July 10, 2017

To: Ed Klotzbier – Associate Chancellor and Chief of Staff

Subject: Vice Chancellor for Development and Alumni Relations Transition Review

Ref: Audit Report No. M17C017

Attached is the report for the Vice Chancellor for Development and Alumni Relations Transition Review which was performed in conjunction with a larger transition assessment. This report relates to the review of spending by the Development and Alumni Relations division.

We appreciate the help we received from Development and Alumni Relations staff during this audit. If you have any questions, please feel free to contact me.

Todd Kucker
Director of Internal Audit

Attachment
cc Interim SVP Lohse
    Chancellor Leland
    Associate Chancellor Putney
Purpose and Scope

Internal Audit has completed an audit of expenditures by Development and Alumni Relations. This audit was completed in conjunction with a larger transition assessment of the Vice Chancellor for Development and Alumni Relations undertaken at the request of campus leadership. The primary purpose of the audit was to ensure that the accounts taken over by the next leader over the division are in order and present little future risk of controversy. A secondary purpose was to review that spending has been in line with budgets in order to avoid deficit balances in funds and accounts.

The scope of the audit included expenditures in accounts managed by Development and Alumni Relations during Fiscal Year 2016 – 2017. We completed the following testing:

- Verified that monthly account reviews were completed by Development and Alumni Relations staff, and appropriately reviewed and approved;
- Reviewed backup documentation for 50 judgmentally selected transactions for appropriate business rationale, approvals, and for compliance with policy;
- Reviewed fund balances and current year spending versus the budget appropriations to identify deficits.

Background

The budget and actual expenditures for Development and Alumni Relations are managed by the division’s Gift and Financial Services Director. One purchaser in the division handles the majority of the division’s purchases and reimbursements. During past years, Development and Alumni Relations has been responsible for managing the expenditures related to commencement.

Conclusion

During the review, we did not identify issues which could create concern for the next leader of Development and Alumni Relations. We did not identify any indication of the misuse of funds.

Observations and Recommendations

During the audit, we observed processes that could be improved.

*Special Approvals and Exceptions to Policy*

A significant number of transactions we reviewed required special approval by someone outside of the Development and Alumni Relations division. For example, sponsorships paid by the division to local organizations require the approval of the Chancellor’s delegate. For the expenditures we tested, appropriate approvals had been properly obtained. The Vice Chancellor for Business and Administrative Services who recently retired from UC Merced had managed these responsibilities. As financial responsibilities have been transferred from Business and Administrative Services to the Planning and Budget Division, campus leadership might consider
transferring the special authority required for these transactions to the interim Vice Chancellor for Planning and Budget.

Inefficient Review and Approval

During the review, we noted that the former Vice Chancellor was involved with reviewing and approving all transactions for the division. There were many employees involved with approving transactions. Expenditures of small dollar amounts were often reviewed and approved by the Financial Services Director, an Assistant Vice Chancellor, and the Vice Chancellor.

Rather than having multiple approvals for insignificant transactions, a risk based approach should be utilized in setting up approval levels. We recommend that financial reports be provided to leadership over the division in order to properly monitor spending. It seems unusual for a Vice Chancellor to spend time with these approvals which would typically be handled by a management service officer or other manager.

Budget Funding for Commencement

During the review, we noted a large deficit balance for commencement. While the Budget Office has promised to cover these costs, the appropriation had not yet been set up in the financial system. As this is an annual event, we recommend that the Budget Office identify the funding necessary for commencement before spending for commencement occurs. Actual spending for commencement can then be monitored against the budget in the financial system.