procurement issues and bring its practices into compliance with University requirements.

³ Source: \$ figures provided by UCen personnel.

Management Corrective Actions

The UCen will work with Procurement Services to bring our procurement practices into full compliance with University requirements by December 31, 2015.

Audit and Advisory Services will follow up on the status of this issue by June 30, 2015, and again by December 31, 2015.

C. Improve Certain IT Processes and Controls

We evaluated internal controls over critical information technology processes and identified some opportunities to strengthen existing procedures:

- IT Recovery and Business Continuity Plan - We reviewed the UCen's IT recovery plan and found that it adequately provides for both short-term and long-term recovery of operational capability. However, the plan has not been updated since 2011. The plan needs to be reviewed for relevance and to ensure that all processes described are complete and up-to-date, including emergency contact information and offsite backup procedures. The UCen should also periodically perform recovery tests, as required by Policy IS-12.
- Back-up Processes - We noted that the UCen performs daily backups of all critical systems, but that offsite backup data is maintained locally at an employee's home. Maintaining backups at non-University locations not under contract results in unnecessary risks. Current practices are also not sufficient to ensure business continuity in case of a natural disaster or the employee's separation from the University.
- MBS System - Although our limited review found that security over the Bookstore's MBS system is generally adequate, the UCen does not have written procedures related to the establishment and management of system user accounts and the performance of occasional system access security reviews. Documenting and implementing these procedures would help ensure that system access is only granted to current employees whose job functions require it.

We recommend that the UCen document and implement enhanced IT procedures that provide for:

- Periodic review and update of the department's IT recovery and continuity plan to ensure that it is complete and up-to-date.
- Periodic recovery tests, as required by Policy IS-12.
- Appropriate back-up processes that would be sufficient to ensure business continuity in case of a natural disaster.
- Establishing and managing user accounts for the department's point-of-sale systems and the performance of occasional system access security reviews.

Management Corrective Actions

The UCen will document and implement enhanced IT procedures that provide for:

- Periodic review and update of the department's IT recovery and continuity plan to ensure that it is complete and up-to-date. The initial update to the plan will be completed by June 30, 2015.
- Periodic performance of recovery tests, as required by Policy IS-12.
- Appropriate back-up processes that would be sufficient to ensure business continuity in case of a natural disaster.
- Establishing and managing user accounts for the department's point-of-sale systems and the performance of occasional system access security reviews.

Audit and Advisory Services will follow up on the status of this issue by June 30, 2015.

D. New Hire Onboarding Procedures Are Not Fully in Compliance With University Requirements

As stated in the Background section of this report, the UCen employs approximately 500 student employees over the course of an academic year. We reviewed the department's student hire onboarding procedures for consistency with University requirements, and to determine if there are opportunities to make them more efficient. We identified several opportunities to improve onboarding procedures, including:

- The performance of background checks for all employees with cashiering responsibilities, as required by PPSM 21 and BUS-49. Currently, both Dining Services and the Bookstore only perform background checks of students who are promoted to a supervisory position, regardless of their assigned cash handling duties.
- Discontinuing the collection of social security numbers and of information related to race / ethnic background on its internal data form. Both Administration and Dining Services were utilizing similar versions of a data form used to collect information from new hires. Both versions included the collection of social security information; one also gathered ethnic background information from newly hired employees after they had undergone the application process. UCen Administration was also collecting social security numbers on job application forms.
- Evaluating the necessity of collecting voluntary federal Self-Identification forms. These forms are generally used by federal contractors to collect voluntary race and disability data from their employees for federal reporting purposes, although there is a question as to whether this data should be collected from student employees.
- Incorporating University safety training requirements into the UCen Dining Services onboarding process.

- Updating outdated department emergency procedures. The UCen's current emergency procedures appear to have last been updated in 2005 and contain outdated emergency contacts, such as employees who are no longer employed at the UCen.
- Documenting critical onboarding steps, such as review of University policies covering equal opportunity, sexual harassment, and the whistleblower process. The department currently posts these policies in the UCen building but does not provide them to, or cover them with, new hires.

We recommend that the UCen consult with Human Resources regarding student hire onboarding procedures and ensure that its practices comply with University requirements.

Management Corrective Actions

The UCen will consult with Human Resources to ensure that onboarding practices comply with University requirements. We will ensure that that our practices are revised, as necessary, effective June 30, 2015.

Audit and Advisory Services will follow up on the status of this issue by June 30, 2015.

E. The Events Center Should Work With the Department of Recreation and Intercollegiate Athletics to Establish "Offseason" Procedures

The Events Center Governance Board is responsible for scheduling and planning activities in the Events Center. We learned from audit interviews that the Events Center Governance Board is primarily consulted when conflicts in scheduling between the Department of Recreation, Intercollegiate Athletics, and/or the UCen cannot be resolved, and that the procedure does not include summer scheduling, when the Board is not present and for which there are no existing use, rental, and maintenance parameters.

The lack of established, written procedures outlining departmental responsibilities in this area could potentially lead to scheduling conflicts and confusion as to which campus unit bears responsibility for preparation and maintenance activities. We recommend that the UCen collaborate with the Department of Recreation and Intercollegiate Athletics on a memorandum of understanding that outlines procedures for offseason activities in the Events Center, including rental, preparation, and clean-up rates, and any other relevant terms, such as resolution of scheduling conflicts, considered necessary for the offseason management of the Events Center.

Management Corrective Actions

The UCen will collaborate with the Department of Recreation and Intercollegiate Athletics on a memorandum of understanding that outlines procedures for offseason activities in the Events Center. We hope to have a memorandum of understanding in place by September 30, 2015.

Audit and Advisory Services will follow up on the status of this issue by September 30, 2015.