

The Regents of the **University of California**



**Annual Report on  
Internal Audit Activities  
2008 - 2009**

# **ANNUAL REPORT ON INTERNAL AUDIT ACTIVITIES 2008 - 2009**

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# ANNUAL REPORT ON INTERNAL AUDIT ACTIVITIES 2008 - 2009

## I. Executive Summary – Introduction

This Annual Report on Internal Audit Activities serves two purposes.

- **Communicates outcomes of Internal Audit activities.** The report conveys significant issues identified and addressed, progress toward ongoing improvement and corrective actions, and continuing challenges to the University's control and compliance efforts.
- **Demonstrates the accountability of the Internal Audit Program.** The report addresses utilization of our resources, performance metrics and benchmarks, and adherence to professional standards and The Regents Internal Audit Charter. In this regard, our report is consistent with and supportive of President Yudof's accountability initiatives.

Through a program of planned audits, supplemental audits, advisory services, and investigations there were 421 reports issued containing 1,853 Management Corrective Actions which are summarized and analyzed in this report.

# ANNUAL REPORT ON INTERNAL AUDIT ACTIVITIES 2008 - 2009

## Highlights (at close of FY08/09, June)

During FY09, the UC Internal Audit Program:

- Completed 620 audit, advisory services, and investigation projects resulting in 421 reports that produced 1,853 recommendations for improvements to internal controls that produced agreed upon Management Corrective Actions (MCAs)
- Validated the closure of over 1,700 Management Corrective Actions that strengthened controls, as follows:
  - Beginning MCA Number – 1,073 (open at start of FY09)
  - MCAs added – 1,853
  - MCAs closed – 1,763
  - Current open inventory of MCAs – 1,163
  - Current high risk past due MCAs – 25
  - Current medium/low risk past due MCAs – 330
- Met or exceeded benchmarks for:
  - Productivity – 85.36% (goal 85%)
  - Completion of the Audit Plan – 77% (goal > 70%)

# ANNUAL REPORT ON INTERNAL AUDIT ACTIVITIES

## 2008 - 2009

### Highlights (cont'd)

- Participated in a number of University initiatives related to:

#### Governance

- Change Leadership Initiative
- ARRA (Stimulus Package monies) Education and Tracking
- Ongoing involvement with LANS, LLNS Lab Management Council and Audit Committee processes
- Assisted the President with the establishment of the President's Audit Committee

#### Restructuring

- Participated in the restructuring of the expense process area
- Assisted in reviewing current structures in several business units

#### Control Areas

- Willed Body Program Database
- Voluntary Separation Program
- Restructuring business processes
- Policy reviews

#### Compliance

- Executive Compensation
- Information Transparency
- Effort Reporting
- Indirect Cost Waivers
- Health Sciences Vendor Policy

# ANNUAL REPORT ON INTERNAL AUDIT ACTIVITIES

## 2008 - 2009

### Highlights (cont'd)

- Continuous Improvement of the Internal Audit Program:
  - Initiated implementation of a systemwide audit management system to streamline and enhance the annual audit process
  - Implemented a certification initiative to increase the number of UC auditors achieving the professional designation as Certified Internal Auditors
  - Began a comprehensive update of the internal audit manual to reflect new processes, changes due to restructuring and new professional standards
  - Performed a systemwide IT audit self-assessment to assess capabilities and needs
  - Coordinated efforts to enhance communication between campuses and with Compliance personnel
  - Conducted reviews of internal audit programs and assisted with transition of senior leadership at UC campuses
  - Organized a Compliance and Audit Symposium to provide additional continuing education opportunities to Compliance and Audit staff
  - Introduced an eminence building initiative
  - Accelerated appropriate closure of overdue management corrective actions
  - Significantly reduced the number of projects carried forward from the previous year

# ANNUAL REPORT ON INTERNAL AUDIT ACTIVITIES 2008 - 2009

## Summary and Conclusions

In conjunction with the 421 Audit, Advisory Services and Investigation reports issued, we identified no conditions that we believed to represent material deficiencies in internal controls to the University system as a whole from a financial standpoint. In addition, while we acknowledge that management has ultimate responsibility for establishing internal controls to manage risks, we identified no circumstances in which we believe that management's decisions resulted in the acceptance of unreasonable levels of risk.

Further, based on our FY09 work, we can assert the following as being generally true with no reportable exceptions:

1. Management of the University is cognizant of their responsibility for internal controls and takes seriously the need for controls and accountability.
2. There is respect for the objectives of the Internal Audit Program; a high level of cooperation is received, and there is no interference with either the accomplishment of our tasks or our responsibilities to report to The Regents.
3. Managers actively participate in the identification of risks and work collaboratively with Internal Auditors to address issues raised during Audits, Advisory Services engagements, and Investigations.

# ANNUAL REPORT ON INTERNAL AUDIT ACTIVITIES

## 2008 - 2009

### Summary and Conclusions (cont'd)

4. Management is comfortable seeking out Internal Audit for advice and consultation on matters with internal control implications.
5. Matters of importance are reported to The Regents.

Although we did not identify material control deficiencies, there are opportunities for the University to implement more effective controls in a number of areas and there are ongoing challenges to effective controls and compliance as indicated by the frequency of observations regarding:

- IT security
- Information privacy
- Separation of duties
- Control over cash
- Effort reporting
- Impact of budget cuts on control structure

See Section II.C at pages 13-14 for a more detailed discussion of internal control challenges and opportunities.



## II. Audit Program Results & Analysis

### Introduction

The data contained in the following section provides:

- **Summary statistical information for the year;**
- **Systemwide and significant individual audit results; and**
- **Significant and recurrent control issues.**

The data is summarized and analyzed by type of audit service and across functional areas of the University, demonstrating the breadth of coverage. Audit findings are analyzed by functional area, severity, and status of corrective actions.

# II. Audit Program Results & Analysis

## A. STATISTICS

<b>Projects</b>	<b>FY09 Plan</b>	<b>FY09 Actual</b>	<b>Prior Year</b>
<b><u>Audits</u></b>			
Audit Program Hours	98,180	91,472	100,049
Percent of total effort	64%	64%	66%
Number of Completed Projects	265	260	286
Average hours per completed project <sup>(1)</sup>	284	354	355
<b><u>Advisory Services</u></b>			
Advisory Service Hours	34,493	30,825	23,630
Percent of total effort	22%	21%	18%
Number of Distinct Projects	132	234	215
Average hours per completed project <sup>(1)</sup>	104	123	97
<b><u>Investigations</u></b>			
Investigation Hours	21,782	21,520	25,657
Percent of total effort	14%	15%	16%
Number of Completed Investigations	N/A	126	151
Average hours per completed project <sup>(1)</sup>	N/A	174	197
<b><u>TOTAL</u></b>			
Audit, Ad Serv., and Investigation hours	154,455	143,817	149,336
Percent	100%	100%	100%
Total Number of Completed Projects	N/A	620	652

<sup>(1)</sup> Not calculated from the above due to projects in process at beginning and end of period.

N/A - Not applicable to Plan Data

Table 1

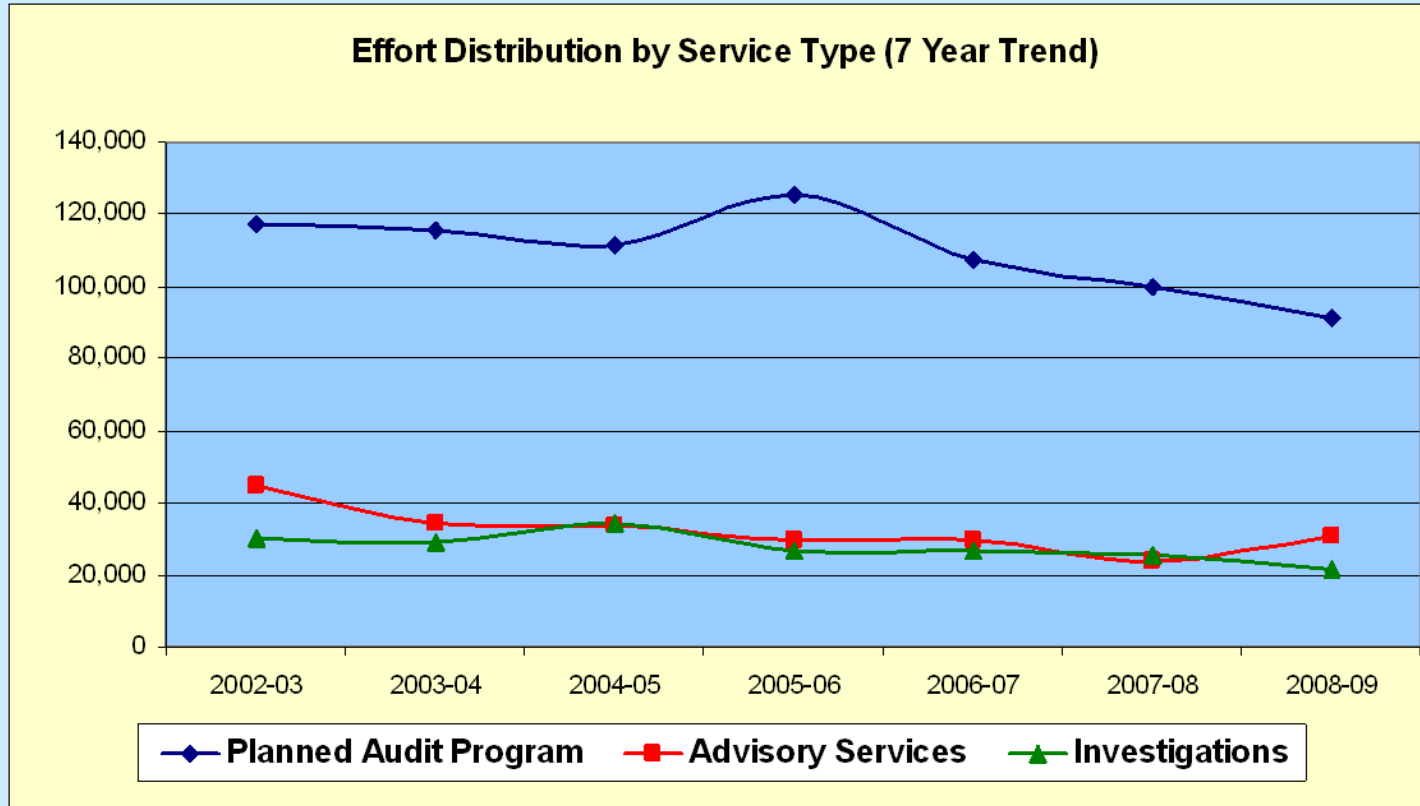
<b>People</b>	<b>FY09 Plan</b>	<b>FY09 Actual</b>	<b>Prior Year</b>
Authorized	118	118	117
Average Actual Filled	110	102	102
Percent Filled	93%	86%	87%
Ending Head count	108	107	102
Turnover	N/A	13%	15%
Training hours per auditor	97	75	74
<b>Summary Information</b>			
Average hours - completed projects	N/A	230	233
Number of projects per auditor	N/A	6.1	6.4
Percent of Audit Plan Completed	100%	77%	80%
Productivity Percent	85.32%	85.36%	86.25%
<b>Distribution of Direct Hours</b>			
Audits	98,180	91,472	100,049
Advisory Services	34,493	30,825	23,630
Investigations	21,782	21,520	25,657
Audit Support	<u>11,348</u>	<u>11,041</u>	<u>9,854</u>
Total Direct Hours	165,803	154,858	159,190

See also information on staffing and turnover in Section III on pages 25-26.

Table 2

## II. Audit Program Results & Analysis

The chart below distributes effort by service type (7-Year Trend).



*This chart demonstrates that although our continued primary emphasis is the program of regular audits, our FY09 effort distribution reflects progress toward our goal of increasing the level of advisory service activity.*

Chart 1

## II. Audit Program Results & Analysis

### **B. SYSTEMWIDE AUDIT RESULTS**

- ***Executive Compensation***—We continued to perform an annual review of Executive Compensation, verifying the accuracy of the Annual Report on Executive Compensation (AREC). Starting in FY2009, this audit also included a review of required reporting on President and Chancellors expenses. We found the processes for preparing the reports to be generally adequate to ensure its completeness and accuracy. However, some process changes were recommended to reduce the frequency of minor errors.
- ***Effort Reporting***—This review consisted of an evaluation of the development and implementation of the new effort reporting system (ERS) and an assessment of policy compliance. Although the audit results demonstrated generally improved rates of compliance, a significant number of continuing issues were noted, indicating a need for enhanced training and communication on effort reporting requirements at the local level. This is a significant focus for FY10 in moving forward with the compliance efforts. Additionally, the evaluation of the ERS implementation identified a need for a disaster recovery plan.
- ***Indirect Cost Waivers***—The purpose of this audit was to review processes established for compliance with policy and evaluate compliance with policy and local processes. The audit results identified no systemic concerns or intentional abuse of the waiver process nor any substantial failure of due diligence in carrying out the waiver process. However, minor policy exceptions and data errors were noted at some locations. Further, it was noted that UC's contracts and grants systems do not allow for comprehensive determination of the total dollar impact of waived or modified indirect cost rates.

## II. Audit Program Results & Analysis

### C. SIGNIFICANT AND RECURRENT INTERNAL CONTROL ISSUES

From the body of audit work performed during the year, including investigations, following are the most significant and recurrent control issues. Many of these are the subject of specific management corrective actions in the environment where the issues were identified, others are the subject of broader systemwide initiatives, while still others are endemic and require continual attention by management.

- **IT Security**—Local audits continue to identify weaknesses relating to control over system access, compliance with IT security standards and potential exposure to security breaches. Although a significant amount of remediation efforts have been implemented in response to issues identified in past audits, IT security remains a significant systemwide risk.
- **Information Privacy**—Exposure of protected personal and healthcare-related information has been identified as a high priority focus at multiple campuses due to the significant data breaches that have occurred in recent years. Campus audit departments have taken a more significant role in assessing the adequacy of data security controls, regulatory compliance and related monitoring and training efforts. A systemwide HIPAA compliance review is planned for FY10.
- **Separation of Duties**—Inadequate segregation of duties continues to be a recurring issue in internal audit reviews. Ongoing budgetary constraints and staff reductions have exacerbated the issue as departments struggle to maintain control structure with limited resources.
- **Control over Cash**—A significant number of internal control issues have been noted in the area of cash collection and deposits, including inadequate separation of duties, reconciliation, control circumvention and insufficient monitoring. Campuses have implemented new training programs and have increased monitoring activity and physical security to mitigate further risk in this area.

## II. Audit Program Results & Analysis

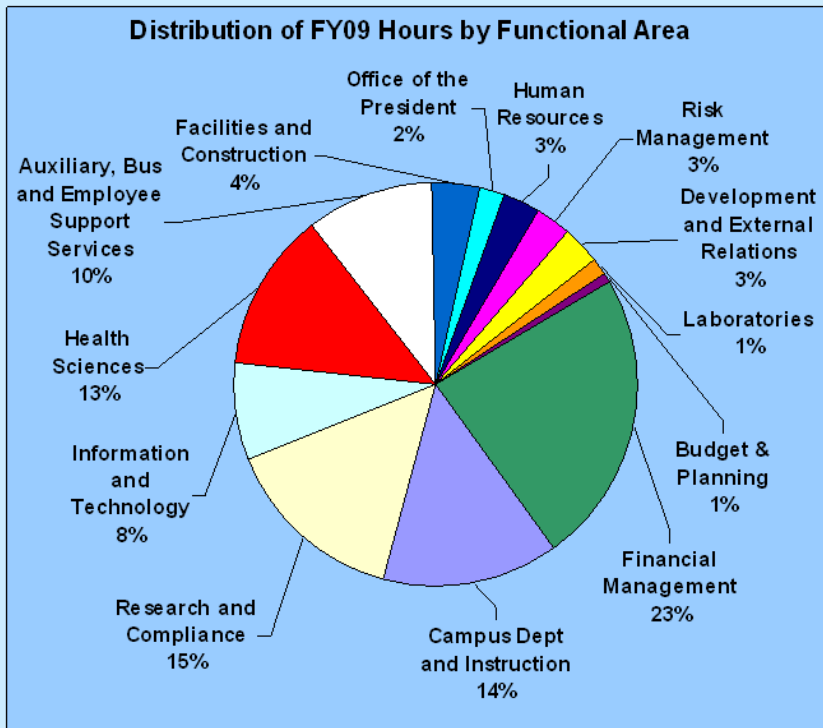
### C. SIGNIFICANT AND RECURRENT INTERNAL CONTROL ISSUES (con't)

- ***Effort Reporting***—Effort reporting continues to be identified as a priority focus area as a result of increased federal scrutiny. Effort reporting was the subject of an FY09 systemwide audit. See page 12 for detail on the results of this audit.
- ***Impact of Budget Cuts on Control Structure***—As university departments are experiencing budget cuts, processes are being reengineered and staff positions are being eliminated. Segregation of duties and other internal controls may be lost in this process. Where possible, internal audit has been involved in process reengineering or restructuring to ensure adequate control structure is maintained.

# II. Audit Program Results & Analysis

## D. STATISTICAL INFORMATION – Coverage and MCAs

As previously indicated, our FY09 audit program work produced 421 audit, advisory service, and investigation reports resulting in 1,853 Management Corrective Actions (MCAs). The chart below depicts the breadth of coverage over the 13 major functional areas of the University. As shown in the table below, the distribution of MCAs correlates fairly closely with the effort expended across the functional areas. This demonstrates that there are opportunities for control improvement wherever our attention is focused.



**Chart 2**

Comparison of MCAs and Hours		
Functional Area	MCA %	Hours %
Financial Management	31%	23%
Campus Depts & Instruction	12%	14%
Information Technology	12%	8%
Research and Compliance	10%	15%
Health Sciences	10%	13%
Auxiliary, Bus & Employee Support	9%	10%
Facilities and Construction	4%	4%
Human Resources and Benefits	4%	3%
Risk Management	3%	3%
Budget and Planning	2%	1%
Development & External Relations	1%	3%
Laboratories	1%	1%
Office of the President	1%	2%

**Table 3**

## II. Audit Program Results & Analysis

The chart below shows the risk rating of the 1,853 MCAs for FY09 by service type.

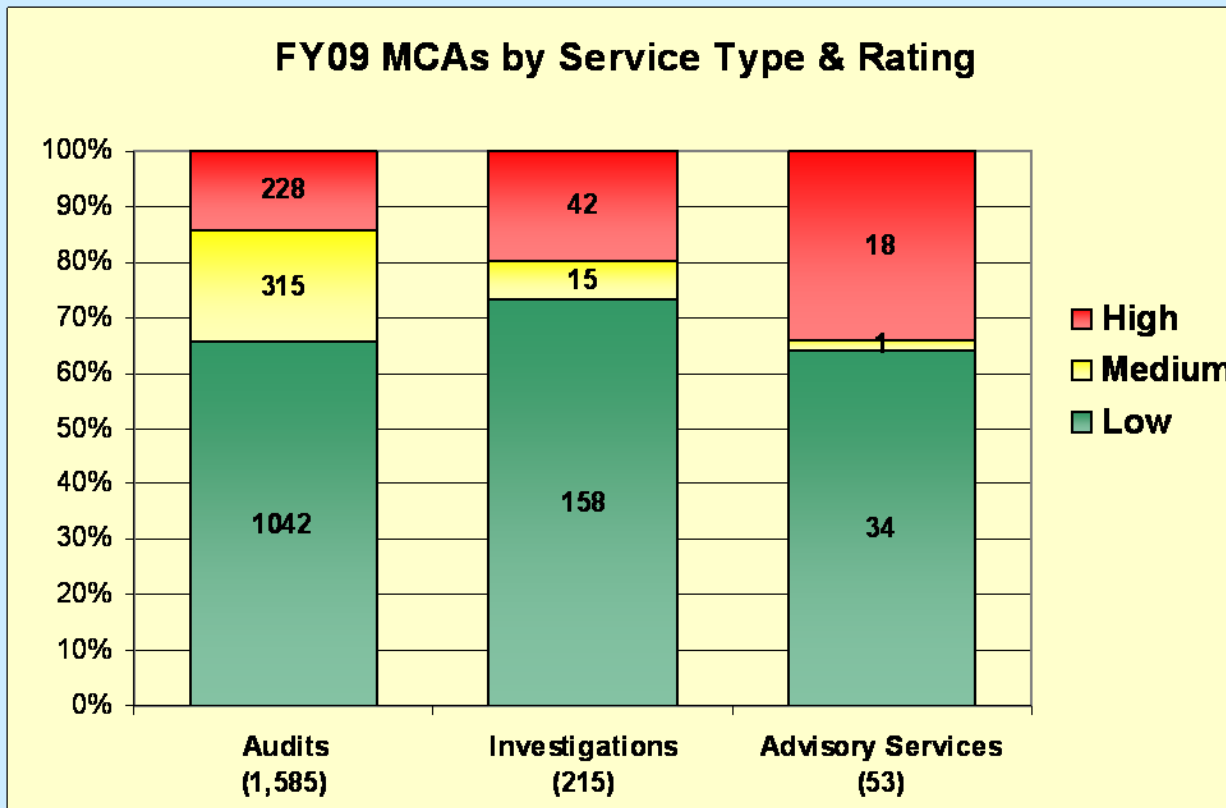


Chart 3

*Each audit finding and its associated MCA is given a rating of high, medium or low risk by the auditors. This judgment is made in a local context, and items identified as high do not necessarily convey material deficiencies or risks beyond the operating environment in which found. A primary objective of this classification is to drive a greater sense of urgency in completing the corrective action and completion of audit follow-up.*

*High risk MCAs would include those that are systemic or have a broad impact, have contributed to a significant investigation finding, are reportable conditions under our professional literature, create health or safety concerns, involve senior officials, create exposure to fines, penalties or refunds or are otherwise judged as significant control issues.*



## II. Audit Program Results & Analysis

### Status of Completion of Management Corrective Actions

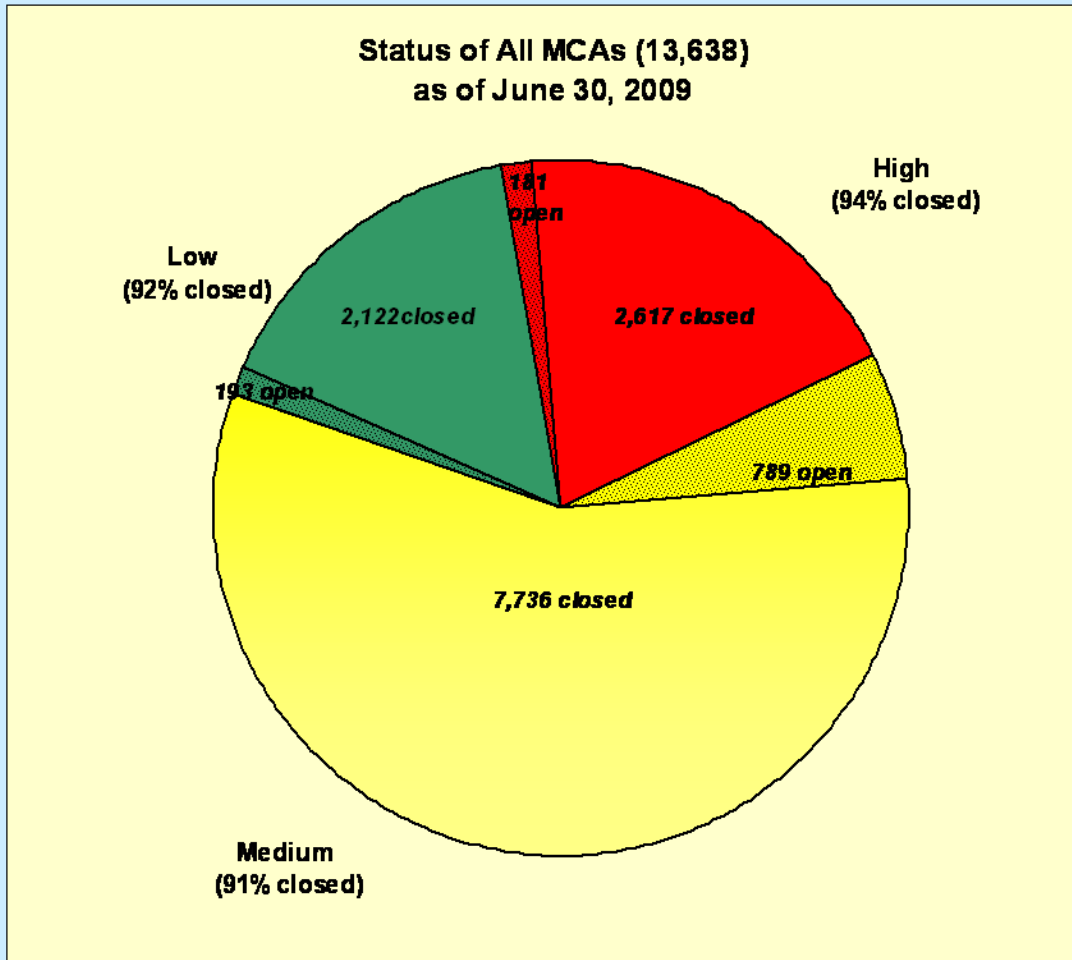
MCAs are classified initially as open and are only moved to closed status after validation by auditors that the agreed upon corrective actions have been taken and sustainable improvement has been achieved.

The number of open MCAs increased from 1,073 to 1,163 at the end of the year because of the significant volume of new MCA's resulting from current year audit activities. The overall processing of MCAs—with closures representing over 160% of the opening volume and over 95% of new MCAs—demonstrates that in general management completes the agreed upon corrective action in a timely fashion.

The following charts display the completion status for the entire population of MCAs with more detailed analysis of high risk past due items which are individually reported starting on page 20.

## II. Audit Program Results & Analysis

The chart below shows the status of all 13,638 MCAs



*There is a 92% overall rate of closure of the MCAs to date. There is a 94% rate of closure for high risk items.*

*Systems' solutions and resource constraints are the two most commonly cited factors in timely completion of MCA's.*

*For all high risk past due items it has been determined by the auditors that these matters are currently receiving attention needed to bring to closure to items.*

MCA Rating	Open	Closed	Total	% closed
High	181	2,617	2,798	94%
Medium	789	7,736	8,525	91%
Low	193	2,122	2,315	92%
	1,163	12,475	13,638	92%

**Table 4**

**Chart 4**

## II. Audit Program Results & Analysis

The charts below shows the aging statistics of the inventory of Open High Risk MCAs

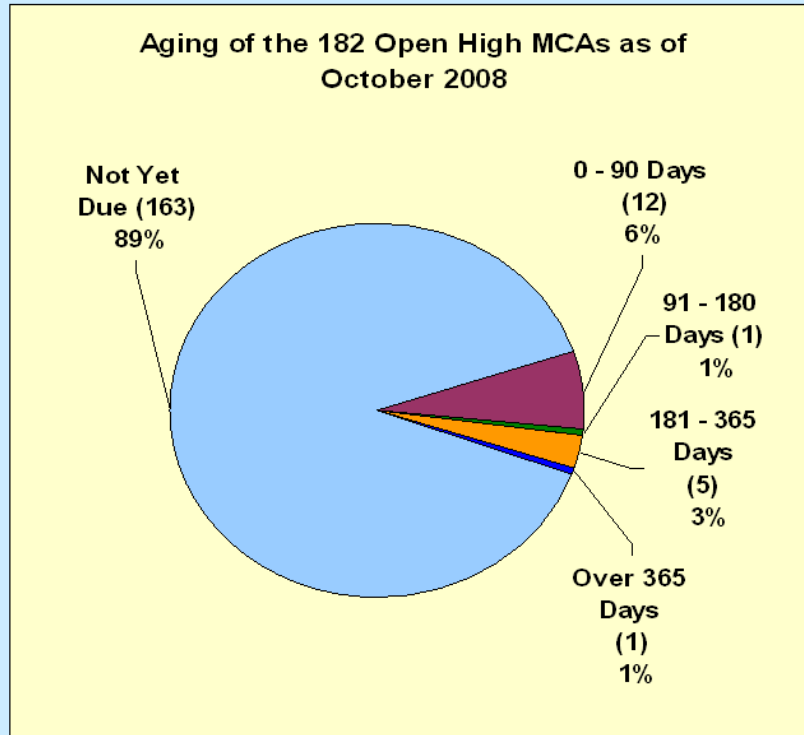


Chart 5

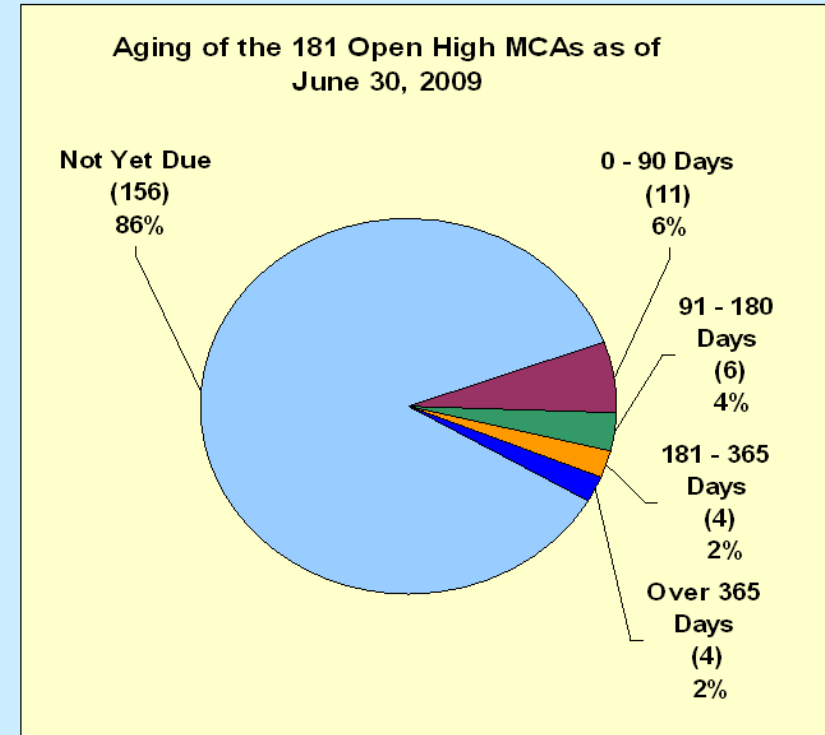


Chart 6

*In last year's annual report, we allowed additional time for the status of June 30, 2008 open items to be resolved by the reporting date of October 2008 (see chart on left).*

*The chart on the right shows open items as of June 30, 2009. As of June 30, 2009, 25 of the 181 open items were past due with active management resolution plans in process. We did not allow the additional timeframe this year but for comparison between the two, of the 25 open items as of June 30, 2009, only 13 remained open as of October 2009.*

*The 25 past due MCAs as of June 30, 2009 are detailed on the following pages.*

## II. Audit Program Results & Analysis

### Past Due High Rated MCAs

Location	Report Date	Report Title	Audit Issue	Management Corrective Action	Original Completion Date	Revised Completion Date	Current Status
UCD	10/24/07	FSNEP	The FSNEP PI delegated administrative and fiscal responsibility to the Administrative Coordinator without ensuring that an appropriate internal control structure was in place over the related activities.	A training program will be developed in for P.I.s to review their responsibilities for administrative and financial management of contracts and grants. It will address cost sharing and the responsibility of the PI in the certification process.	6/30/2008	7/1/2009	A proposed program has been developed but was not supported by the Academic Senate. The Offices of the Chancellor and Provost are working to revise the program to address issues and concerns raised by the Senate.
UCI	03/28/03	Beckman Laser Institute and Medical Clinic	A grant from the Department of Commerce awarded \$1 million for construction of a new wing at the Beckman Laser Institute to house a photonic incubator. According to the terms of the grant, the wing was to be used solely for photonic research and development activities during its useful life. Conceivably, the Department of Commerce could demand repayment of the grant if the wing were used for another purpose. Beckman Laser Institute (non-profit) was to deposit \$1million into an escrow account to cover the contingent liability.	Campus Counsel is determining the useful life of the building to determine when the liability would no longer exist.	9/30/2003	8/31/2009	The finding was elevated to high risk as of 9/30/08 due to the age of the MCA. We were told that the project was completed in March 2000 and has a "useful life" of 10 years. Campus Counsel is researching this to determine when the liability would no longer exist.
UCOP	11/14/07	Administrative Computing-General Controls	Separation of duties is compromised by Database Administrators and System Administrators having access to production data.	A system will be developed and implemented that will monitor the activity of Database Administrators and System Administrators since their current access level compromises separation of duties.	6/30/2008	12/31/2009	PWC reviewed new software that produces logging for Database Administrators and System Administrators. There are actually two separate applications. PWC determined that although logging is occurring, the reports are not organized in a fashion that allows targeted monitoring. The volume is too large to review the logs.
UCSD	07/30/08	Distributed Network Security - SOM Phase I	SOM IT Organization is not optimized to provide oversight and ensure that all network equipment is in compliance with the Minimum Network Security Standards.	All IT Security Coordinators and other SOM IT staff will have a dotted line reporting relationship to the Director of IT; all network equipment will be in accordance with Minimum Network Security Standards.	4/1/2009	12/20/2010	The SOM reorganization is in development, in conjunction with related measures to address budgetary constraints. The reorganization process will include a document establishing specific responsibility and accountability for IT security, and consequences for non-compliance with policy and security breaches. The SOM is in the process of developing a plan for the logical segmentation of the virtual local area network (VLAN) to optimize network security.

## II. Audit Program Results & Analysis

Location	Report Date	Report Title	Audit Issue	Management Corrective Action	Original Completion Date	Revised Completion Date	Current Status
UCSD	07/30/08	Distributed Network Security - SOM Phase I	SOM IP addresses are assigned on an ad hoc basis, and the SOM VLAN are not segmented in a way to optimize network security.	SOM IT and ACT will develop a procedure for the assignment of IP addresses, and will create a plan for restructuring the SOM General VLAN.	4/1/2009	12/20/2010	The SOM reorganization is in development, in conjunction with related measures to address budgetary constraints. The reorganization process will include a document establishing specific responsibility and accountability for IT security, and consequences for non-compliance with policy and security breaches. The SOM is in the process of developing a plan for the logical segmentation of the virtual local area network (VLAN) to optimize network security.
UCSD	09/04/08	Cancer Center - Drug Recovery Program Review	Medication and drug administration charges were not always credited to reflect replacement of medications provided by the Program and payment was sometimes actively pursued or collected.	Clinical Pharmacy management will collaborate with PFS to implement a process for ensuring that patient accounts are not charged for adjusted/refunded the medication charges associated with PAP.	3/15/2009	10/15/2009	The process for ensuring that medications are written-off when replaced by a PAP has been implemented for Medi-Cal patients. Commercial and self-pay accounts have not been monitored to date. PFS management plans to centralize the monitoring process for all payer types and assign the task to one analyst to ensure consistency. Additional follow-up and testing will be completed in May 2009 to ensure that the monitoring program has been fully implemented and is working as described.
UCSF	08/31/05	Vacation Sick Leave Liability Accruals	The Campus does not accrue and fund leave liability as it is incurred.	UCSF will implement the Financial Leave Assessment Accrual module within the campus PPS system. This will allow for a monthly assessment for vacation leave earned and a monthly assessment of a accumulated liability for that leave. This monthly assessment is consistent with the UCOP Accounting Manual and Cost Accounting Standards.	6/30/2009	N/A	The Time and Attendance/Vacation Leave Accrual project has been ongoing for over a year and is expected to implement time reporting for monthly and bi-weekly employees by Nov. 2009 and Sept. 2010 respectively. Leave Assessment is expected to occur in Nov. 2010 after full implementation of time reporting.

## II. Audit Program Results & Analysis

Location	Report Date	Report Title	Audit Issue	Management Corrective Action	Original Completion Date	Revised Completion Date	Current Status
UCSF	11/26/08	Budget Deficit Monitoring	The School of Nursing Had a total of 13 accounts in deficit totaling \$2.7 million. Of the 13 accounts, one program has been operating in deficit for some years without a formal plan to resolve the ongoing deficit	A determination will be made on whether the program will continue to be subsidized. If the program is eliminated, a formal plan to eliminate the deficit will be submitted to Budget Office for approval.	6/30/2009	12/30/2009	The program will be discontinued effective 12/31/2009. The close-out of records, finances, etc., will be addressed per guidance from Campus Counsel. A formal plan has not been submitted to Budget Office as they are still assessing the final closing costs.
UCSF	11/26/08	Budget Deficit Monitoring	No comprehensive policy exists that requires identifying, monitoring, and managing deficits.	A comprehensive policy addressing the monitoring and management of funds incorporating specific procedures for deficit balances will be developed.	6/30/2009	12/31/2009	Due to the budget crisis the Budget Office has not been able to devote time to developing the Policy.
UCSF	06/03/08	Medical Center Data Center Operations	Protection of critical servers hosted in the DC from internal attacks is not adequate.	ESS management will develop a new security model using encryption and role based client authentication to strengthen security of servers within the DC.	6/30/2009	N/A	ESS is still in the process of developing the model and hope to have it completed shortly.
UCSF	12/30/08	Stem Cell Research	HESC projects did not always receive appropriate approvals and/or approvals were not always formally documented.	HRPP will develop a process to ensure that GESCR approvals are appropriately documented.	4/1/2009	N/A	Closure of MCA is pending updated clarification of Federal Regulations to be issued by the Federal government. HRPP is in the process of hiring a GESCR coordinator and then a process is to be developed to full fill the requirements of the MCA.
UCSF	12/30/08	Stem Cell Research	No written procedures existed to document the three established types of GESCR approvals.	HRPP will establish formal documentation delineating and distinguishing between the various types of protocol approvals granted to HESC research.	3/1/2009	N/A	Closure of MCA is pending updated clarification of Federal Regulations to be issued by the Federal government. HRPP is in the process of hiring a GESCR coordinator and then a process is to be developed to full fill the requirements of the MCA.
UCSF	12/30/08	Stem Cell Research	HESC projects did not always receive appropriate approvals and/or approvals were not always formally documented.	HRPP will develop a process and implement more stringent training for staff to ensure that all HESC research projects receive timely GESCR approval.	2/1/2009	N/A	Closure of MCA is pending updated clarification of Federal Regulations to be issued by the Federal government. HRPP is in the process of hiring a GESCR coordinator and new systems will then be implemented to fulfill the requirements of the MCA.

## II. Audit Program Results & Analysis

Location	Report Date	Report Title	Audit Issue	Management Corrective Action	Original Completion Date	Revised Completion Date	Current Status
LBNL	10/31/08	Lock Shop Review	Discrepancies were identified between the reported number of keys issued and those that could be accounted for.	SEO will revise RPM 1.06, Site Access to ensure that security related protocols are included. This task will be completed by 4/1/09.	4/1/2009	7/31/2009	Closed 8/14/2009.
UCD	10/24/07	FSNEP	The "FSNEP Plan Guidance" requires that weekly time keeping records be maintained by all staff devoting less than 100 percent of their effort to FSNEP. The investigation found a significant number of employees were not maintaining the required time keeping records to support charges to the grant.	The FSNEP PI created a new timesheet form implemented in February 2007 and provided training on the use and requirement of the FSNEP Plan Guidance. In future training, the PI will continue to highlight time reporting requirements.	10/31/2007	6/30/2009	Closed 8/12/2009.
UCD	09/08/08	IT Cyber Safety - Graduate Studies	Personal information was identified on department systems, a process to identify false positives and remove/secure data is incomplete, and existing protections against data theft were inadequate.	Delete all unnecessary data containing personal information and secure remaining retained data using file based encryption. When possible, retained personal information should be encrypted and removed from network accessible systems entirely.	1/1/2009	10/1/2009	Closed 10/9/2009.
UCM	12/15/08	UC Merced Cashiering	Criminal background checks are not conducted on student cashiers, nor credit checks done on any cashiers	Background checks will be done for the Dining Commons and Campus Bookstore.	2/1/2009	12/31/2009	Closed 10/14/2009.
UCM	12/15/08	UC Merced Cashiering	The local Cash Handling Policies and Procedures do not confirm to policies in BUS-49 or the UC Accounting Manual	Policies for Cash Handling will be revised to conform to BUS-49.	2/1/2009	9/1/2009	Closed 8/14/2009.
UCM	06/24/08	Internal Controls Report- Investigation into UCM Student Account Refunds	The SBS Supervisor was not routinely reviewing the work of his subordinates or the review was ineffective.	Clearly communicated expectations of control responsibilities to the existing Director.	8/1/2008	7/1/2009	Closed 8/14/2009.
UCR	03/26/08	Bourns College of Engineering (BCoE); Center for Environmental Research and Technology (CE-CERT)	As of June 30, 2007, five sales and service funds had significant deficits, three of which had existed for five fiscal years. In FY 2006-2007, the five funds were assessed STIP interest totaling \$89,753.	Management has committed to developing a budget reduction plan to address these deficits and eliminate them as called for in the reduction plan.	9/30/2008	6/30/2009	Closed 9/18/2009.

## II. Audit Program Results & Analysis

Location	Report Date	Report Title	Audit Issue	Management Corrective Action	Original Completion Date	Revised Completion Date	Current Status
UCSD	11/15/07	Hospital Receivables CORE	Each billing manager performed periodic reviews of patient accounts receivable write-off reports to determine whether staff exceeded authorized write-off limits. The current monitoring process is not effective.	PFS management will revise and document the process for monitoring accounts receivable write-offs.	9/30/2008	N/A	<b>Closed 7/13/2009.</b>
UCSD	11/04/08	Student Fees – Receivables CORE & IS Emphasis	Our review identified opportunities to improve campus policy and practices for the write-off of bad debts.	The Controller's Office and SBS will revise campus policy and practice to provide for more timely write-off of bad debts on student accounts.	5/4/2009	N/A	<b>Closed 8/19/2009.</b>
UCSF	03/13/09	International Research Administration	Identification of international sub-awards.	ITN-BRU will identify all existing international research contracts within the ITN-BRU database in preparation of reporting of the information to OSR.	6/30/2009	N/A	<b>Closed 8/20/2009.</b>
UCSF	12/18/08	Campus - Wireless Network Security	On-going monitoring of the wireless networks is not being performed.	EIS will establish and implement procedures to perform on-going monitoring of the UCSF wireless networks and to remove inappropriate wireless access devices identified.	6/1/2009	N/A	<b>Closed 8/17/2009.</b>
UCSF	12/18/08	Campus - Wireless Network Security	The Wireless Networking Standard established is not sufficient to adequately secure the UCSF wireless network.	EIS will update the Wireless Security Standards for the above stated areas to address all necessary requirements.	6/1/2009	N/A	<b>Closed 7/20/2009.</b>



# III. Internal Audit Program—Staffing Analysis

	UCB	UCD	UCI	UCLA	UCOP	UCM	ECAS	UCR	UCSB	UCSC	UCSD	UCSF	LBNL	Total
Authorized Staff	8.5	12	9	27	6.37	0.13	3	6	6	5	16.2	13	6	118.2
Ave FTE	5.03	10	7.37	25.76	3.99	0.13	2.4	5.83	4.98	4.65	16.08	9.28	6	101.5
2008 Revenue*	1,877,123	3,772,086	2,219,755	5,423,620	n/a	101,469	n/a	494,015	745,985	513,511	3,271,302	4,617,055	580,000	

Table 6

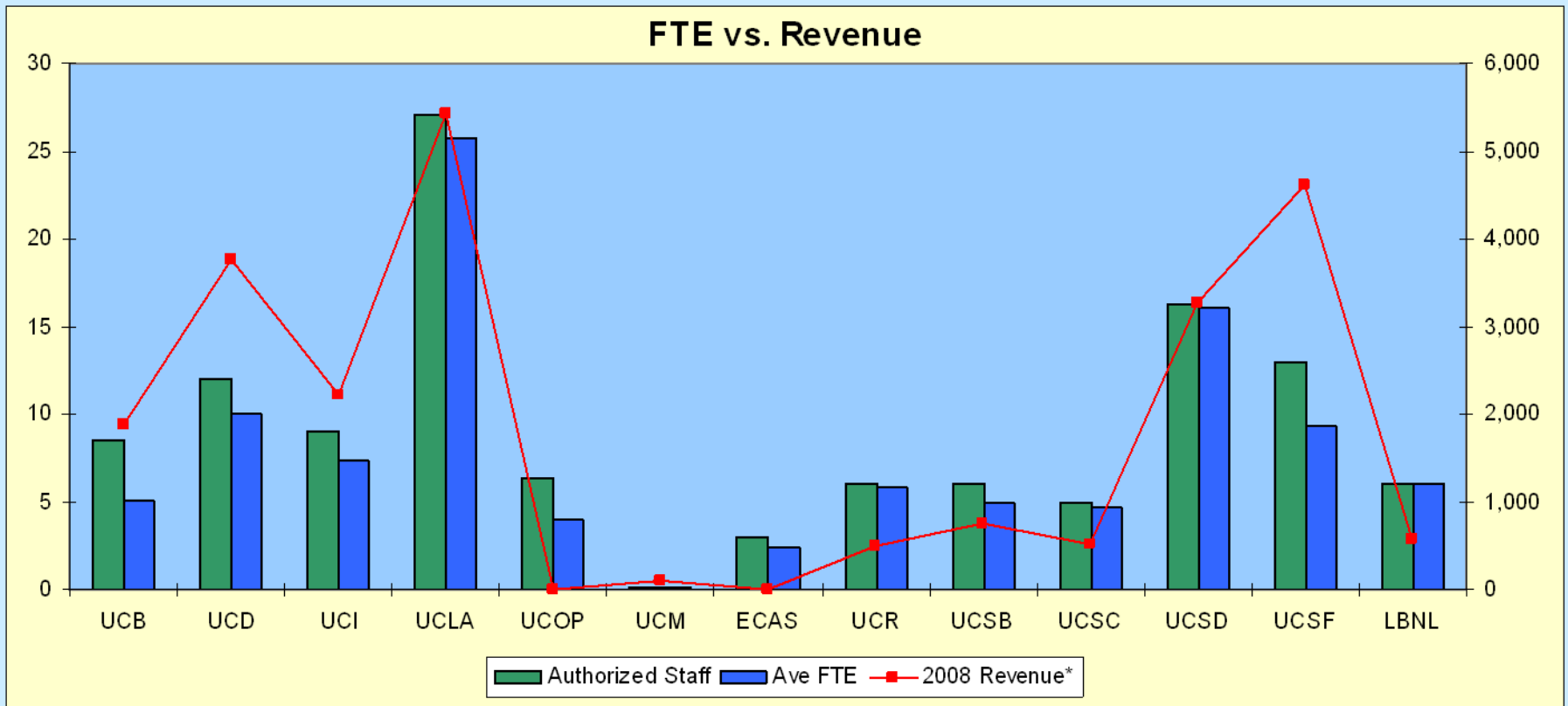


Chart 7

\*In thousands of dollars; UCD,UCLA, UCI, UCSD and UCSF include medical centers.

Also, it should be recognized that there may be other functions who audit controls within a campus but the statistics provided here relate to the campus internal audit function only.

# III. Internal Audit Program—Staffing Analysis

## Staffing Statistics

### Professional Staff:

Average Years Total Audit Experience	18 years
Average UC Audit Experience	11 years
Average Years Audit Director Experience	27 years
Percent of Audit Staff with Bachelors Degree	98 %
Percent of Audit Staff with Advanced Degrees	32 %
Percent of Staff holding Professional Certifications	81 %
Staff Turnover*	13%

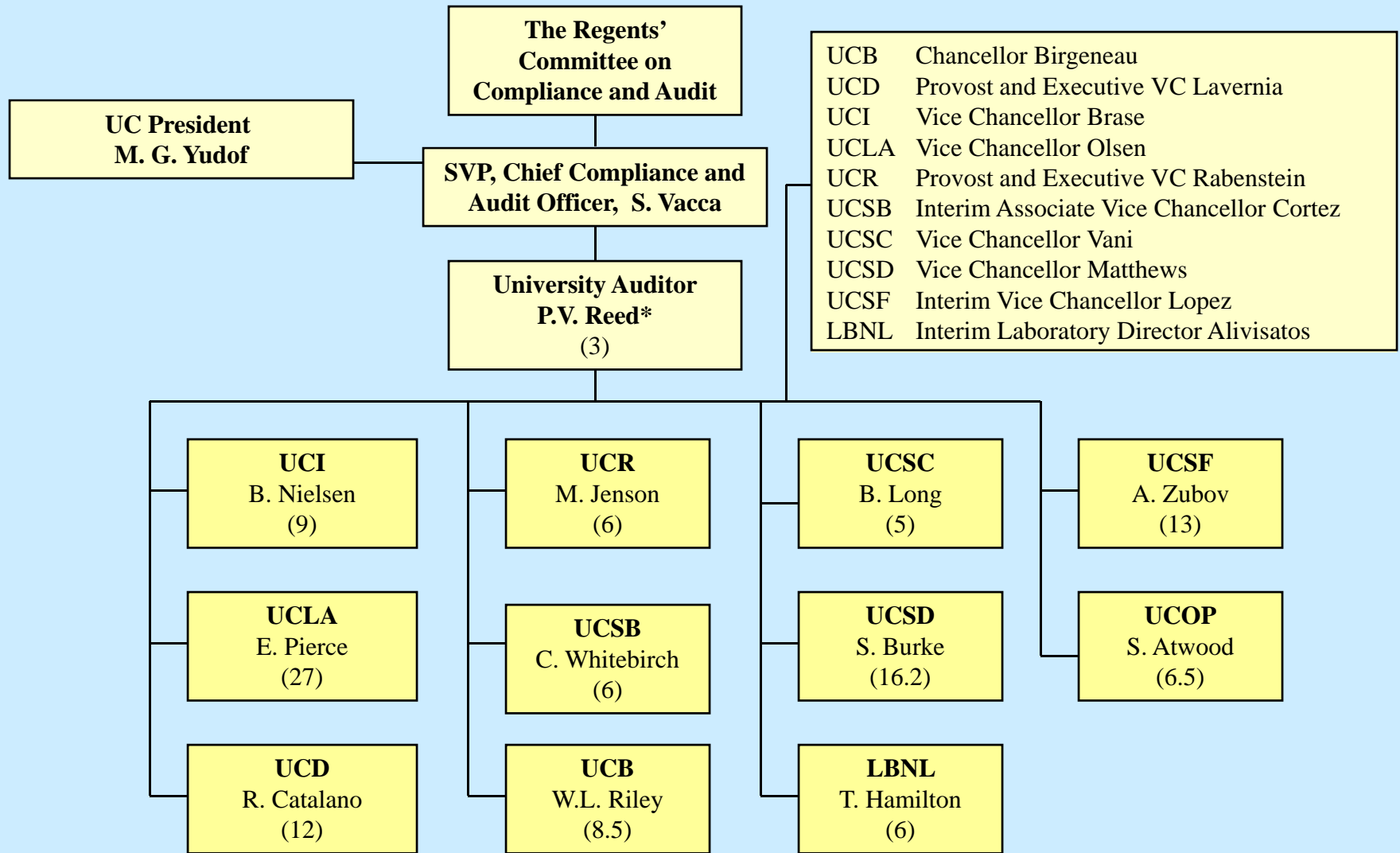
*\* Staff turnover included 9.8 departures for positions within UC, which is generally viewed positively, 4 departures outside of UC, 2.25 retirements and 1 long-term leave. Three departures were due to restructuring and these individuals were placed in leadership positions within UC.*

Chart 8

## IV. FY10 Audit Plan Update—Impact of Budget Cuts

- Of the 11 locations impacted by furloughs:
  - 4 locations canceled projects
  - 3 locations postponed projects to next year
  - 5 locations did not drop any projects and instead reallocated time reserved for supplemental audits and advisory services or adjusted the scope of existing projects
  
- On average, audit plans (hours allocated for audit, advisory and investigations) were reduced by 7%
  
- Advisory services were impacted the most (10% reduction in hours), followed by audits (7%) and investigations (5%)
  
- Total number of projects decreased from 351 to 331, a net reduction of 20
  
- Other factors impacting audit plans include:
  - Local budget cuts
  - Some locations cannot fill vacant positions due to budget cuts
  - Some original audit plans already contained a reserve for furloughs
  - External consultants
  - Reduction in administrative support FTEs

# Appendix 1 – University of California Internal Audit Program



\* Retired effective 10/1/2009. At this time, the position will remain vacant and will be reassessed in FY11.

Total Professional Staff, including the Director, is in parentheses. Total Authorized Professional Positions = 118.2 as of June 2009

(LANL & LLNL Audit Departments not reflected in UC Audit Program)

# Appendix 2 – Listing of Final Audit Reports issued FY09

Location	Final Report Title	Location	Final Report Title
LBL	Cost Allowability	UCI	School of Social Science
LBL	Disclosure Statement	UCI	Low Value Purchase Orders and PAL Cards
LBL	Equipment Leases	UCI	Systemwide Indirect Cost Waivers
LBL	Use of Consultants	UCI	ORU - HRI
LBL	Director's Admin Fund	UCI	SOM - Otolaryngology
LBL	Transition Review	UCI	UCIMC Pharmacy/COM Pharmacy
UCD	Post Award - Contract and Grant	UCI	Athletics
UCD	Data Center General Controls	UCI	Disbursements
UCD	Department Review - Pediatrics	UCI	Hospital Security
UCD	Human Resources - Payroll Data Processing	UCLA	ASUCLA Stores-General Books
UCB	Computer-assisted Analytical Review	UCLA	Housing Information Technology
UCB	Hearst Museum of Anthropology - Departmental Visitation	UCLA	F&T Fuel Accountability
UCB	Indirect Cost Waivers	UCLA	KRONOS System Review
UCB	Effort Reporting - Post Implementation	UCLA	Emergency Room-SMH
UCB	Cost Transfers	UCLA	Store Operations
UCB	College of Environmental Design	UCLA	Ratex Point of Sales System
UCB	Foreign and Team Travel	UCLA	Main Cashier's Office
UCB	Statement of Net Assets Account Reconciliation	UCLA	Campus Maintenance; General Operations
UCB	Lawrence Hall of Science IT Survey	UCLA	Central Ticket Office Ticket Inventory
UCB	Center for Middle Eastern Studies Department Visitation	UCLA	Communication Technology Services Recharges
UCD	Major Construction	UCLA	Housing Cashier's Office
UCD	Vitamin Settlement Fund	UCLA	Mail, Docs and Distribution services
UCD	Effort Reporting (Research)	UCLA	University Apartments Furniture and Equipment Inventory
UCD	UCDMC Accounts Payable	UCLA	University Guest House
UCD	Financial Services - Payroll Processing	UCLA	Vending Cashiering Office
UCD	Pharmacy	UCLA	Cashier's Office/Meter Collection
UCD	Major and Subcashiering Stations- Parking & Transportation	UCLA	Vanpool Program
UCD	Major and Subcashiering Stations- Food & Nutrition Svcs	UCLA	Recharge Activity
UCD	Major and Subcashiering Stations- Pharmacy	UCLA	Effort Reporting System
UCD	Physician Receivables	UCLA	Chancellor's Residence

*Table 7*

# Appendix 2 – Listing of Final Audit Reports issued FY09

## Location Final Audit Report Title

UCLA Executive Compensation & Benefits  
 UCLA UCLA Foundation FY 07-08  
 UCLA Donated Body Program  
 UCLA UCLA Live  
 UCLA MDDS Laser Check  
 UCLA SMG Travel and Entertainment  
 UCOP ANR: AREERA Reporting  
 UCM UC Merced Cashiering and Cash Handling Processes  
 UCOP Annual Incentive Plan Review  
 UCR ODC - Psychology Building  
 UCR ODC - Student Academic Services Building  
 UCR Effort Reporting  
 UCR Indirect Cost Recovery Waiver Process  
 UCR Psychology  
 UCR Biology/Cell Biology & Neurosciences/Natural Reserve System  
 UCR Summer Sessions  
 UCR iGrade System  
 UCR Biomedical Sciences  
 UCR IT - Disaster Recovery  
 UCR eBay System  
 UCR Analytic Review & Fraud Detection  
 UCR Transportation and Parking Services  
 UCR Campus Store  
 UCR Fleet Services  
 UCR Physical Plant  
 UCR Botany & Plant Sciences - Conferences  
 UCR Political Science Key Deposit Funds - Internal Controls  
 UCR UCR Chancellor's Housing  
 UCR SEVIS Compliance - UNEX  
 UCR Analytic Review & Fraud Detection

## Location Final Audit Report Title

UCSB Transportation and Parking Services  
 UCSB Laboratory Safety - Hazardous Materials Handling  
 UCSB Public Events - Department Visitation  
 UCSB Religious Studies - Department Visitation  
 UCSB Intercollegiate Athletics - Department Visitation  
 UCSB Effort Reporting  
 UCSB Indirect Cost Waivers  
 UCSB BA/RC - Billing and Accounts Receivable System  
 UCSB Network Management  
 UCSB Daily Nexus - Internal Control Review  
 UCSB ECE/UCSB Bookstore - Internal Control Review  
 UCSB UCSB Police Department - Overpayment of Wages  
 UCSB Contracts and Grants - Post Award  
 UCSC Systemwide - Effort Reporting Review  
 UCSC Budget Information and Monitoring  
 UCSC Shakespeare Santa Cruz Internal Controls  
 UCSC IT Audit-EFT Controls  
 UCSC Direct Costing/Federal Indirect Cost Waivers  
 UCSC Post Award Review-Post Consolidation Extramural Accounting  
 UCSC Systemwide - Chancellor Special Allocations  
 UCSC Systemwide - Registration Fee Study  
 UCSC Post Consolidation Review Accounting and Purchasing  
 UCSC ProCard Purchases  
 UCSC Ticket Office SDLC and controls Review  
 UCSD Network Security- CORE & IS Emphasis  
 UCSD UCSD/VMRF Personnel Agreement Process  
 UCSD Transplant Programs  
 UCSD Small Department - VC Research Affairs  
 UCSD Small Department - VC Marine Sciences  
 UCSD VC Health Sciences Executive Accounts - Expanded Review

# Appendix 2 – Listing of Final Audit Reports issued FY09

## Location Final Audit Report Title

UCSD College Audits - Eleanor Roosevelt College  
 UCSD California Sea Grant Program  
 UCSD Hospital Receivables - Claims Denial Management  
 UCSD Hyperbaric Medicine  
 UCSD Medical Center Clinical Engineering  
 UCSD Effort Reporting  
 UCSD Indirect Cost Waivers  
 UCSD VC Health Sciences Exec Accounts  
 UCSD Distributed Network Security SOM - Phase II  
 UCSD Academic Personnel On-line - Part Two  
 UCSD UCSDMC Cardinal Contract Review  
 UCSD MC Cardinal/Pyxis Contract - Payment Analysis  
 UCSD Cytogenetics Laboratory  
 UCSD Payroll Tax Accounting  
 UCSD Family & Preventive Medicine Free Clinic Review  
 UCSD Student Policies & Judicial Affairs Business Office  
 UCSD Conflict of Interest - HS OCME  
 UCSD Attorney Client Privilege Review - MC CARE Contract  
 UCSD Financial Management Review - AFP Program  
 UCSD Chancellors Housing

## Location Final Audit Report Title

UCSD Transportation & Parking Services - Attorney Client Privilege  
 UCSF Transplant Services  
 UCSF International Research Contract Administration  
 UCSF Stem Cell/Tissue Bank  
 UCSF Wireless Network Security  
 UCSF IT - Minimum Security Standards Review  
 UCSF Hospital Billing - Denial Management  
 UCSF EH&S Compliance  
 UCSF Chancellors Funds  
 UCSF IT - Active Directory  
 UCSF SOM SAS 112 GL Verification Controls  
 UCSF CLS Cash Management  
 UCSF Research Compliance - Effort Reporting  
 UCSF Exec Compensation - Annual Report (FY09)  
 UCSF Research Compliance - IDC Waivers  
 UCSF Cost Report - GME  
 UCSF Student Reg Fees  
 UCSF MC Active Directory Review  
 UCSF SOM Active Directory Review  
 UCSF Exec Compensation - Annual Report (FY08)

# Appendix 3 – Glossary of Acronyms

ACT	Administrative Computing and Telecommunications	ITN	Immune Tolerance Network
AFP	Alpha-Fetoprotein Program	LANS	Los Alamos National Security, LLC
ANR	Agriculture and Natural Resources	LLNS	Lawrence Livermore National Security, LLC
AREC	Annual Report on Executive Compensation	MC	Medical Center
AREERA	Agricultural Research, Extension, and Education Reform Act	MCA	Management Corrective Action
ARRA	American Recovery and Reinvestment Act	MDDS	Mail, Document, and Distribution Services
ASUCLA	Associated Students UCLA	MITE	Monterey Institute for Technology and Education
BA/RC	Billing and Accounts Receivable System	OCME	Office of Continuing Medical Education
BCoE	Bourns College of Engineering	ODC	Office of Design and Construction
BRU	Business Research Unit	ORU	Organized Research Unit
CARE	CARE Ambulance Services	OSR	Office of Sponsored Research
CE-CERT	Center for Environmental Research and Technology	PAP	Patient Assistance Program
CLS	Campus Life Services	PFS	Patient Financial Services
CORE	Core Audit	PI	Principal Investigator
DC	Data Center	PPS	Payroll Personnel System
ECAS	Ethics, Compliance and Audit Services	PWC	Pricewaterhouse Coopers
ECE	Electrical and Computer Engineering	RPM	Regulations and Procedures Manual
EFT	Electronic Funds Transfer	SAS	Statement on Auditing Standards
EH&S	Environmental Health and Safety	SBS	Student Business Services
EIS	Enterprise Information Security	SDLC	Software Development Life Cycle
ERS	Effort Reporting System	SEO	Security and Emergency Operations
ESS	Employee Support Services	SEVIS	Student & Exchange Visitor Information System
F&T	Fleet and Transit	SMG	Senior Management Group
FSNEP	Food Stamp Nutrition Education Program	SMH	Santa Monica Hospital
FTE	Full-Time Employee	SOM	School of Medicine
GESCR	Gamete, Embryo, and Stem Cell Research Committee	STIP	Short-Term Investment Pool
GME	Graduate Medical Education	UCCP	University of California College Prep
HESC	Human Embryonic Stem Cell	UCDMC	UC Davis Medical Center
HIPAA	Health Insurance Portability and Accountability Act	UCIMC	UC Irvine Medical Center
HRI	Humanities Research Institute	UCOP	UC Office of the President
HRPP	Human Research Protection Program	UCSDMC	UC San Diego Medical Center
HS	Health Sciences	UNEX	University Extension
IDC	Indirect Cost	VC	Vice Chancellor
IP	Internet Protocol	VLAN	Virtual Local Area Network
IS	Information Systems	VMRF	Veterans Medical Research Foundation