



**ANNUAL REPORT ON THE
INTERNAL AUDIT PLAN, 2000-01**

**May, 2000
Office of the University Auditor
Office of the President
University of California**

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EXECUTIVE SUMMARY

This University of California Internal Audit Plan for fiscal year 2000-01 is designed to meet the objective of providing the most timely and comprehensive scope of audit coverage possible--deploying the resources of the Internal Audit Program in an effective and efficient manner. We believe this Plan achieves the objective.

The Operating Plan

Achieving the objective requires balance among our three areas of primary activity--Audits, Advisory Services and Investigations. Foremost among these is the program of regular audits of academic, laboratory, and health care programs as well as administrative functions. This is evidenced by the plan to devote nearly two-thirds of our available time to the Audit Program. By virtue of projected gains in average staffing levels maintained (offset in part by a reduction in utilization of outside resources), a 10,000 hour increase is projected in available resources. This increase allows us to budget at a higher level than the current year for both Audits and Advisory Services. Expanding Advisory Services is especially viewed as a proactive investment of the additional resources. At 17% of available time, Advisory Services is well within the University Auditor's planning guidelines, and represents reasonable balance among our activities. Investigation hours are projected to decline. This may prove to be optimistic but is based upon recent trends adjusted for unusual one-time events.

The two most significant assumptions upon which the Plan is built are 1) staffing levels and 2) Investigation hours. During the current year, turnover has continued to exceed historical levels, due in part to the robust economy and job opportunities both within and outside the University. The Internal Audit Directors have aggressively utilized external resources--typically interns or contract auditors--to assure sufficient human resources to execute the Audit Plan. The FY 2000-01 Plan contemplates a continued ability to draw from such resources while building the staffing level by eight full time equivalent auditors. The additional outside resources are also helpful to supplant the resources lost to investigations should this area exceed the Planned level.

The Strategic Plan

During 1999 a revised strategic plan was developed for the continuous improvement of the Internal Audit Program. The specific strategic plan goals focus on development of the general and specialized skills of the audit staff, improved customer communications, a strengthened Information Technology audit program, enhancement of Internal Audit services through increased Advisory Services and continued efforts to share and implement the best practices of our profession. This Annual Plan provides the resources necessary to continue our efforts towards achievement of the strategic plan goals. A summary of the specific initiatives expected to be completed in FY 2000-01 is included as part of this Plan.

I. INTRODUCTION

This University of California Internal Audit Plan for the fiscal year 2000-01 presents the consolidated audit plans of the nine campuses, three national laboratories and the Office of the President. **The objective of the Plan is to provide the most timely and comprehensive scope of audit coverage to the University possible, deploying the resources available to the Internal Audit Program in an effective and efficient manner.** We believe the objective is reasonably achieved with this Plan.

The mission of Internal Audit is *"to assist The Board of Regents and University management in the discharge of their oversight and operating responsibilities through independent audits and consultations designed to evaluate and promote the system of internal controls, including effective and efficient operations."* While recognizing that Internal Audit's primary activity in fulfilling this mission is the conduct of a program of regular audits of the University's business operations, the Audit Plan recognizes that we are fundamentally engaged in three types of activities, as follows:

Audits--The planned and supplemental program of regular audits of business units (including academic departments) and business processes that cut across all organizational units (e.g., purchasing, travel, etc.).

Advisory Services--Representing those additional activities that a) promote the systems of internal controls through training of University personnel in concepts of internal control and consultation on their implementation; or b) promote effective and efficient operations through special management studies, advisory participation on business process and systems reengineering teams and consultation on business issues (e.g., regulatory compliance matters). In addition, at certain locations Internal Audit serves in additional capacities such as External Audit Coordinator (acting as liaison for campus visits by regulators and investigators), Information Practices Act Coordinator or Conflict of Interest Coordinator.

Investigations--Pursuant to University policy, Internal Audit conducts investigations into suspected financial irregularities whether reported by whistleblowers, uncovered in the course of regular audits, or based upon concerns conveyed by management.

In constructing the Annual Audit Plan, an objective is to assure an appropriate balance between the above three activities. While the program of regular audits is the first priority, it is also recognized that some issues are more effectively and efficiently dealt with through other means characterized as Advisory Services. We also believe that over time, investigation activity can be reduced through an active program of providing advice and consultation to business unit management and their staffs. We believe this Plan represents an appropriate balance among these activities.

This Annual Audit Plan contains two sections--the Operating Plan and the Strategic Plan. The Operating Plan establishes the planned utilization of our human resources in fulfillment of our mission and is essentially a budget expressed in hours rather than dollars. The Strategic Plan conveys the planned efforts designed to provide continuous improvement of the Internal Audit Program.

II. THE OPERATING PLAN

A. Planning Process

Any audit planning process begins with an understanding of the entity, activity or process to be audited and identification of the auditable elements, or components, of the entity. This is traditionally referred to as the audit universe. Annually, the planning process includes reconsideration of the audit universe as new activities, organizations and programs must be identified together with changes in the existing organization. In addition to changes within the operating units, changes in the overall environment within which the University exists must be considered. These "environmental" changes may include the regulatory climate, economic climate, and political sensitivity to certain issues. In recent years, for example, the regulatory climate in the health care arena has changed significantly focusing attention on compliance matters and prompting an aggressive response from the University in stepping up compliance initiatives. In the current year, increased expenditures for construction and outreach programs represent additional areas for increased audit consideration.

The audit risk of each component unit is assessed using a methodology traditionally utilized by auditors. Relative risk assessment is necessary to provide a means for rational deployment of limited resources across the audit universe. ***The Audit Plan strives to achieve the dual objectives of assuring audit coverage of the areas identified as representing the greatest current risk, while at the same time assuring broad coverage of the business operations of the University over time.***

It is important to note that "risk" for this purpose is not necessarily a negative reflection on the manner in which the business unit conducts its affairs. There are different levels of inherent risk present in different business activities. Obviously the risk of loss of University resources to theft is greater for some assets (cash) than others (buildings). Management of fiscal risk to a tolerable level through the application of internal controls and other risk mitigation activities is a management function. It is the function of the auditors to both assess the appropriateness of the level of risk accepted and the effectiveness of the controls employed to mitigate risk.

The risk assessment methodology utilized as the basis for the 2000-01 Audit Plan was essentially unchanged from the previous year in which significant modifications had been made based, in part, on the recommendations from the external review of the Program. In assessing relative risk, auditors at each location gathered information from:

- Financial analyses
- Change analyses (management, systems, funding sources/levels, regulations, etc.)
- Interviews with management
- Consideration of external audit activities
- Audit issues identified and shared by the controllers, other UC locations and other universities

In addition, a high level summary and analysis of business risks was prepared and shared among all Audit Directors. This analysis considered risks on a systemwide level as well as risks unique to our individual lines of business at the campus, lab and health sciences level.

With this background information each component of the audit universe was then assessed for relative risk using factors which have been proven by audit studies to be the most predictive of financial reporting failures. They are:

Management Control Environment--This factor assesses the adequacy of the existing control environment based on information from previous audit experience and the analyses referred to above. The recency of our audit experience brings into consideration the time since the organization was last audited. This factor also considers the financial expertise of management, complexity of operations, and the overall effectiveness and efficiency of operations.

Business Exposure--Both materiality and liquidity of resources under management are assessed relative to other organizational units. While size is not necessarily an indicator of greater inherent risk, greater financial exposure attracts greater audit interest if all other factors are equal.

Public and Political Sensitivity--Certain activities by their nature tend to garner greater public interest than others and/or represent areas of high political sensitivity. There are greater than normal risks to the University's reputation and goodwill inherent in these activities which can result in diminished funding and loss of independence to greater oversight or scrutiny. This factor is somewhat of a counterbalance to the materiality factor as size of the business exposure is less relevant to the impact of an accountability failure.

Compliance Requirements--This factor addresses all internal and external policy, procedure, regulatory and statutory matters affecting the operations of the auditable unit. The volume and complexity of rules and regulations generally increase the risk of non-compliance, which can create financial exposure as well as inefficient and ineffective operations.

Information and Financial Reporting--Reliable information is needed at all levels of an organization to effectively run the business. Financial and operational data drive decision making and are essential to the processes of planning, budgeting and performance measurement among others. This factor considers the accuracy, integrity and availability of information for these purposes.

Organizational Change and Growth--Change has been proven to be highly predictive of audit risk, whether the change is in people, systems or funding sources and levels. Organizational change may dictate the need for changes in procedures and controls that may lag behind.

These factors are weighted, scored and the relative risk ranking of each component of the audit universe is compiled. For risk assessment purposes separate weighting of the above risk

factors are assigned to the University's three lines of business—campuses, labs, and health sciences.

The results of the risk assessment of each campus, lab and medical center are provided to the University Auditor for analysis and consolidation. Such analysis is shared with each location so that anomalies can be investigated and assessments of like activities by other locations can be factored into the local risk assessments. This process also assists in identifying broad risks that exist across the University and are worthy of collective consideration in the planning process.

The finalized risk assessments then drive the preparation of local audit plans that are subjected to review by local audit committees, management, and Chancellors or Laboratory Directors before being submitted to the University Auditor for approval and submission to The Regents' Committee on Audit on a consolidated basis. In reviewing the plans, consideration is given to both of the objectives enumerated above. That is, the plans must demonstrate that the highest identified risk areas are being subjected to audit while at the same time assuring reasonable breadth of coverage across the audit universe. In addition, the local plans are reviewed for consistency with the planning guidelines distributed by the Office of the University Auditor at the beginning of the planning process.

B. Plan Overview & Analysis

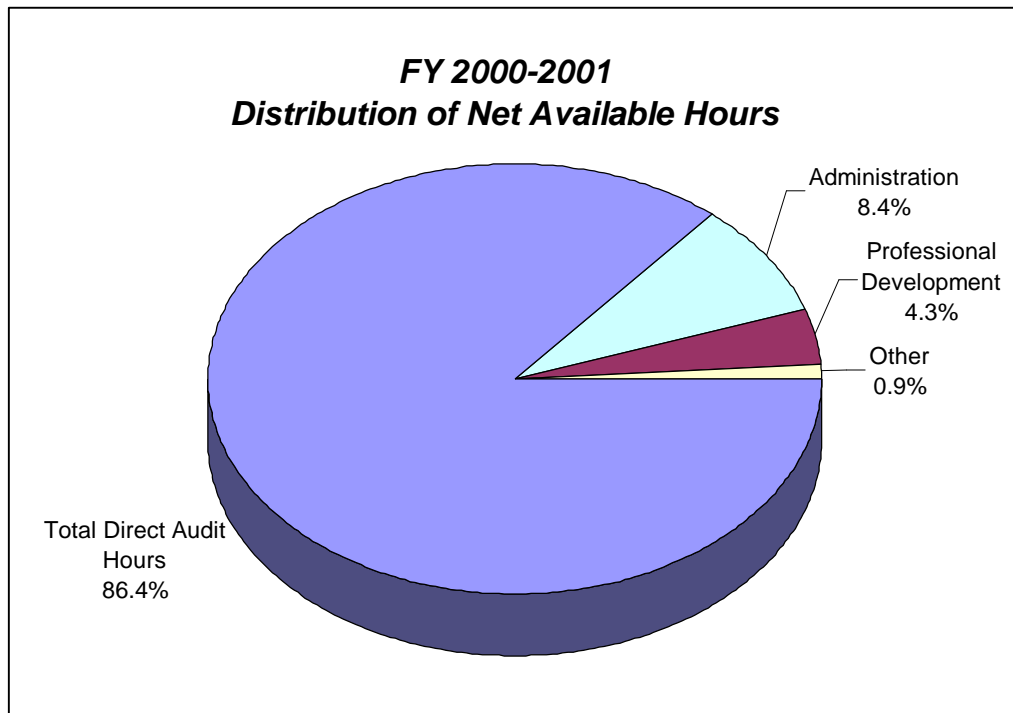
Available Resources & Distribution

The Audit Plan is essentially an allocation of human resources. The ability to maintain the planned staffing level is critical to the accomplishment of the Annual Plan. In FY 1999-00 we have seen a reversal of previous years' trends and an increased ability to sustain a higher level of staffing supplemented by additional outside resources where necessary. As a result, our projected available hours for FY 1999-00 (based on year-to-date experience through March 31, 2000) are actually slightly ahead of the Plan presented last year. The Plan for FY 2000-01 assumes continuation of this ability to sustain higher staffing levels despite the continued higher than historical turnover rate. These apparently conflicting forces are explained by more aggressive recruitment efforts and a more aggressive use of outside resources when necessary.

Following are the planned available resources on a gross basis and a tabulation of the resulting hours available on a net basis to devote to Direct Audit activities.

PLAN OVERVIEW**Table 1**

	2000-01 Plan		3/31/00 Annualized Hours	
	Hours	%	Hours	%
<i>Average FTEs</i>	112	-	104	-
Gross Available Hours	237,286	100.0%	227,605	100.0%
Non-Controllable Hours	38,047	16.0%	33,890	14.9%
Net Available Hours	199,239	84.0%	193,715	85.1%
FY 2000-2001 Distribution of Net Available Hours				
Administration	16,601	8.4%	15,212	7.9%
Professional Development	8,605	4.3%	8,355	4.3%
Other	1,827	0.9%	1,967	1.0%
Total Direct Audit Hours (to Table 2)	172,206	86.4%	168,181	86.8%
Total Net Available Hours	199,239	100.0%	193,715	100.0%



The Plan is based on sustaining an average of 112 auditors throughout the year which produces 232,300 hours of available resources. Nearly 5,000 hours of resources from other than regular audit staff, including interns and contract auditors, bring the Planned Gross Available Hours to 237,300. The net 10,000 increase from the current year may prove to be somewhat aggressive in light of current vacancies. The ability to continue successful recruitment efforts will dictate the availability to reach this target.

Non-controllable hours represent official leave, such as vacations, holidays and illness as provided by University personnel policies. This level is fairly predictable based on historical experience and represents less than the fully accrued leave. The increased percentage for non-controllable hours, from 14.9% in the current year annualized to 16% in the Plan is due to the richer mix of employees versus contract auditors in our resource base.

The Distribution of Net Available Hours table accounts for those available hours spent in other than Direct Audit activities. A planning guideline of approximately 10% was established for Administration, and the consolidated Plan projects 8.4% for administration of the Internal Audit Program representing a slight increase over the current year. Professional Development hours at 4.3% of available resources is equal to the current year. Professional Development time averaging 77 hours per professional represents an investment in the quality of the audit staff. This level reflects the need to strengthen skills in various areas of specialization, especially information technology where nearly every auditor is receiving additional training in either late FY 1999-00 or early 2000-01.

The resulting 172,200 hours of Direct Audit activity represents 86.4% of the available resources which is a very slight decrease compared to the rate experienced in 1999-00 year-to-date, but still in excess of the planning guideline of 85%.

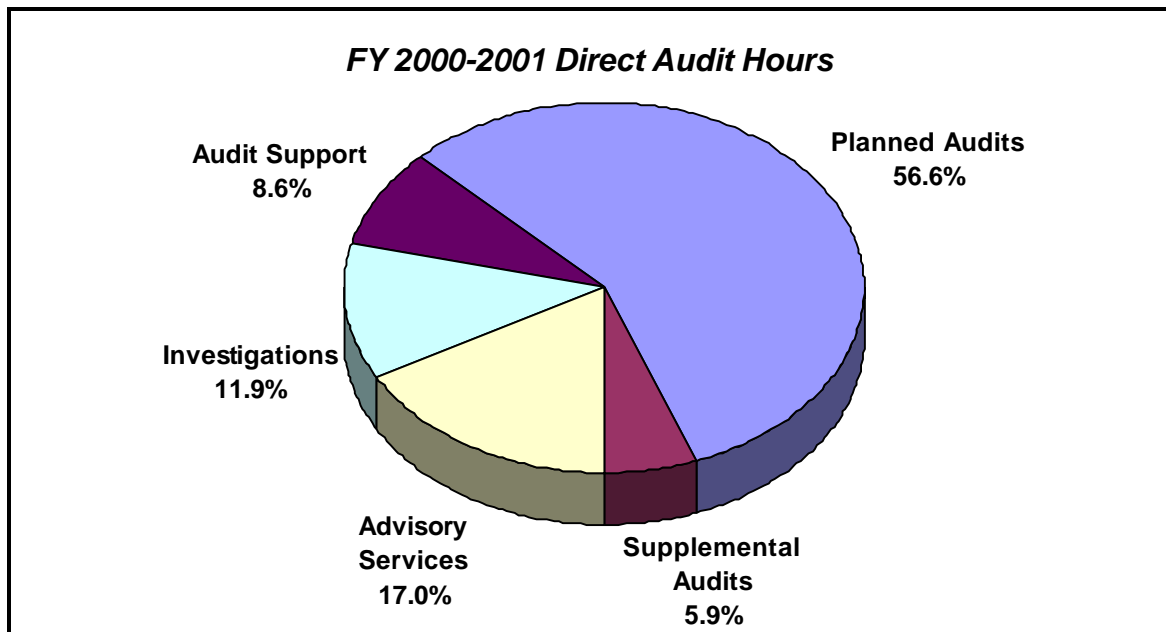
Allocation of Direct Audit Hours

Once the net available resources are tabulated, the Audit Plans are prepared to address the multiple services provided with a primary emphasis on addressing the areas identified in the risk assessment process. Following is a tabulation of the planned deployment of Direct Audit Hours.

ALLOCATION OF DIRECT AUDIT HOURS

Table 2

	2000-01 Plan		3/31/00 Annualized	
	Hours	%	Hours	%
Audit Program				
Planned Audits (<i>to Tables 3 and 4</i>)	97,556	56.6%	80,974	48.1%
Supplemental Audits	10,095	5.9%	23,478	14.0%
Total Audit Program	107,651	62.5%	104,452	62.1%
Advisory Services				
Consultations/Spec. Projects	15,518	9.0%	11,069	6.6%
Systems Dev., Reengineering Teams, Etc.	5,029	2.9%	2,543	1.5%
Internal Control & Accountability	3,815	2.2%	2,796	1.6%
External Audit Coordination	4,619	2.7%	4,037	2.4%
IPA, COI & Other	300	0.2%	1,134	0.7%
Total Advisory Services	29,281	17.0%	21,579	12.8%
Investigations	20,500	11.9%	27,857	16.6%
Audit Support Activities				
Audit Planning	3,308	1.9%	3,386	2.0%
Audit Committee Support	1,910	1.1%	992	0.6%
Systemwide Audit Support	4,826	2.8%	4,760	2.8%
Computer Support	3,259	1.9%	3,994	2.4%
Quality Assurance	1,471	0.9%	1,161	0.7%
Total Audit Support	14,774	8.6%	14,293	8.5%
Total Direct Audit Hours	<u>172,206</u>	<u>100.0%</u>	<u>168,181</u>	<u>100.0%</u>



Audit Program--The Audit Program constitutes the program of regular audits and is comprised of both Planned Audits and an allocation for Supplemental Audits that arise during the course of the year. The latter recognizes that we exist in a dynamic environment and the Audit Plan established annually requires some margin for flexibility.

At 107,600 hours the Plan projects more than 3,000 additional audit hours compared to the level of regular audit activity expected to be provided in the current year (104,500).

The program of regular audits is intended to represent our primary means of providing audit coverage to the areas identified as the highest business risks in our risk assessment process as well as providing broad coverage to the various components of the audit universe over time. Tables 3 and 4 display the broad coverage of the components of the audit universe.

The attention to the highest risk areas is assessed by asking each location to identify audit or other coverage of the top ten risk areas identified in their risk assessment scoring process. That analysis indicates that 96% of the areas identified as high risk are planned to receive attention during the coming year. Almost universally, the items identified as high risk that are not in next year's plan are items currently under audit or recently audited with substantive corrective action pending. Accordingly, the area cannot yet be assessed at a lower risk level, but will not be re-audited next year. Tracking completion of corrective action is accomplished through a program of regular follow-up.

Approximately 53% of the Planned Audit hours are devoted to the areas of highest identified risk. While that represents good concentration in the high risk areas it is low enough to provide adequate time for broader coverage of the University over time as well. Approximately 17% of the auditable component units are included in the audit plan with a total of 321 planned audits. Most academic units are addressed through local programs of departmental surveys that are less than full scope audits, but as a minimum are diagnostic for departments without significant research expenditures.

On a systemwide level, the most commonly identified areas of high risk include contracts and grants administration, medical center revenues, medical records, clinical research, professional fee billing, and construction, all of which are receiving substantial audit coverage.

Advisory Services--This category encompasses a broad array of audit activities beyond regular audits. It is the most proactive of our three major areas of activity and one that we believe can have far reaching impact on a number of business units. At 29,300 hours Planned (17%), it represents a substantial increase from the anticipated 21,600 hours (13%) for the current year. However, the current year hours are significantly below the 1998-99 Plan of 27,800 hours or 17%. The Planning Guideline established by the University Auditor's office for this category is 15%--25%. Therefore, the Planned hours are still in the low range of what is considered appropriate for an optimal mix of services. The further enhancement of our Advisory Services capabilities and customer awareness is a key element of our Strategic Plan.

Within this category, Internal Control & Accountability includes our contribution to the Business Officers Institute (BOI), which will train approximately 400 additional departmental

business officers in fiscal year 2000-01. Well over 1,000 employees have attended BOI to date. It also includes our efforts to support the Controllers' accountability initiatives, including Control Self Assessment, to the extent appropriate depending on individual campus implementation plans, as well as the independent control self assessment effort at the laboratories.

Special Projects and Consultations are projected to increase from 11,000 hours to 15,500 hours as we actively seek opportunities to help department and program managers deal with issues before they become audit or investigation problems.

Systems Development, Reengineering Team participation and other committee participation reflect our involvement in the continued efforts of campuses and laboratories to develop and implement new systems, redesign their business processes to be more effective and efficient and deal with other campus or lab business issues. Involvement of auditors in a consultative manner during the design and development phase helps to ensure that sound business practices, including effective internal controls, are built into the systems and processes.

And lastly, a nominal number of hours are budgeted to reflect the activities of two of our campuses at which Internal Audit has expanded roles in Information Practices Act and Conflict of Interest matters.

Investigations--The planned hours for Investigations are substantially below the current year actual hours annualized through June 30, 2000. This is principally because the current year annualized hours are heavily influenced by two locations which experienced an unusually high level of investigation activity in FY 1999-00 that is not expected to recur. Together they represent nearly one-half of the projected June 30, 2000 hours of 27,900. These locations forecast a return to more normal levels in FY 2000-01. Coupled with the otherwise continuing downward trend that has been experienced for the last several years, 20,500 hours are forecast. Should this estimate prove overly optimistic, other planned audit activities will have to be curtailed or additional resources will have to be garnered. Within reason, this can be accommodated without sacrificing essential elements of the Audit Program.

Audit Support Activities--This category represents various activities that benefit the overall program but do not result in the delivery of a service to a business unit of the University. At 14,800 hours this category is consistent with the current and prior year hours.

C. Distribution of Audit Effort

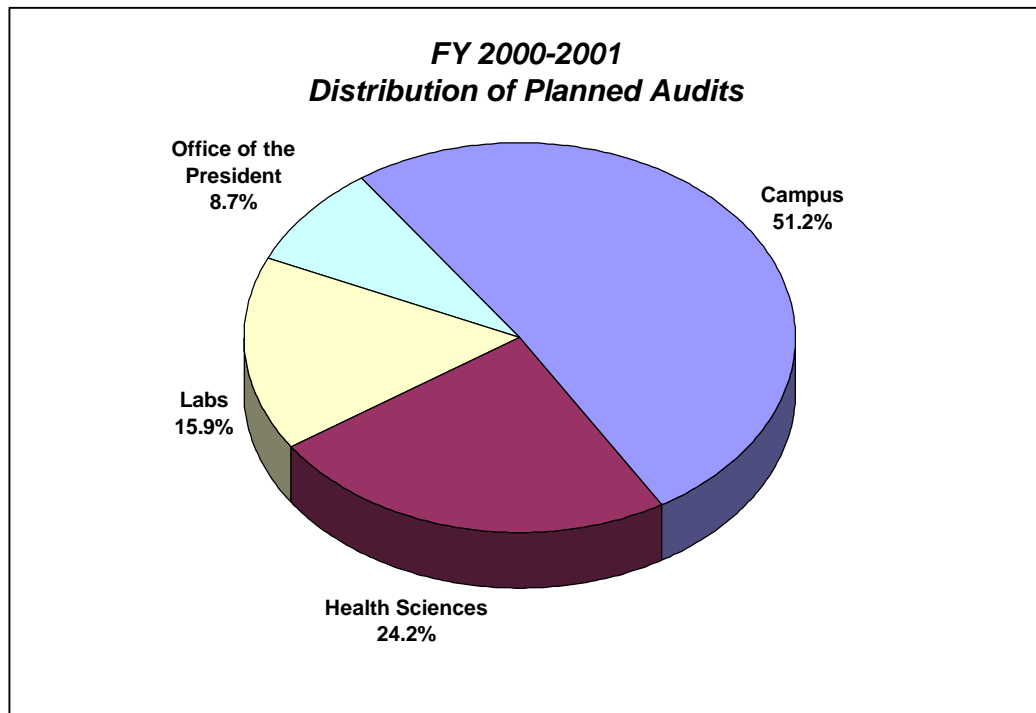
As stated earlier, the Audit Plan strives to achieve the dual objective of assuring audit coverage of areas identified as representing the highest relative risk, while at the same time assuring broad coverage of the business operations of the University. The previous analyses dealt principally with coverage of the highest risk areas. The following analyses provide information about the relative audit coverage by component units of the University and by functional areas, demonstrating the breadth of coverage of the various elements of the audit universe.

The distribution of planned audit hours among major business units is reflected in the table and chart below. The distribution of audit hours to the Labs and Office of the President is driven by the staffing of those Internal Audit Departments. The distribution between campus and health sciences is measured by the relative effort (measured in hours of planned audits) for those campuses with health sciences clinical enterprises. For the purposes of this chart, the Schools of Medicine are included in Health Sciences and not Campus totals.

DISTRIBUTION OF PLANNED AUDITS

Table 3

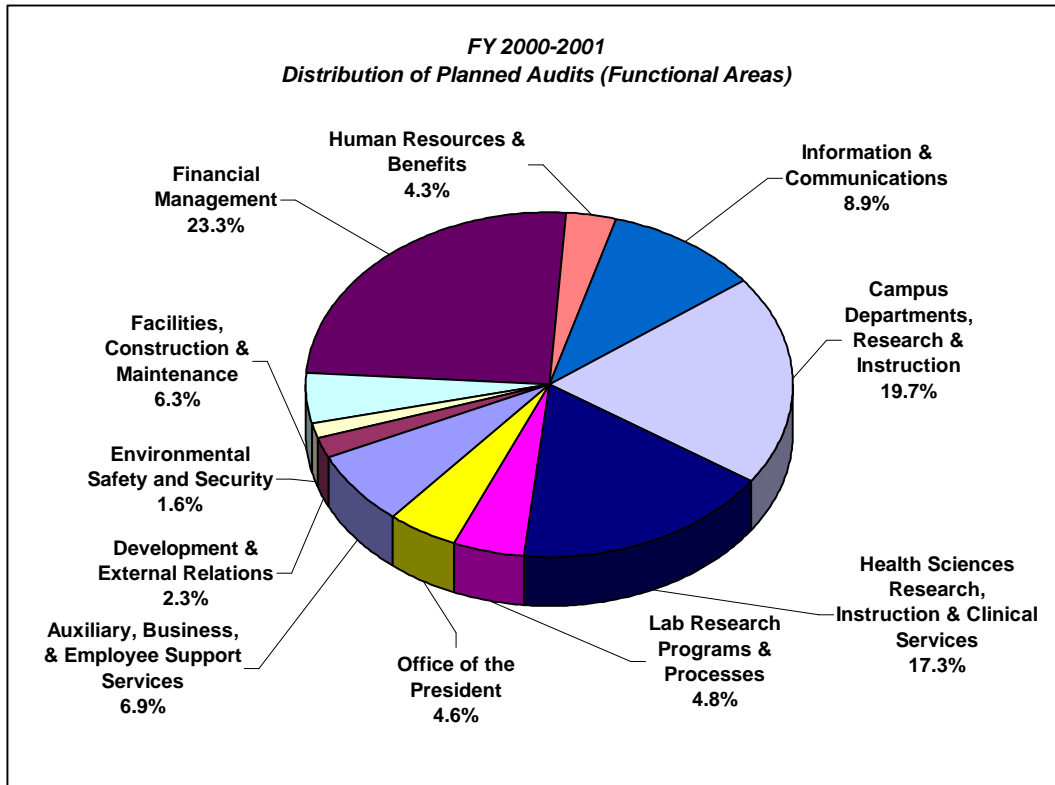
	Hours	%
Campus	49,951	51.2%
Health Sciences	23,612	24.2%
Labs	15,553	15.9%
Office of the President	8,440	8.7%
Total	<u>97,556</u>	<u>100.0%</u>



The following table demonstrates the breadth of coverage across functional areas of the University.

***DISTRIBUTION OF PLANNED AUDITS
(Functional Areas)
Table 4***

	Hours	%
Financial Management	22,774	23.3%
Campus Departments, Research & Instruction	19,200	19.7%
Health Sciences Research, Instruction & Clinical Services	16,874	17.3%
Information & Communications	8,660	8.9%
Auxiliary, Business, & Employee Support Services	6,780	6.9%
Facilities, Construction & Maintenance	6,130	6.3%
Lab Research Programs & Processes	4,714	4.8%
Office of the President	4,496	4.6%
Human Resources & Benefits	4,149	4.3%
Development & External Relations	2,233	2.3%
Environmental Safety and Security	<u>1,546</u>	<u>1.6%</u>
Total	<u>97,556</u>	<u>100.0%</u>



As can be seen, the largest commitment of time is to broad financial management activities, many of which cut across departmental lines. This area includes general accounting, payroll, contracts and grants accounting, procurement, cash and bank accounts, travel and entertainment, and risk management among others. This area historically has received the largest portion of audit work, and it includes work in these functional areas whether carried out at a campus, lab or medical center.

Campus Departments, both instructional and research activities, reflect a marked increase in percentage of planned effort for FY 2000-01 as compared to the Plan for 1999-00. A slight decline in percentage of time devoted to Health Sciences Research, Instruction and Clinical Services coupled with a decline in Auxiliary, Business & Employee Support Services accommodates this increase. The decline in Health Sciences as compared to the current 1999-00 Plan is actually only 700 hours, and so the decreasing percentage reflects the fact that much of the increase in available time is being invested in academic departments. This is an area that had perhaps received too little attention in recent years and the current distribution is viewed as a positive change.

The captions for Lab Research Programs & Processes and Office of the President cover topics unique to their environments, for example, DOE contract administration at the labs and the Treasurer's Office at OP.

The five categories for the campuses, labs, health sciences, OP operations and financial management account for approximately 70% of the total time distribution. The largest remaining category, Information & Communication, also reflects a sizeable increase both in hours and percentage of available time reflecting increased attention to this critical area.

We believe that these statistics demonstrate reasonable distribution of effort and appropriate coverage of the elements of the audit universe in relation to their relative risk.

In total, there are 321 new audits included in the FY 2000-01 Audit Plan with an average of approximately 304 hours budgeted per audit.

III. THE STRATEGIC PLAN

A. Strategic Plan Process

During 1999, the leadership of the Internal Audit Program developed a new strategic plan whose execution will span several years. The strategic plan objectives were driven by three factors:

- Our own recognized needs and opportunities to improve the program
- The recommendations from the 1998 external review of the program, and
- Strategic changes in the direction of the Internal Auditing profession

The changes occurring within the internal audit profession are in part based on the report of an Institute of Internal Auditors' Guidance Task Force. Even the definition of *internal auditing* has been revised. The new definition for the profession is as follows:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The strategic plan flows out of five overarching goals as follows:

1. **Enhance Relationships with All of Our Various Customers (Regents, Management, Faculty and Staff).** This goal focuses us on customer service through improved capabilities and communications, which require better understanding of our customers' needs and expectations as well as ability to meet those needs.
2. **Focus on Customers' Business Objectives.** This goal recognizes the need for our auditors to develop more of a business mindset (to complement the current compliance mindset) so as to stay focused on broader business issues during an audit including whether business objectives of the unit are being met.
3. **Focus on Advisory Services.** This goal recognizes that some of our most proactive services are rendered through Advisory Services rather than through traditional audits. Those audits are typically more time consuming and have a historical perspective on compliance with policies and procedures rather than a forward looking assessment of risks and effective mitigation strategies. Both types of services are necessary and useful; it is an appropriate balance that is being sought by this goal.
4. **Skill Development and Resource Allocation.** This goal recognizes that perhaps our greatest need is to assure that our professional skills are in line with the needs of our customers and the changing environment. A primary focus within this goal is the strengthening of our Information Technology audit capabilities, but it also deals with

assessment and development of capabilities in a wide range of areas including health care, construction, investigations and environmental health & safety to name a few.

5. **Collaboration, Knowledge Sharing & Teamwork.** This goal addresses our ability to strengthen each of our departments through collaboration, knowledge sharing and teamwork. The goal includes the identification of appropriate performance measures as well as the tools and mechanisms for sharing and assuring consistent quality within our Program.

Execution of the strategic plan is carried out by all of the Internal Audit Directors and managers through their organization into five workgroups described below. The University Auditor participates in the activities of all five workgroups and provides overall leadership to the strategic planning efforts as one of the position's principal responsibilities.

Best Practices--This Team has principal responsibility for the strategic goal of *Collaboration, Knowledge Sharing & Teamwork*. Within its purview are the establishment of professional standards and a quality assurance program, the identification of benchmarks and measures for the assessment of our performance and mechanisms for sharing best practices.

Risk Based Audit--This Team shares responsibility for the strategic goal related to *Enhancing Customer Relationships* and has principal responsibility for the goal of assuring that our audits *Focus on Customers' Business Objectives*. The Team also assures that the audit program uses modern tools and techniques for the recognition and mitigation of risk. In substantial part, it responds to its charge by addressing the general *Skill Development & Resource Allocation* needs within the Program.

Information Technology--This Team's charge addresses the specific need for *Skill Development & Resource Allocation* in the area of Information Technology auditing. Its activities include developing and training the professional staff in the concepts of integrated auditing and assuring the presence of more highly developed specialized skills as needed. In addition, this Team advises the rest of the Internal Audit community on utilization of technology within our Program.

Advisory Services--This Team has responsibility for the strategic goal to *Focus on Advisory Services* as a proactive and effective alternative to regular audit procedures. The Team shares responsibility for the goal of *Enhancing Customer Relationships* as timely involvement and creative problem solving through non-traditional audit approaches will facilitate improved customer service. The Team's work plan recognizes that understanding our customers' needs and assuring the appropriate skill set among our professionals underlie their efforts.

Investigations--This Team's tactical objectives relate to strengthening University policies with respect to investigation activities. In addition, by addressing the training needs of investigators, the methods for sharing lessons learned from events investigated, and utilization of the OP Director of Investigations, the Team supports the strategic goals of *Skills Development and Resource Allocation* and *Collaboration, Knowledge Sharing and Teamwork*.

B. FY 2000-01 Strategic Plan Initiatives

Significant initiatives of the strategic plan expected to occur during fiscal 2000-01 include the following:

- Completion and implementation of a systemwide audit manual providing consistent guidance to all auditors for all of our services rendered.
- Developing guidance for inclusion in the audit manual on the conduct of investigations, including reporting to external parties and working with law enforcement agencies.
- Completion of Information Technology training for all non-technical auditors, resulting in an expanded capability for integrated auditing and IT skills among our entire staff.
- Implementation of new standards for performance evaluations and career counseling for all of our professional staff members.
- Completion of an evaluation of general and technical skill requirements focusing on our ability to provide audit and consultation services that are more business objective and risk management oriented and less compliance oriented.
- Implementation of new standards for obtaining customer feedback, including evaluations from senior management of each location, with feedback provided to the University Auditor.
- Completion of revisions to University policies on the oversight and coordination of whistleblower reporting, protection from retaliation and investigation activities. This task is being carried out through a workgroup broadly representing the University community and will also result in the creation of tools and training to augment the policies.
- Planning and conducting an All Auditors Conference in the fall of 2000 with a training curriculum focused on and consistent with the strategic initiatives.
- Reevaluation of the existing risk assessment and planning methodology with a view towards providing a longer-term perspective that assures audit coverage over time of all core elements of the University's business.
- Revision of the Quality Assurance Review program and scheduling another three-year cycle of peer reviews of each Audit Department conducted by Audit Directors from other UC locations or in coordination with the DOE Peer Review Program for the three national labs.
- Scheduling and conducting a follow-up visit by the members of the 1998 External Review Team.

C. Summary

We believe the Strategic Plan, its goals and the mechanisms established for accomplishing the goals, will provide for the continued strengthening of the Internal Audit Program in a manner supportive of the needs of the University and consistent with the positive changes occurring in the internal audit profession. We will continue to report progress against the Strategic Plan in the quarterly report to The Regents' Committee on Audit.