

# UC MERCED INTERNAL AUDIT

## ANNUAL REPORT OF ACTIVITIES Fiscal Year 2018 – 2019 in Review

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# Overview and Highlights

Internal Audit strives to be a trusted advisor for UC Merced campus leadership. The mission of UC Merced Internal Audit is to help the University fulfill its mission of teaching, research, and service by:

- Providing value added services that assist management in meeting their responsibilities and achieving established goals
- Collaborating with internal customers so that services strengthen controls in order to mitigate risks and improve process efficiency and effectiveness
- Ensuring compliance with University policies and external regulations

During the year, Internal Audit issued six audit reports and three advisory service reports. We worked with employees during audits and advisory services to identify distinct actions to strengthen internal controls and to improve the efficiency of processes.

# Overview and Highlights

The following is a high level overview of how employee time was utilized by UC Merced Internal Audit during FY 2018 – 2019.

	FY 2019 Hours	% of Time FY 2019	% of Time FY 2018	% of Time FY 2017
Time spent on audits	1,688	47%	49%	38%
Time spent on advisory service projects	872	25%	25%	32%
Time spent on investigation	135	4%	0%	2%
Time spent on audit support activities (e.g. audit risk assessment, quality assessment review, etc.)	<u>183</u>	<u>5%</u>	<u>8%</u>	<u>8%</u>
Total direct time	2,878	81%	82%	81%
Administrative, professional development, training employees, and other indirect hours	680	19%	18%	19%
Total hours available	3,558	100%	100%	100%

# 2018 – 2019 Audits

Based upon the Audit Risk Assessment completed during early 2018, systemwide requirements, and special requests, the following audits were completed at UC Merced during FY 2018 – 2019:

- ▣ Admissions Process Walkthrough
- ▣ Dining Services Financial Processes
- ▣ Executive Compensation
- ▣ Independent Contractors
- ▣ Tuition, Student Fees, and Receivables
- ▣ UC Fair Work / Fair Wage Plan

# Admissions Process Walkthrough

In response to recent nationwide issues involving third parties exploiting vulnerabilities in college admissions processes specifically related to athletics, the UC systemwide Office of Ethics, Compliance and Audit Services requested a review of the admissions processes. The purpose of the audit was to assess controls over the admissions process to ensure controls are in place to reduce exposure to third party interference.

The audit identified areas for improvement to strengthen controls and further reduce the risk of admissions fraud.

***[The final report has not yet been issued for this audit.]***

# Dining Services Financial Processes

The purpose of this audit was to determine whether internal controls managed by Dining Services were operating effectively. While the audit reviewed various controls used to manage significant risks, the audit mainly focused on controls ensuring the accuracy of financial information.

We identified opportunities for improvement in the following areas:

- Safeguarding food and improving purchasing with an inventory management system
- Reviewing prices on vendor invoices
- Verifying that only received items are paid for
- Reconciliation of time worked, and amounts paid to hourly employees
- Keeping track of meals provided to employees
- Discontinue sales of food inventory to employees
- Catering charges based on actual costs incurred
- Department approval of catering orders
- Compliance with P-Card policies
- Monitoring food truck safety
- Verifying that employees complete required training
- Sales tax and the Heritage Meal Plans

# Executive Compensation

The purpose of this systemwide audit was to assess the effectiveness of processes in place to ensure accuracy of the Annual Report of Executive Compensation (AREC) and the Annual Reports of Expense of the Chancellor. This audit assessed executive compensation reporting.

It was determined that internal controls in this area were adequate and no issues were reported on this audit report.

# Independent Contractors

The purpose of this audit was to identify independent contractors who should have been classified as employees and to recommend process improvements for correctly classifying employees and independent contractors.

We identified opportunities for improvement in the following areas:

- ▣ Employee versus independent contractor evaluations
- ▣ Human Resources' approval of independent contractors

# Tuition, Student Fees, and Receivables

The purpose of this audit was to assess risks related to student accounts and evaluate the adequacy of internal controls over the assessment, collection, and disbursement of student tuition, fees, and receivables, including delinquent and bad debt write-off practices.

We identified opportunities for improvement in the following areas:

- ▣ Utilization of a Statement of Financial Responsibility Agreement
- ▣ Billing management of third-party textbook vendor fees
- ▣ Student fee oversight
- ▣ FERPA training for all users of Banner

# UC Fair Wage / Fair Work Plan

The purpose of this systemwide audit was to assess whether UC Merced Procurement Services has implemented appropriate processes to ensure UC Merced suppliers comply with the UC Fair Wage/Fair Work Plan provisions.

It was determined that current processes established by UC Merced Procurement Services were adequate to ensure compliance with the UC Fair Wage/Fair Work Plan provisions. No issues were reported on this audit report.

# Advisory Service Projects

Advisory Service projects are different from traditional audits as they focus on improving processes rather than just evaluating internal controls. As a result of the annual risk assessment and from special requests from campus leadership, the following advisory service projects were completed during FY 2018 – 2019:

- Budgeting and Accounting for Undergraduate Programs
- Clery Act Reporting Processes
- 2018 Merit Pay Program

# Budgeting and Accounting for Undergraduate Programs

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At the request of campus leadership, an advisory service was completed related to the budgeting and accounting of undergraduate programs. As there have been difficulties in planning and budgeting for undergraduate programs, the purpose of the review was to identify the causes of issues and recommend potential improvements.

We identified opportunities for improvement in the following areas:

- ▣ Strategic planning versus financial planning
- ▣ Clearly defining planning responsibilities
- ▣ Improving strategies for funding undergraduate programs
- ▣ Communication and collaboration

# Clery Act Reporting Processes

The review was requested by the Associate Chancellor and Senior Advisor to the Chancellor. The purpose of the review was to evaluate the adequacy of the procedures used for gathering and reporting Clery crime statistics and to ensure compliance with United States Code: Title 20, Section 1092(f), *Disclosure of Campus Security Policy and Campus Crime Statistics (Clery Act)*.

We identified opportunities for improvement in the following areas:

- Campus Security Authority (CSA) Management
- Communicating the importance of compliance with Clery Act
- Retention of supporting records

# 2018 Merit Pay Program

At the request of campus leadership, an advisory service was completed related to the merit pay program. The purpose of the review was to verify that merit increases were accurately applied based upon the approved parameters for fiscal year 2018 - 2019.

It was determined that the current processes established by the Human Resources Compensation group were adequate to ensure that approved merit increases were correctly applied to eligible staff employees.

# Management Corrective Actions

Management corrective actions (referred to as MCA's throughout the UC system) are the improvements and other actions that campus management agrees to take in response to the recommendations included in the department's audit reports. During fiscal year 2018-2019, Internal Audit continued to emphasize collaborating with management on developing comprehensive management action plans that address underlying risks.

Summary of the Management Corrective Actions (MCA's) during FY 2018 -19	Total
MCA's outstanding after completion of FY 2018 projects	7
Additional MCA's added from FY 2019 projects	12
MCA's completed and closed during FY 2019	6
MCA's outstanding after the completion of the FY 2019 projects	13

# Notable Activities

## **Support of UC Regents and Campus Audit Program**

- During the year we conducted work on the Internal Audit Plan including:
  - Risk-based and systemwide internal audits
  - Management requested advisory service projects
  - Investigations
  - A variety of ad-hoc consultations and inquiries

## **Campus Governance and Risk Mitigation**

- We support campus governance and risk mitigation by assisting management in identifying governance and risk issues on campus through our work in audits, management advisory services, investigations, and follow-up.

# Notable Activities (cont.)

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## **Audit Follow-up Validation**

- ▣ Once audits, management advisory services, or investigations are completed, we reconnect with departments to verify that agreed changes have been made.

## **Campus Risk Intelligence – Risk Management & Compliance**

- ▣ We support the UC Campus Ethics and Compliance Officer (CECO) by coordinating with other campus units that identify and manage risk to ensure efforts are not duplicated, risk intelligence is not siloed, and skills and resources are appropriately assigned.

# Training and Programs

One purpose of Internal Audit is to improve the organization's control environment by educating employees about internal controls. Throughout FY 2018 – 2019, Internal Audit participated in the following:

- Chief Administrative Officers Meetings
  - Presentations to department Administrative Officers regarding issues noted and ways to improve controls
- Financial Management Certification Program (FMCP)
  - Presentations to UC Merced employees promoting ethical management of financial resources, control environment, internal controls, and monitoring
- Fraud Risk Management Program
  - Monthly fraud newsletter to UC Merced employees providing awareness of recent fraud cases at universities to help employees be diligent in preventing fraud

# Committees Participation

To promote the control culture at UC Merced, Internal Audit participated in the following:

- Ethics and Compliance
  - Executive Committee
  - Financial and Operational Risk Committee
  - Information and Privacy Security Committee (IPSC)
  - Management Council
  
- Investigations Workgroup
  
- Systemwide Workgroup
  - Data Analytics Subject Matter Experts
    - UC Merced Internal Audit coordinated meetings with UC systemwide Internal Audit department dedicated to increasing the use of data analytics systemwide
  - Presidential Task Force on University wide Policing
    - UC Merced Internal Audit participated in a systemwide working group comprised of various experts tasked with reviewing current policing practices and provide recommendations to the president regarding best practices and guidance in an effort to strengthen police departments practices and their relationships and interactions with the community

# Providing Value to UC Merced

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The mission of Internal Audit is to enhance and protect the University's value by providing risk-based and objective assurance, advice, and insight.

UC Merced Internal Audit continues to:

- Seek feedback from campus constituents to communicate risks and concerns to campus leadership
- Align audit projects with risks identified during the annual risk assessment
- Participate in campus committees and meet with UC Merced employees to ensure Internal Audit maintains a visible presence