



Regents Committee on Audit

University Auditor's Report

September 19, 2002



Quarterly Report—June 30, 2002

HIGHLIGHTS

- The average staff level continued to run slightly above the plan for the year and the ending headcount increased by six over the prior year. In addition, utilization of contract labor and interns exceeded our planned usage by 93%. In combination, these factors provided over 7,500 more available audit hours than planned and 17,000 more hours as compared to the prior year.
- The additional available hours, together with the continued reduction in investigation hours allowed for 12,000 more hours devoted to audits than Planned.
- As stated, the trend of spending fewer hours on investigations continued. Investigation hours are slightly below the prior year, and represent less than 9% of available time.



Quarterly Report—June 30, 2002

HIGHLIGHTS

- Advisory Services hours exceeded the prior year by 24%, but were slightly below the plan. The hours devoted to advisory service projects exceeded investigation hours by 85%.
- The Whistleblower and Retaliation policies were issued for final review at June 30, 2002. Expected issuance of these policies is early fall.
- Two laboratory auditors participated in an external National Laboratory peer review.
- Two campuses (UCSC, UCSD) underwent internal Quality Assurance reviews.



Quarterly Report—June 30, 2002

HIGHLIGHTS

- A two-day Audit Directors meeting was held to communicate results of strategic initiatives, emerging issues and audit program concerns, as well as several “best practices” presentations.
- Shortly after the end of the quarter, the Bureau of State Audits Partnership Agreement audit was issued. Internal Audit systemwide had spent considerable effort leading the coordination of this nine-month audit.
- The Annual Report will contain analysis of the Plan completion, summary findings, project analysis and other data.



Investigation report

- Overview of Open Investigations
- Update on Specific Investigations Reported to Regents
- Historical Review of Investigations

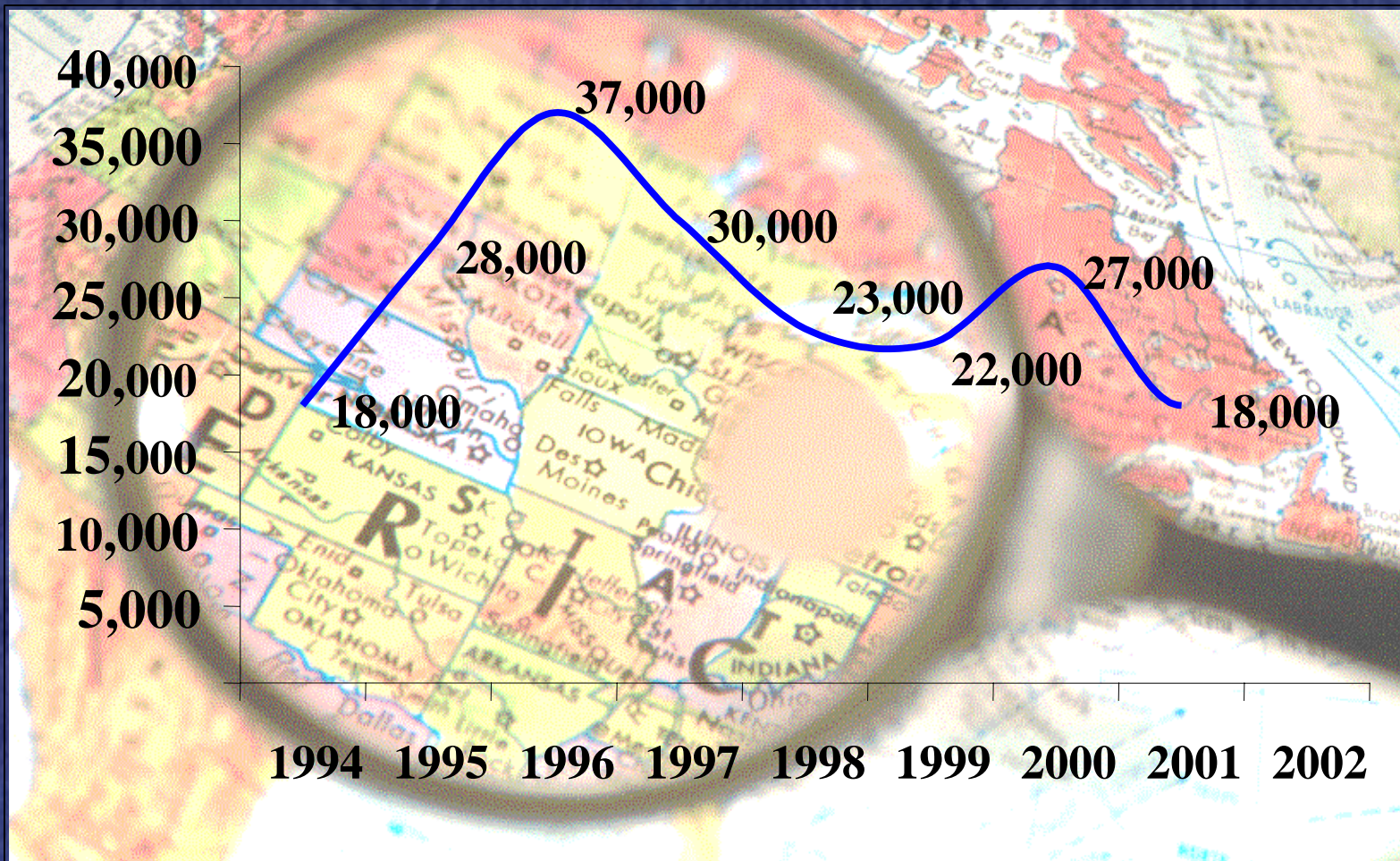


Overview of Open Investigations

- As of June 30, 2002 there are 56 open investigations of the size or sensitivity requiring reporting to OP.
- By source they are similar to historical patterns discussed in a subsequent section
- By type they are also similar to historical patterns.
- The volume of open investigations is higher than normal but that is due to administrative delays in closing. The volume of active cases is at a normal level.
- Therefore, the decline in hours suggests either efficiency gains or a decline in severity, which is not readily assessable.
- Three have been reported to The Regents (oral update)



AUDIT INVESTIGATION HOURS



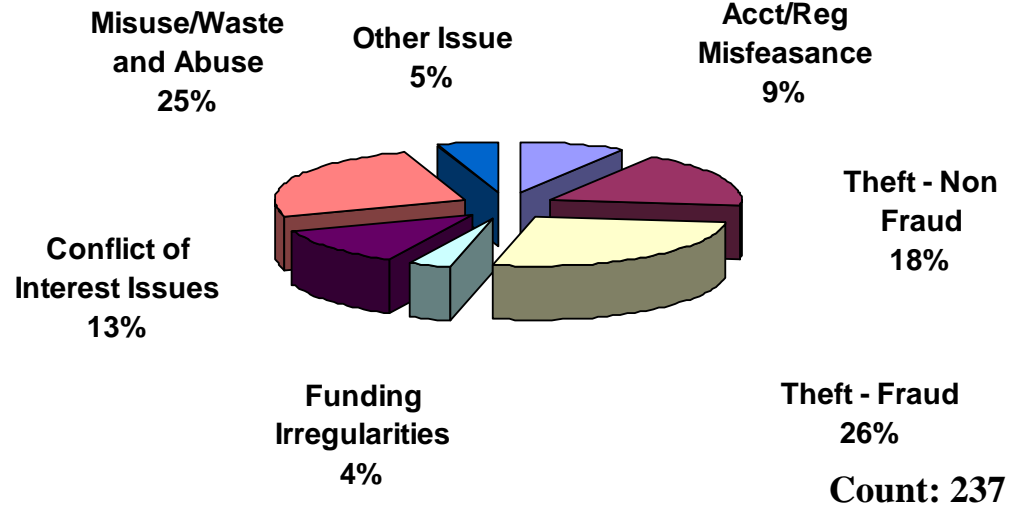


Historical Review of Investigations

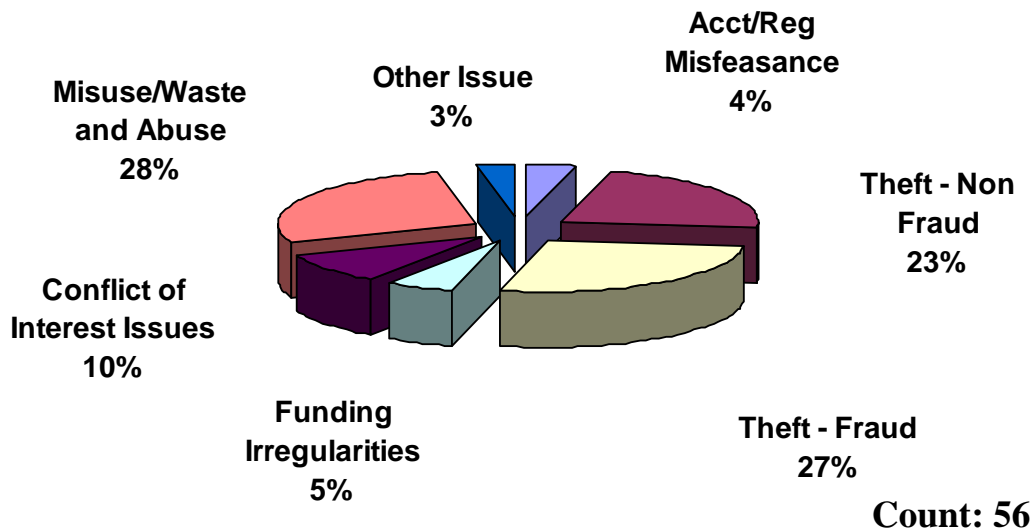
Category	Fiscal Year				Grand Total
	1999	2000	2001	2002	
Misuse/Waste and Abuse	14	18	20	14	66
Theft Fraud	23	10	16	15	64
Theft Non- Fraud	14	16	14	10	54
Conflict of Interest Issues	4	6	6	7	23
Funding Irregularities	3	4	4	2	13
Acct/Reg Misfeasance	0	2	3	5	10
Other Issue		2	2	3	7
Grand Total	58	58	65	56	237



CASES BY CATEGORY 2002

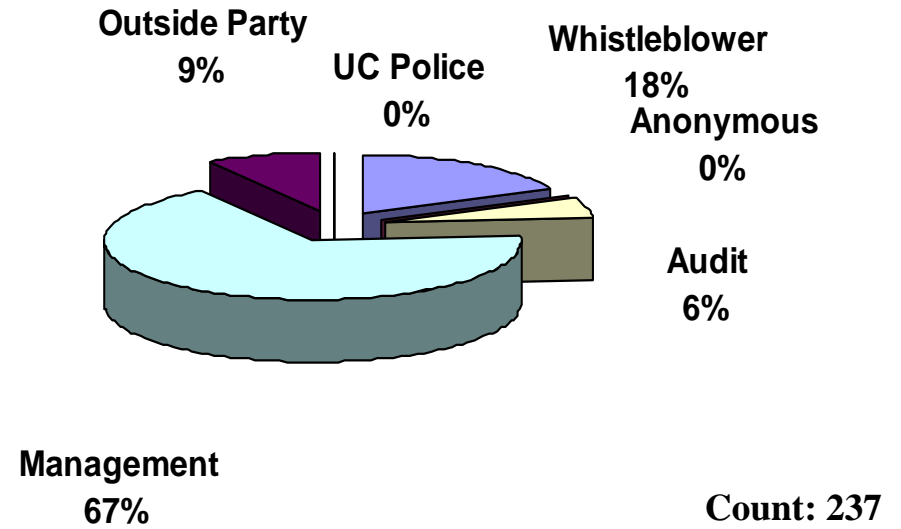


CASES BY CATEGORY 1999-2002

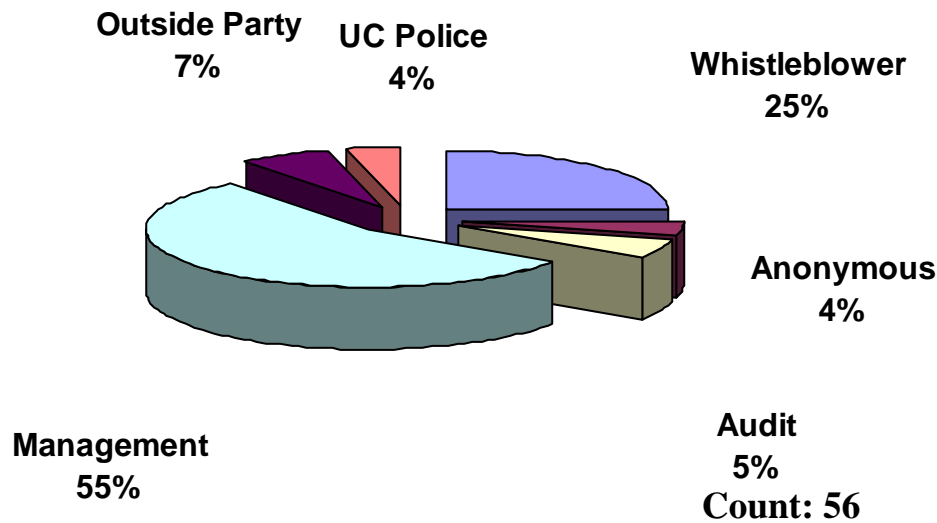




UC INVESTIGATION SOURCES 2002



UC INVESTIGATION SOURCES 1999-2002





CONCLUSIONS

Allegations	1999-2002	2002
Sustained Major	64%	65%
Not sustained	21%	18%
Sustained Minor	15%	18%
	100%	100%

Academic/Admin	1999-2002	2002
Academic	25%	27%
Admin	75%	73%
	100%	100%

Police Notified	1999-2002	2002
Yes	57%	50%
No	43%	50%
	100%	100%



ALLEGATIONS SUSTAINED - 1999-2002

Source	Not Sustained	Major	Minor	Total
UC Police	0%	100%	0%	100%
Audit	9%	55%	36%	100%
Management	17%	70%	13%	100%
Outside Party	21%	79%	0%	100%
Whistleblower	29%	50%	21%	100%
Anonymous	44%	33%	22%	100%
Overall Average	21%	64%	15%	100%



Peer Reviews and Benchmark Comparisons

- 1998 External Review
- 2001 Follow-Up Review
- Benchmark Studies



1998 External Review

- Performed at Request of Audit Committee
- Performed by External Experts with Varied Backgrounds and Perspectives
- Comprehensive Review of Audit Program Activities for Compliance with Professional Standards
- Interviewed (then) current and former Regents Audit Committee Chair, President, 3 VP's, 5 Chancellors, 1 Laboratory Director, 9 Vice Chancellors/Deputy Lab Directors, all Audit Directors, selected others



1998 External Review

“Results:

- *The University has a sound Internal Audit Program*
- *Audit Personnel are Experienced and Well Qualified*
- *Dual Reporting and a Decentralized Structure Appear to be Appropriate to the University’s Current Organizational Structure*
- *The Annual Expenditure for the Internal Audit Program is Within an Acceptable Range Compared to Other Multi-billion Organizations.*
- *There Exists a High Degree of Customer Satisfaction.”*



1998 External Review

Recommendations for Enhancement

- *Raise knowledge sharing and teamwork to the next level*
- *Formally prioritize key initiatives, assign responsibilities and measure progress.*
- *Further enhance the risk assessment process & methodology.*
- *Clarify, support and help facilitate the controller function and control self-assessment.*
- *Further refine roles and responsibilities of local audit committees.*
- *Identify, develop and source specialized skills.*



2001 Follow-Up Review

Results:

“...the Review Team is satisfied that progress on the recommendations has been adequate during the intervening period since the original review.”

Recommendations:

Continued progress on the six original recommendations as they were not of the nature that are ever “completed”



2001 Follow-Up Review

Other Observations:

“In our 1998 report, we did not and are still not advocating any form of single audit function for the University. We truly appreciate the importance and effectiveness of the individual Campus and Lab audit functions and believe that these functions, their localized existence and reporting structures should not be fundamentally changed.”



Benchmark Studies

- 2001 KPMG University Systems Study
- 2002 Institute of Internal Auditors GAIN Study



2001 KPMG University Systems Study *(eight university system participated)*

Selected Findings:

- *“70% of participating universities internal audit departments are not organized as a System function. In general, campus internal audit directors report to executive management at the campus with either a limited or not reporting or organizational link into the System administration.”*

UC—Dual reporting to both campus officials and University Auditor. Active interaction and systemwide reporting.



2001 KPMG University Systems Study

- *“43% of participating universities’ internal audit departments report functionally to the Audit Committee (the balance reporting functionally to a member of university management). Additionally, all respondents report administratively to executive level management (Chief Operating Officer, Chief Financial Officer, Vice Chancellor, etc.).”*

UC—Internal Audit has dual reporting to Audit Committee and Senior Management, which in terms of the study is equivalent to functional reporting to the Committee and administrative reporting to executive management.



2002 Institute of Internal Auditors GAIN Study

(789 respondents from all industries)

Select Findings:

- *Internal Audit Reporting Structure-Functional**
 - *55% to Audit committee*
 - *16% to CEO or President*
 - *17% to CFO or Controller*
 - *12% Other*

** For respondents with assets in excess of \$20 billion*



2002 Institute of Internal Auditors GAIN Study

(789 respondents from all industries)

- *Internal Audit Reporting Structure—Administrative**

- *14% to Audit Committee*
- *18% to CEO or President*
- *51% to CFO or Controller*
- *17% Other*

** For respondents with assets in excess of \$20 billion*



2002 Institute of Internal Auditors GAIN Study

(789 respondents from all industries)

Reporting:

- *90% of respondents provide draft report for management review and include responses in final report.*
- *8% provide draft report for management review but do not include responses in final report.*
- *2% of respondents issue final report without management review.*



2002 Institute of Internal Auditors GAIN Study

(789 respondents from all industries)

Select Other Findings:

- *UC's 88% of auditors with professional certifications is nearly double the 47% figure for all respondents.*
- *UC Staff turnover rate of approximately 20% mirrors industry group average of 19% and 21% for all respondents.*
- *68% of respondents use customer satisfaction surveys.*
- *80% of respondents have not had a peer review in last three years*



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