



University of California

Annual Report on Internal Audit Activities
2004 - 2005

ANNUAL REPORT ON INTERNAL AUDIT ACTIVITIES

2004 - 2005

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Executive Summary - Introduction

This Annual Report on Internal Audit Activities presents various summary level and analytical information regarding the University of California Internal Audit Program for FY 2004-2005. The objective of this report is to communicate the results of our Audit, Advisory Service, and Investigation efforts and, through interpretation of these results, comment on the University's internal control environment. Each of the thirteen campus/national laboratory and UCOP Internal Audit Directors prepared location annual reports for their local audit committees and leadership and those reports underlie this systemwide annual report.

A significant addition to this year's annual report is the communication to The Regents Committee on Audit about risk exposures that result from delinquent management corrective actions in response to previously reported findings and recommendations for control improvement. The creation of the Audit Tracker System has spawned a tremendous amount of effort to address open audit recommendations. During fiscal year 2004-05, we closed nearly twice as many management corrective actions as were added as a result of the current year program of work, and reduced by 58% the number of open items as compared to the prior June 30th. However, there remain 67 management corrective actions categorized by the auditors as high risk (Chart 9) which are past their targeted completion dates, some by significant amounts of time. While there are a variety of business reasons for the delays, principally resource constraints, the identified risks remain unmitigated pending their completion. All of these past due corrective actions have been brought to senior management attention and are now subject to active plans for resolution. A complete listing of the items is provided in Appendix I to this report.

Through timely audit follow up and earlier management attention to delays, it is our goal to eliminate all past due corrective actions in the coming year.

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Highlights

During FY 2004-2005, the UC Internal Audit Program:

- ❑ Rendered over 800 audit, investigation, and advisory services projects resulting in 1,970 recommendations for improvements to internal controls that were accepted by management.
- ❑ Reduced the number of open Management Corrective Actions as follows:
 - Beginning MCA Number – **2,821**
 - MCAs added – **1,970**
 - MCAs closed – **3,602**
 - Current open inventory of MCAs – **1,189**
- ❑ Met acceptable targets for productivity (85%), completion of the audit plan (70%), coverage of matters assessed as high risk (75%) but fell short of the target for core audit coverage (16% versus target of 20-33% for three to five year cyclical coverage of core topics)
- ❑ Willd Body Program—Conducted additional audits to assess practices for procurement of human anatomical material other than through the Willd Body Programs, and assisted in the development of new policies and procedures for the Programs
- ❑ Facilitated the Audit Committee's efforts to close out the Sarbanes-Oxley (SOX) implementation strategies, including most notably the establishment of a Statement of Ethical Values and Standards for Ethical Conduct
- ❑ Worked closely with the Office of General Counsel to establish the process for performing audits of selected policies related to ethics on an attorney/client privileged basis. Commenced the audits late in the fiscal year

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Highlights (cont'd)

- ❑ Developed a new web-based case management tool for audit investigations which facilitates tracking of open investigations and provides information for analysis and trending of such matters as use of the Hotline, types of cases, and outcomes.
- ❑ Completed a Skills Assessment Process for the entire audit staff on a systemwide basis to assist in training development and recruitment to fill specific needs. This process also helps identify particular skills sets that can be leveraged across the system.
- ❑ Conducted a very successful All Auditors Conference with a first ever keynote address that included the University President, Chair of The Regents Committee on Audit and the Senior Vice President-- Business & Finance.
- ❑ Completed a strategic planning effort to refresh our goals and establish new initiatives for the continued improvement of the audit program.

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Summary and Conclusions

We believe the University of California Internal Audit Program continues to be a significant element of the University's overall control structure and a positive influence on the control environment. A robust program of work was carried out during the year to assist management and The Board of Regents in achieving the business objectives of the University and appropriately controlling various risks to the achievement of those objectives.

In conjunction with the more than 800 completed Audit, Advisory Services and Investigation projects we identified no conditions that we believed to represent material deficiencies in internal controls. Further, while we acknowledge that management has ultimate responsibility for the establishment of internal controls managing risks, we identified no circumstances in which we believe that management's decisions resulted in the acceptance of unreasonable levels of risk.

In addition, based on the program of work for FY 2004-2005 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.
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.

While the internal controls of the University are judged to be reasonably effective in relation to the objectives and limitations of internal controls, the continuing fiscal environment suggests caution in assuming the continuation of that condition. The University has lost resources and been limited in its ability to make investments in systems and administrative infrastructure. Institutional knowledge was lost with staff reductions and retirements while the University's fiscal constraints make recruiting for the most talented candidates a challenge. In these circumstances management must remain vigilant against the risk of a deteriorating control structure even as we strive to strengthen the culture and ethical climate of the University.

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2004 - 2005

Challenges

A significant challenge for the year was maintaining adequate human resources to execute the audit plan. We operated for the year with an average of 128 auditors, 13 fewer FTE's than planned and 2 fewer than the prior year. On a positive note, we ended the year with 132 auditors. Turnover at 15% was in the normal range. Staff shortages are typically one or two positions at most locations, so the shortfall is fairly widely spread and no location is in a "crisis" staffing situation. Also, positively, we had no turnover in the Audit Director ranks.

Nevertheless, we are concerned about two factors. Our ability to recruit the most competent staff is challenged by market conditions caused by the swell of SOX work at CPA firms. Additionally, the University's ability to offer competitive salaries has contributed to very thin applicant pools.

At the same time the University continues to grow in size and complexity and our staffing levels as measured by traditional benchmarks are deteriorating, as reflected in Charts 14 through 17 on pages 26 and 27. We are experiencing difficulties addressing the matters viewed as contemporary risks while still providing coverage of core audit topics expected to be audited on a three to five year schedule.

In response, the Audit Directors' strategic plan is focused on staff recruitment and retention techniques, training, and the development of process improvements to make our efforts as efficient as possible.

II. Audit Program Analysis

The tables and charts contained in the following section show the summary and distribution of Audit Program efforts for the year by type of service (Audits, Advisory Services and Investigations) and across functional areas of the University. They demonstrate the breadth of coverage and areas of greatest concentration.

We believe this distribution represents a reasonable deployment of resources and demonstrates our primary commitment to the program of regular audits, availability for advisory services and responsiveness to the needs of investigations without undue intrusion on the audit program. We also believe the distribution along functional lines is reasonably balanced in relation to relative risk.

II. Audit Program Analysis

Projects	FY05 <u>Plan</u>	FY05 <u>Actual</u>	Prior <u>Year</u>
<u>Audits</u>			
Audit Program Hours	122,206	111,687	115,771
Number of Completed Projects	371	324	333
Average hours per completed project ⁽¹⁾	295	336	341
<u>Advisory Services</u>			
Advisory Service Hours	39,222	33,609	34,181
Number of Distinct Projects	117	223	237
Average hours per completed project ⁽¹⁾	157	152	132
<u>Investigations</u>			
Investigation Hours	40,277	34,522	29,238
Number of Completed Investigations	N/A	271	231
Average hours per completed project ⁽¹⁾	N/A	128	93
<u>Summary</u>			
Total Audit, Ad Serv., and Inv. hours	201,705	179,818	179,190
Total Number of Completed Projects	N/A	818	801
Average hours per completed project ⁽¹⁾	N/A	217	207
Number of projects per auditor	N/A	6.4	6.2
Percent of Audit Plan Completed	100%	70%	70%

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

⁽²⁾ Three to five year cycle

N/A - Not applicable to Plan Data

Table 1

People	FY05 <u>Plan</u>	FY05 <u>Actual</u>	Prior <u>Year</u>
Authorized	151	151	155
Average Actual Filled	141	128	130
Percent Filled	93%	85%	84%
Ending Head count	142	132	126
Turnover	N/A	15%	16%
Training hours per auditor	69	78	65
<u>Available Hours</u>			
Gross Available Hours	295,146	271,523	277,550
Net Available Hours*	249,930	228,356	229,907
Percent of Net to Gross	84.7%	84.1%	82.8%
* Reduced by vacation, illness, holiday, etc.			
<u>Distribution of Net Available Hours</u>			
Administration and Training	32,778	34,014	36,490
Direct Hours	<u>217,152</u>	<u>194,342</u>	<u>193,417</u>
Net Available Hours	249,930	228,356	229,907
Productivity Percent	86.9%	85.1%	84.1%
<u>Distribution of Direct Hours</u>			
Audits	122,206	111,472	115,771
Advisory Services	39,222	33,824	34,181
Investigations	40,277	34,522	29,238
Audit Support	<u>15,447</u>	<u>14,524</u>	<u>14,227</u>
Total Direct Hours	217,152	194,342	193,417

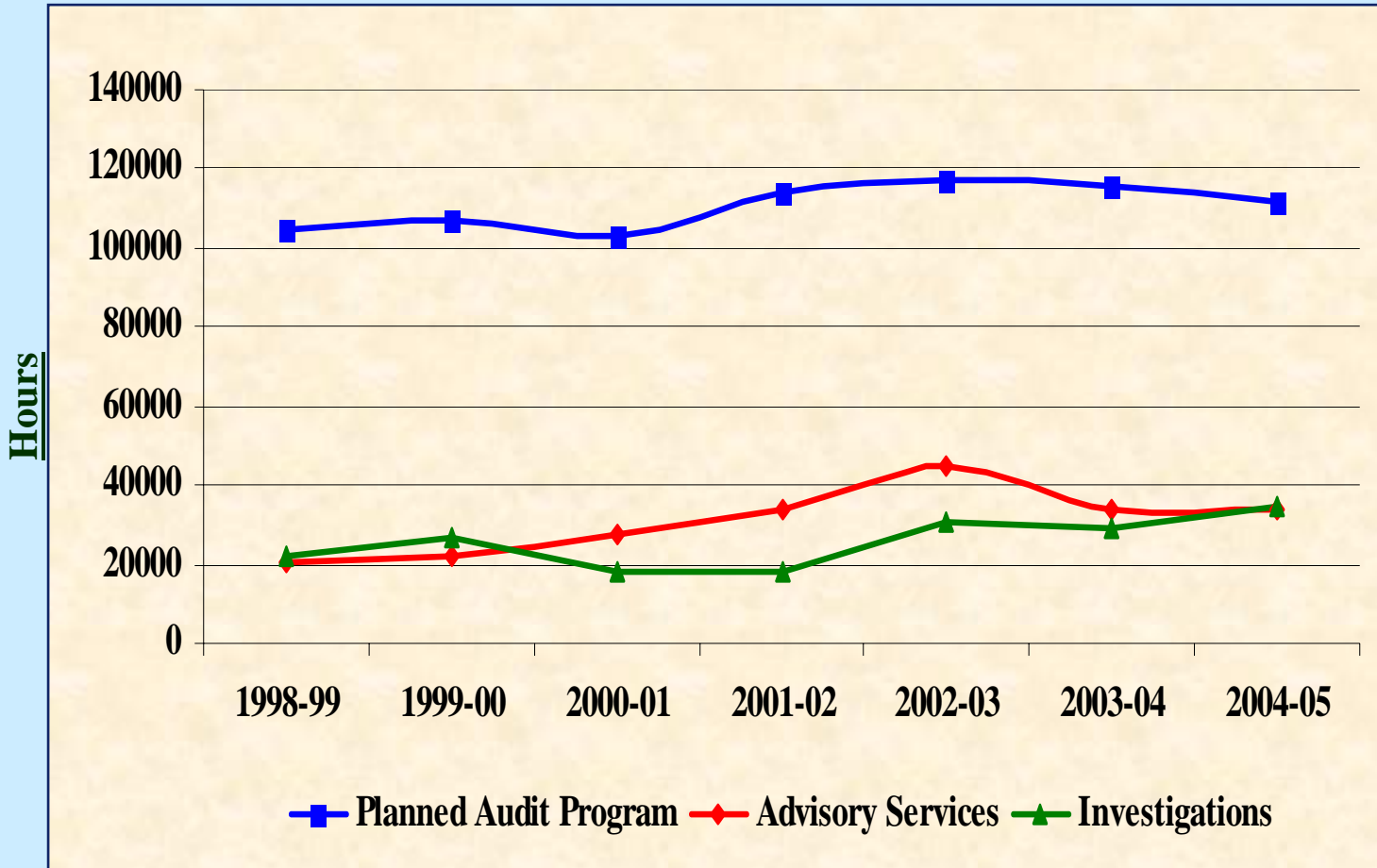
Table 2

Other	<u>Plan</u>	<u>Actual</u>	<u>Prior Year</u>
Coverage of Core Audit Hours ⁽²⁾	20-33%	16%	20%
Coverage of High Risk	80%	75%	71%

Table 3

II. Audit Program Analysis

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



This trend displays that our continued primary emphasis is the program of regular Audits. It also displays the predictable rise in Investigation demands in more challenging economic times and the unfortunate impact on our ability to devote resources to Advisory Service which we believe to be our most proactive services.

Chart 1

II. Audit Program Analysis

The chart below distributes Audit, Advisory Service, and Investigation hours by functional area and service type.

<u>Functional Area</u>	<u>Audits</u>	<u>Advisory Services</u>	<u>Invest.</u>	<u>Total</u>	<u>%</u>	<u>Prior Year</u>	<u>%</u>
Financial Management	35,456	5,095	12,481	53,032	29%	48,124	27%
Health Sciences, Research, Instr., & Clin Svcs	15,291	1,419	5,951	22,661	13%	26,067	15%
Campus Research Depts & Instruction	11,680	1,743	7,442	20,865	12%	23,571	13%
Research and Compliance	11,639	3,719	1,450	16,808	9%	15,448	9%
Lab Research Programs & Processes	8,103	1,104	1,676	10,883	6%	11,856	7%
Information Technology & Communications	5,484	5,117	789	11,390	6%	13,570	8%
Auxiliary, Bus & Employee Support	7,182	539	848	8,569	5%	10,500	6%
Facilities, Construction and Maintenance	4,122	1,231	941	6,294	3%	4,259	2%
Risk Management	3,694	746	750	5,190	3%	4,867	3%
Human Resources and Benefits	2,774	254	1,435	4,463	3%	4,246	2%
Office of the President	3,030	309	317	3,656	2%	3,569	2%
Development and External Relations	2,075	161	418	2,654	1%	2,880	2%
Ethics	1,031	-	-	1,031	1%	-	-
Budget and Planning	126	621	24	771	1%	63	-
Sub-Total	111,687	22,058	34,522	168,267	94%	169,020	94%
No Functional Category	-	11,551	-	11,551	6%	10,170	6%
Total	111,687	33,609	34,522	179,818	100%	179,190	100%
Percent	62.1%	18.7%	19.2%	100%			
Planned Percent	60.2%	19.5%	20.3%	100%			
Prior Year Percent	64.6%	19.1%	16.3%	100%			

II. Audit Program Analysis

Common High Risk and Core Business Areas addressed:

- Network Security
- Cashiering
- Physician Receivables
- Lab Cost Allowability
- Logical Security
- Lab Contract Administration
- Physical Security
- Medical Billings and Receivables
- Disbursements
- Travel
- Electronic Funds Transfers
- Institutional Review Boards
- Major Construction
- Ethics Policies
- Contracts and Grants
- Hospital Receivables
- Effort Reporting
- Hospital Clinics
- Compliance Program
- Entertainment
- Fund Raising/Gift Processing
- Business Contracts

This listing shows some of the contemporary risks considered to be high risk in FY 2004-05, e.g. network and physical security, compliance programs and IRB's/human subjects research, as well as the core business activities most frequently included in our local audit programs during FY 2004-05, such as construction, cashiering, hospital receivables and business contracting. The audit plans attempt to blend coverage of both contemporary risks and core business activities.

Chart 3

III. Audit Services Results & Management Corrective Actions

In 2004 we internally developed a tool called **Audit Tracker** as a means of enhancing our follow-up procedures on report recommendations. The **Audit Tracker** system provides a means of aggregating at each location and on a systemwide basis, all of the audit recommendations that led to agreed upon Management Corrective Action plans (**MCA's**) designed to improve controls. This aggregation provides a database which affords us the ability to track and to communicate timely the status of open recommendations and MCA's. **Audit Tracker** is also intended to provide an improved capability to search for common themes and, over time, trends in the auditors' observations about the University control environment.

Audit Tracker has been extremely effective in providing information which has allowed us to manage more aggressively the MCAs, thus promoting more timely risk mitigation as demonstrated below:

- Beginning MCA Number – 2,821
- MCAs added – 1,970
- MCAs closed – 3,602
- Current open inventory of MCAs – 1,189

The charts and graphs on the following pages provide analysis of both the MCAs resulting from 2004-2005 Audit, Advisory Service and Investigation work (1,970 items) as well as thematic analysis of the 6,635 MCAs tracked since the inception of Audit Tracker.

After the broader analysis, there is data provided regarding the items that remain open, with special attention to the items that are past their due dates for completion and are rated as the highest relative risks.

III. Audit Services Results & Management Corrective Actions

The charts and table below display the functional area distribution of the 1,970 MCAs produced in FY05 and a comparison to the effort expended in these areas.

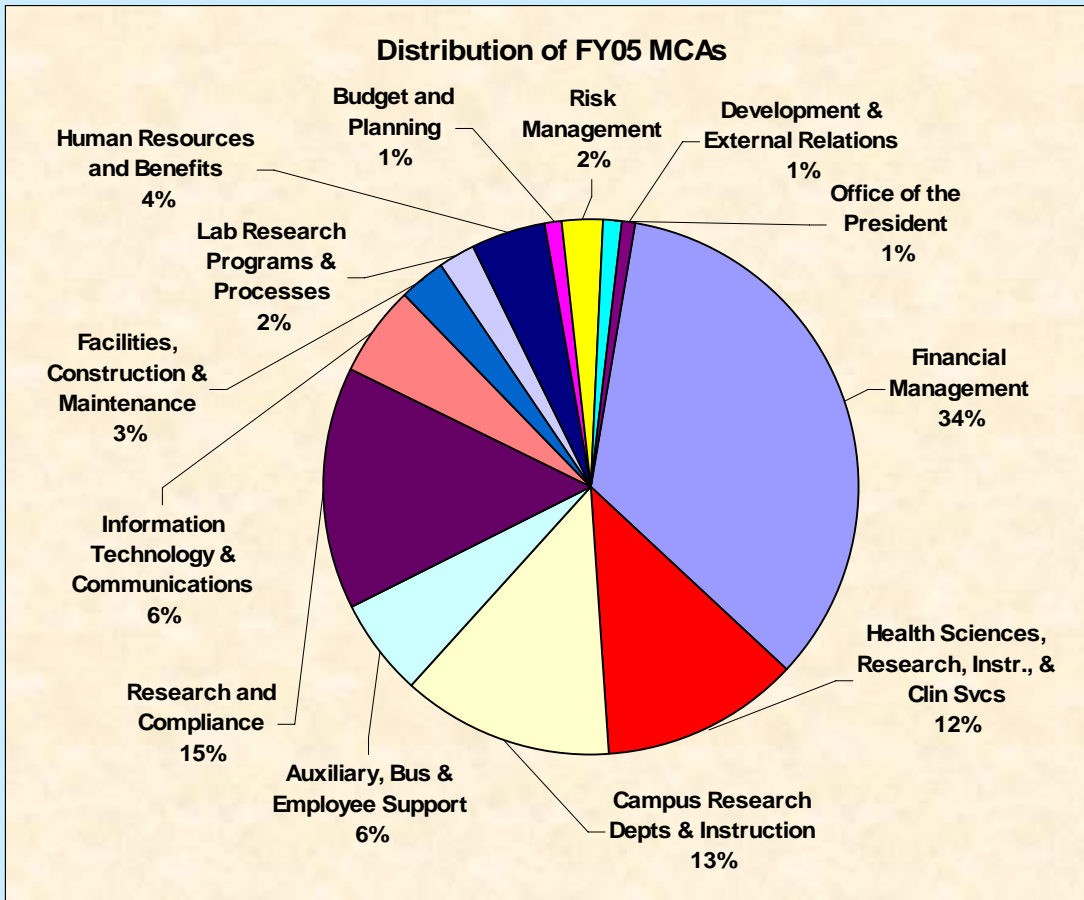


Chart 4

Functional Area	MCA %	Hours %
Financial Management	34%	29%
Research and Compliance	15%	9%
Campus Depts & Instruction	13%	12%
Health Sciences	12%	13%
Auxiliary, Bus & Employee Support	6%	5%
Information Technology	6%	6%
Human Resources and Benefits	4%	3%
Facilities and Construction	3%	3%
Risk Management	2%	6%
Laboratories	2%	3%
Office of the President	1%	2%
Budget and Planning	1%	1%
Development & External Relations	1%	1%
Ethics*	-	1%
No Functional Category	-	6%

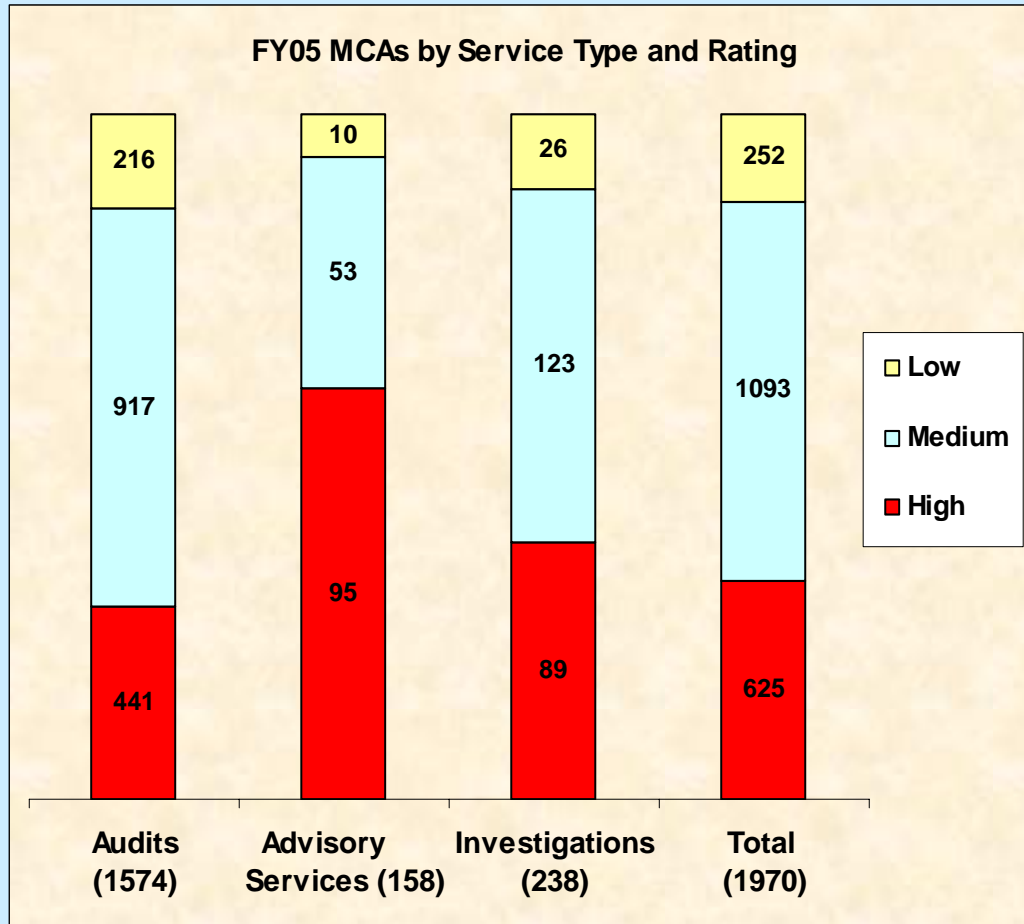
Table 4

The above comparison depicts generally high correlation between effort and corrective actions with some core business areas (Financial Management) and high risk areas (Research and Compliance) proving to provide more opportunity for strengthening controls.

**Ethics reviews are still in process and have not yet generated MCAs.*

III. Audit Services Results & Management Corrective Actions

The chart below shows the risk rating of the 1,970 MCAs for FY05 by service type.



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.

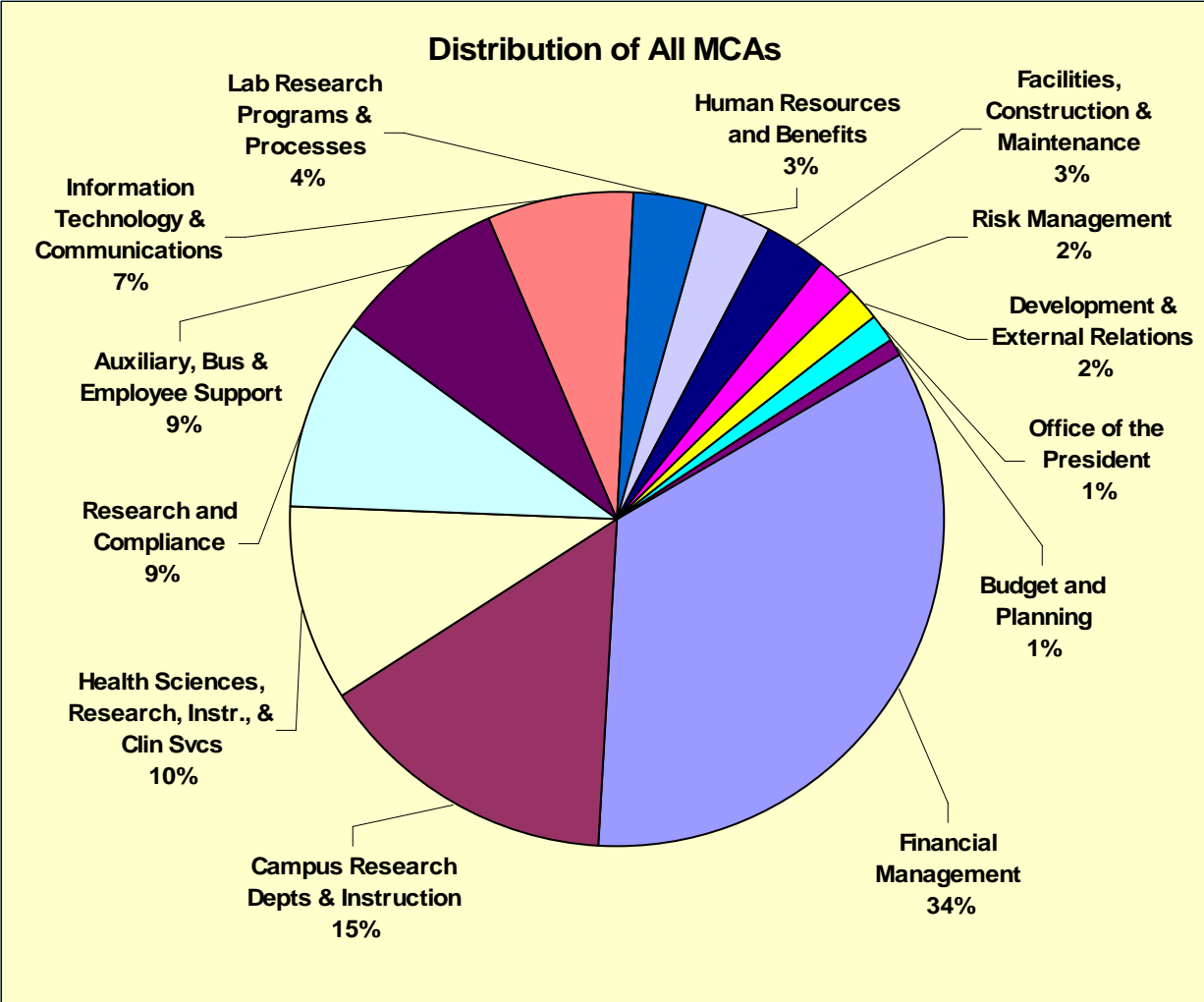
High risk MCA's would include those that are systemic or have a broad impact, have contributed to a significant investigation finding, are reportable conditions under our professional literature, create health or safety concerns, involve senior officials, create exposure to fines, penalties or refunds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

None of the conditions characterized as high were considered to warrant individual communication to the Office of the President or The Regents' Committee on Audit.

Chart 5

III. Audit Services Results & Management Corrective Actions

The chart below displays the functional area distribution of the entire population of MCAs since inception (6,635).



Whereas Chart 4 displayed the MCA distribution for MCAs generated in FY05, Chart 6 displays the functional audit area distribution for the entire population of MCAs. Table 5 below compares the distribution percentage for all MCAs to the FY05 percentage which remained comparable.

Functional Area	ALL	FY05
Financial Management	34%	34%
Campus Depts & Instruction	15%	13%
Health Sciences	10%	12%
Research and Compliance	9%	15%
Auxiliary, Bus & Employee Support	9%	6%
Information Technology	7%	6%
Laboratories	4%	2%
Human Resources and Benefits	3%	4%
Facilities and Construction	3%	3%
Risk Management	2%	2%
Development & External Relations	2%	1%
Office of the President	1%	1%
Budget and Planning	1%	1%

Table 5

Chart 6

III. Audit Services Results & Management Corrective Actions

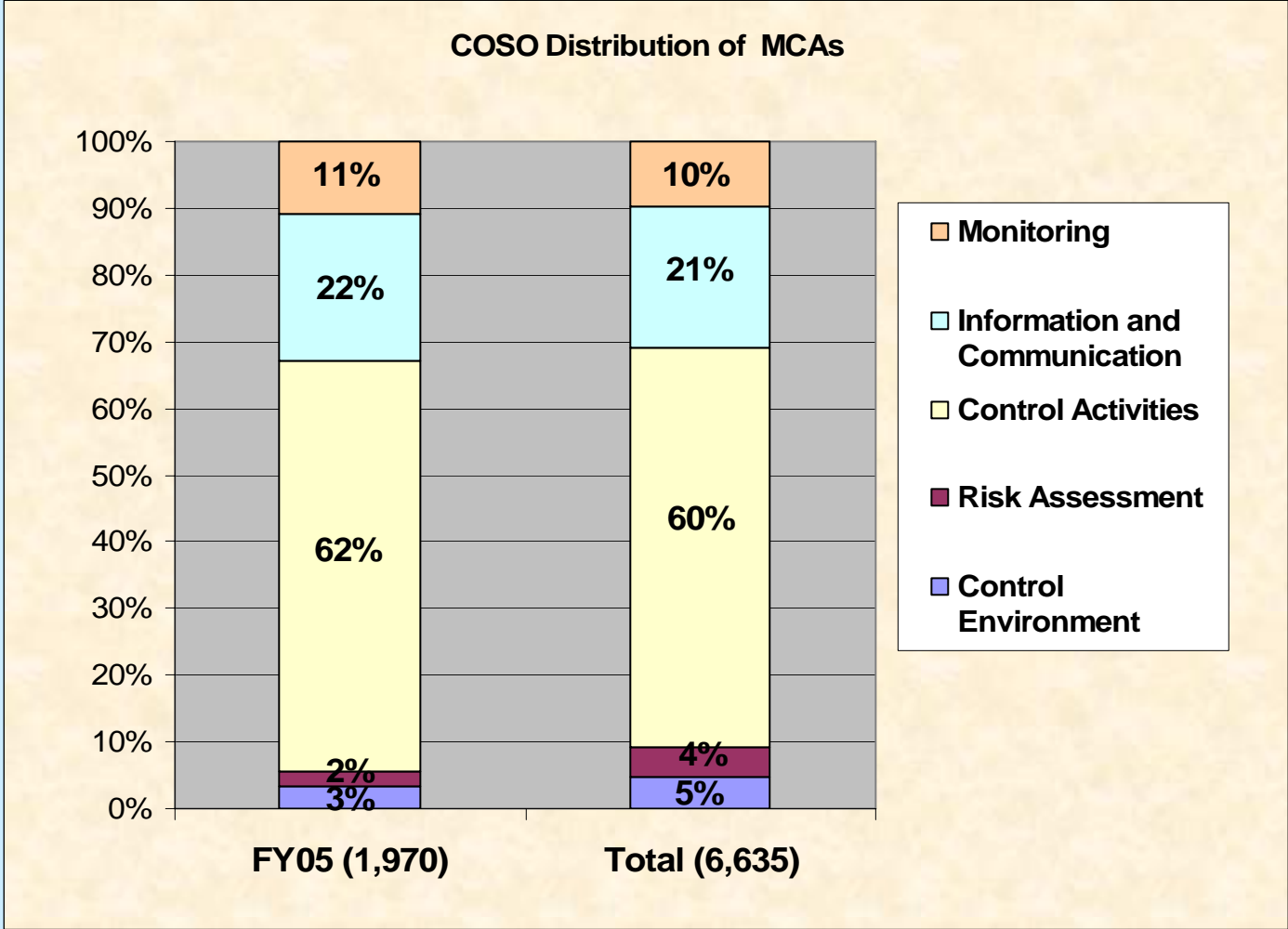
Audit Observations defined by COSO

As part of the Audit Tracker system, each location categorizes audit observations and MCA's in accordance with the University's adopted internal control framework (COSO). The COSO model provides for the following general categories of controls – each with sub-category detail:

- Control Environment – Sets the tone of the organization. Factors include integrity, ethical values, management's operating style and organization. Findings in this area would include matters such as the absence of a code of ethics.
- Risk Assessment – This is the identification and analysis of relevant risks to achievement of the established objectives. Findings in this area would include, for example, the lack of a process to recognize or mitigate a particular type of risk in the operating environment of the unit.
- Control Activities – These are the policies, procedures, and processes that help ensure the University conducts its business, and complies with laws and regulations and University policy. Examples include approval, authorizations, verifications, reconciliations, and segregation of duties among many others. Most findings are in this category because these are the controls most frequently tested by auditors.
- Information and Communication – Includes the identification and communication of operational, financial, compliance, and external information. Data security and integrity issues fall into this category.
- Monitoring – Includes regular management and supervisory activities, as well as financial, operational, and compliance assessments and evaluations. Findings of inadequate supervision or oversight may be a root cause for many other conditions observed.

III. Audit Services Results & Management Corrective Actions

The chart below displays the breakdown of the 5 COSO categories by MCA



Control activities account for the highest frequency of MCA's because of the numerous types of activities encompassed. However, deficiencies in the control environment are typically significant findings. Inadequate monitoring activities can result from the University's basic concepts of trust and accountability. And our ability to invest in systems is frequently a factor in the adequacy of information available for managing the University's affairs.

Chart 7

III. Audit Services Results & Management Corrective Actions

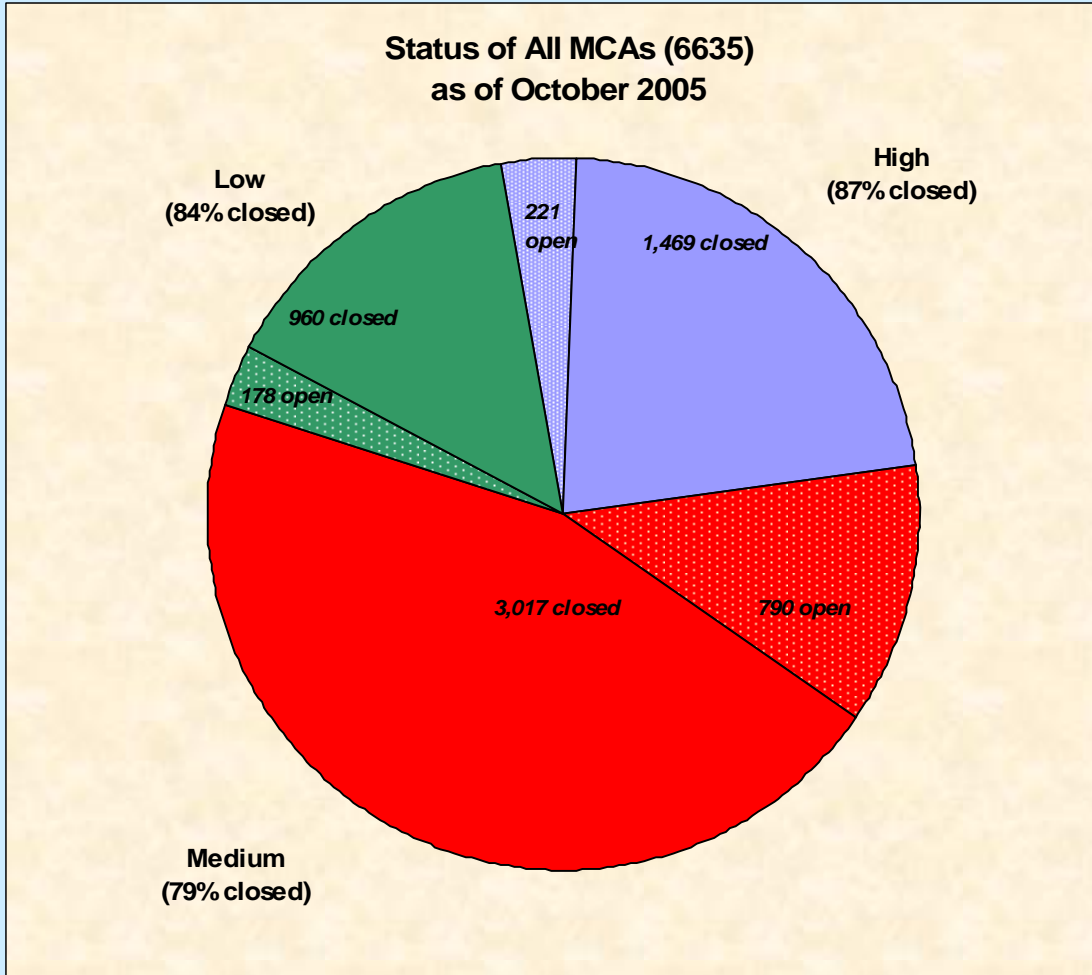
Status of Completion of Management Corrective Actions

The most fundamental objective of the Audit Tracker system is to facilitate the tracking of Management Corrective Actions to their timely completion. MCA's 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 following completion charts display the status for the entire population of MCAs. Part of our analysis includes an aging of the past due items. We believe that reporting the past due corrective actions to campus audit committees, senior management and The Regents' Committee on Audit will raise the visibility in a way that helps ensure timely attention to these matters and reduces the number of unmitigated risks. Appendix 1 to this report lists the details of the past due items.

III. Audit Services Results & Management Corrective Actions

The chart below shows the status of all 6,635 MCAs



The 87% rate of closure of the High rated MCA's reflects the fact that these are the items with the greatest urgency to bring to closure. Added attention to closing the items ranked as Medium risks is now occurring and can be expected to bring this volume down prospectively.

The volume of open items will always be substantial because of the ongoing nature of our work, yet we expect to be able to establish benchmarks in this area as the Audit Tracker information matures.

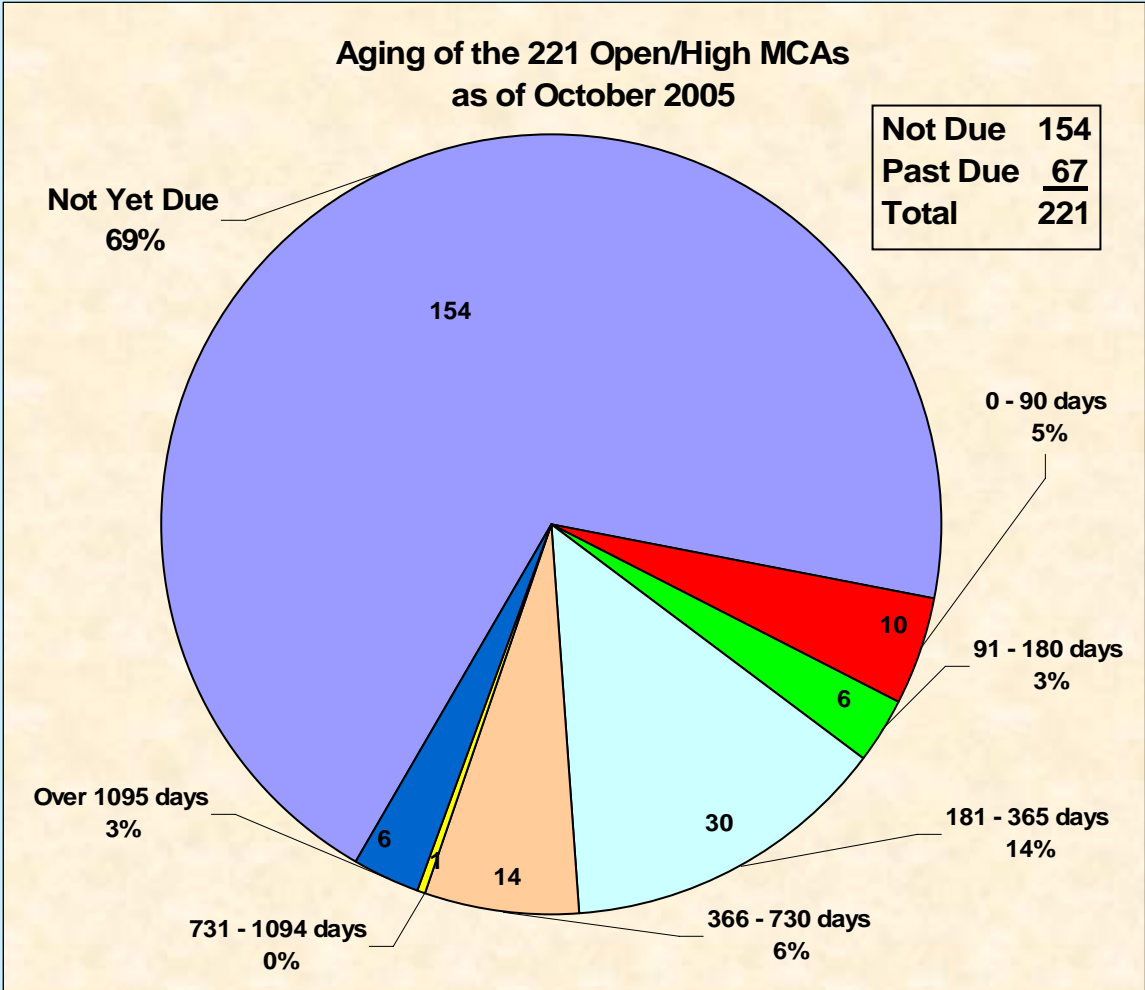
MCA Rating	Open	Closed	Total	% closed
High	221	1,469	1,690	87%
Medium	790	3,017	3,807	79%
Low	<u>178</u>	<u>960</u>	<u>1,138</u>	84%
	1,189	5,446	6,635	

Table 6

Chart 8

III. Audit Services Results & Management Corrective Actions

The chart below shows the aging statistics of the inventory of 221 Open High Risk MCAs



The majority of the open items (154) are not yet due, however, 67 are past due.

These past due issues have been brought to the attention of senior management and active resolution plans are in process. The goal of reducing these items to a negligible number occasioned by highly unusual circumstances is clearly understood and accepted by all responsible for addressing these items.

Refer to Appendix I for a listing and brief description of these past due MCAs.

Chart 9

IV. Investigation Activities

This section contains charts that display the sources and methods of reporting for improper governmental activities allegations which led to audit investigations during FY05, categorizing the type of improper governmental activity alleged, and the outcomes for the investigations completed in FY05.

Our ability in FY2004-05 to track and analyze investigations was augmented by the implementation of a new hotline service and the development of an internal web-based application to manage and track systemwide audit investigations. Under the new consolidated systemwide hotline service, reports are directly distributed to the campus or laboratory that is the subject of the caller's information as well as to the University Auditor's Office for oversight. The Locally Designated Official (LDO), who has primary responsibility to receive reports of allegations of suspected improper governmental activities under the University's Whistleblower Policy, makes an assessment of each report for the appropriate handling. Matters that meet established criteria are reported to the UCOP Senior Vice President and the University Auditor's Office. The Office of the President does not have data on the disposition for reports that are received through the hotline or by other means, other than those reported to UCOP.

Throughout the UC system, Internal Audit conducts investigations spawned by hotline calls and other reporting mechanisms. In June 2005, the University Auditor's Office initiated operation of the Investigations Notice Database (IN Database) which is a web-based reporting system and includes all Internal Audit investigations. The IN Database currently contains records of 431 investigations capturing a variety of information to assist in case management and serve as an analytical tool. As of October 2005 the University Auditor's Office is tracking 87 active investigations.

The University Auditor's Office is continuing to assist with the administration of the UC's whistleblower policy by providing consultation and advice to the LDOs on a systemwide basis.

IV. Investigation Activities

The charts below display the sources and complaint methods of the 188 investigations opened in FY05.

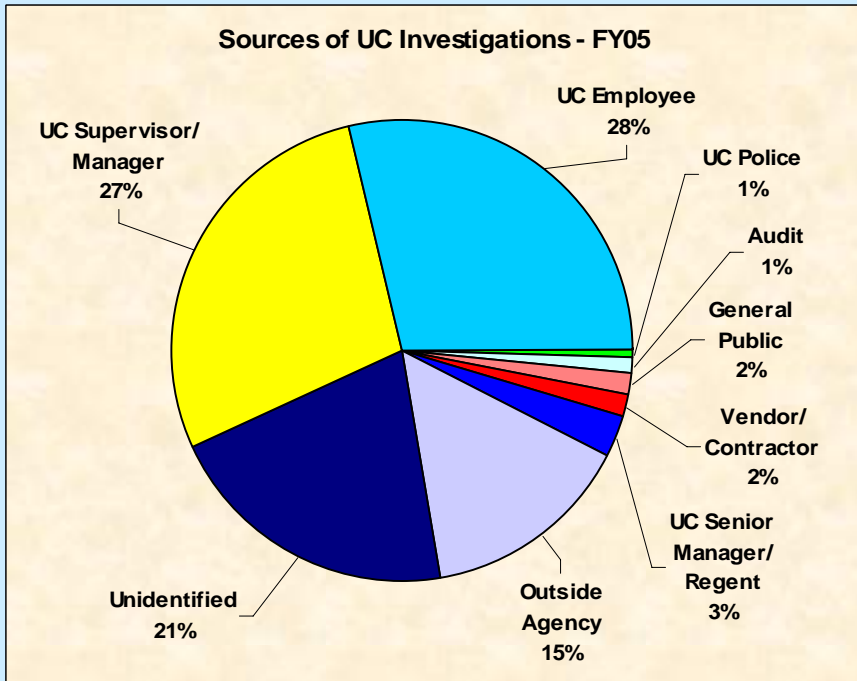


Chart 10

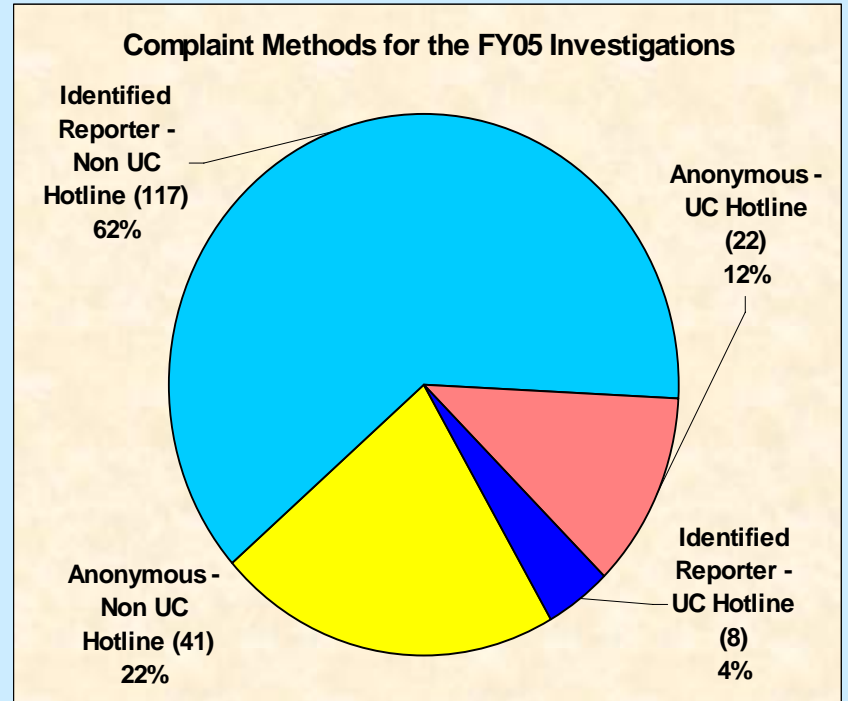


Chart 11

We opened 188 investigations in FY05 from a variety of sources (Chart 10). The UC hotline received 112 calls during the year (excluding follow-up calls) but only 30 (16%) internal audit investigations were triggered by these calls. The majority of calls contain minor allegations referred to management or referred into another process, (e.g. human resources grievance process), or contain insufficient information to proceed on.

The majority of allegations continue to be received from UC employees (28%) and managers (27%), and nearly two thirds (62%) were reported internally by parties who identified themselves. Reporting parties through the hotline service or other sources remain anonymous in 34% of the complaints received.

IV. Investigation Activities

The charts below display the types of allegations related to the 188 FY05 investigations, and the outcome of the 129 investigations closed in FY05 since the inception of the IN database.

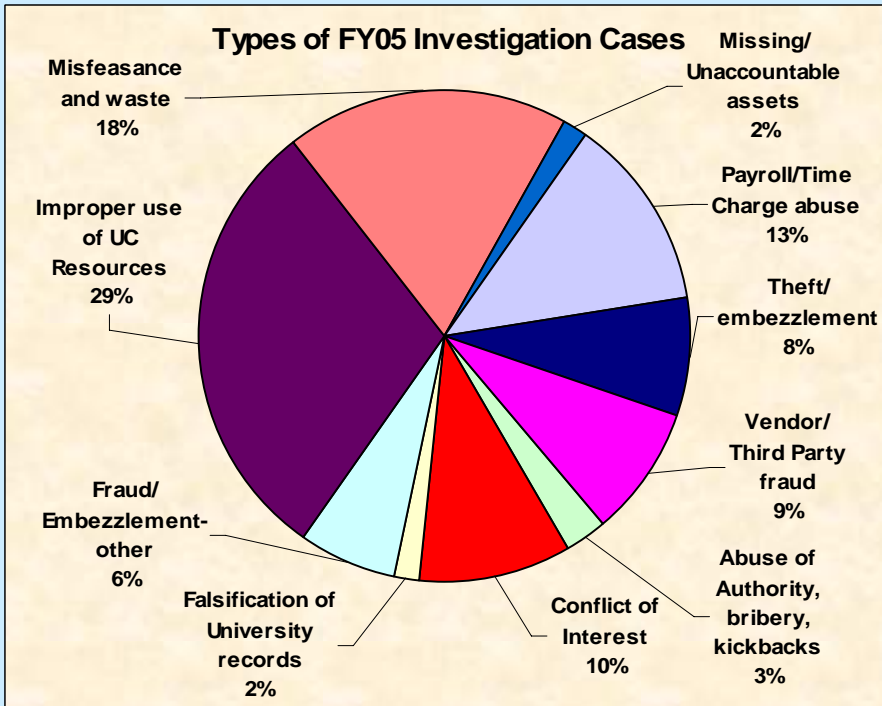


Chart 12

Investigations reported to UAO increased from 127 in FY04 to 188 in FY05 as a consequence of more inclusive reporting in the IN Database. While the number of cases opened has increased, the distribution of these cases by allegation category is similar to those of FY04.

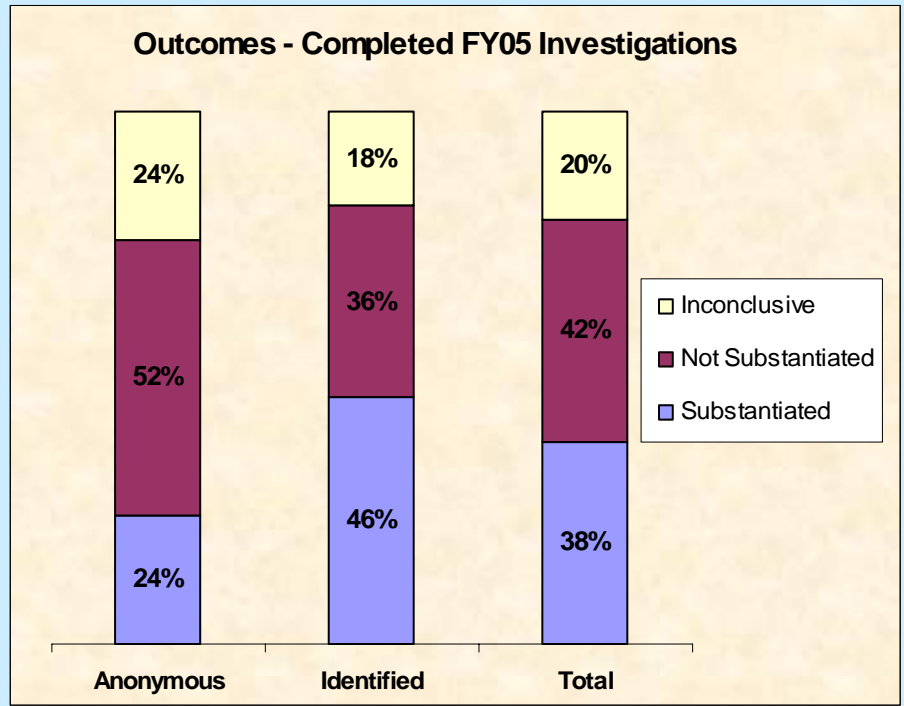


Chart 13

Chart 13 demonstrates that information received from anonymous sources can not be substantiated or is inconclusive in 76% of the matters reported. The level of substantiated cases for identified sources is approximately 50% greater than substantiated cases for anonymous sources. Overall, slightly less than half of the allegations received are substantiated.

V. Staffing and Other Benchmark Analyses

This section contains an analysis of staffing levels by location compared to UC and industry benchmarks. The analysis is based on the authorized staffing levels rather than the number of positions actually filled at any moment in time. For 2004-05, the Internal Audit Program operated at approximately 85% of authorized capacity due to turnover, but also due to positions left open because of budget constraints. The benchmark analysis is presented in the absence of any generally accepted staffing models for internal audit programs universally or in higher education. However, we believe the analysis demonstrates that UC in total and at its campuses and national laboratories maintain moderately adequately staffed audit functions. The GAIN (Global Auditing Information Network) survey used for comparison purposes was conducted in 2005 by the Institute of Internal Auditors and reflects the results for public higher education institutions.

In addition, this section contains a table of miscellaneous benchmark information for comparison of UC's audit program to industry standard practices.

V. Staffing and Other Benchmark Analyses

The charts below display staffing benchmarks for the campuses and Office of the President.

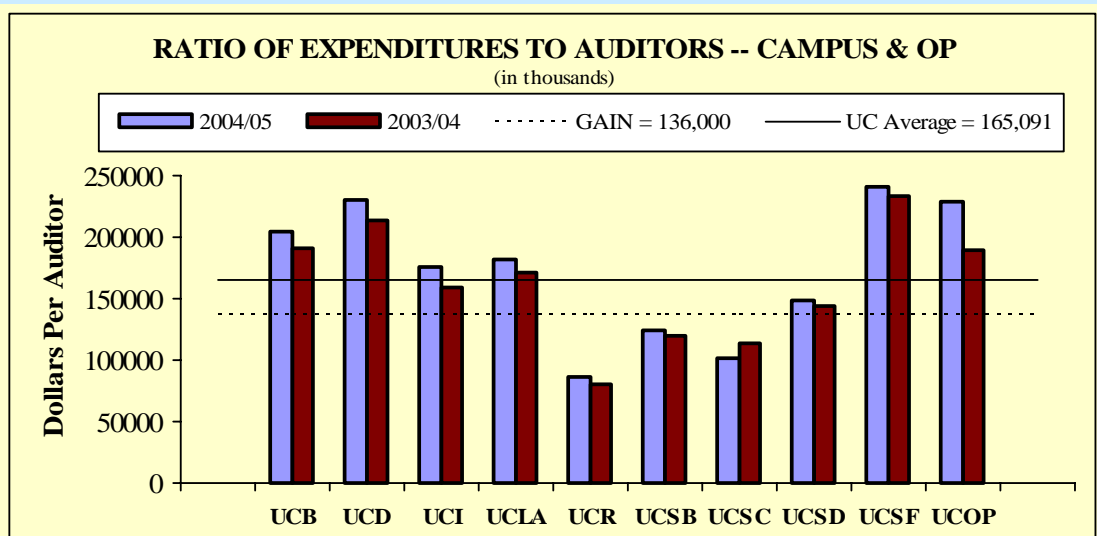


Chart 14

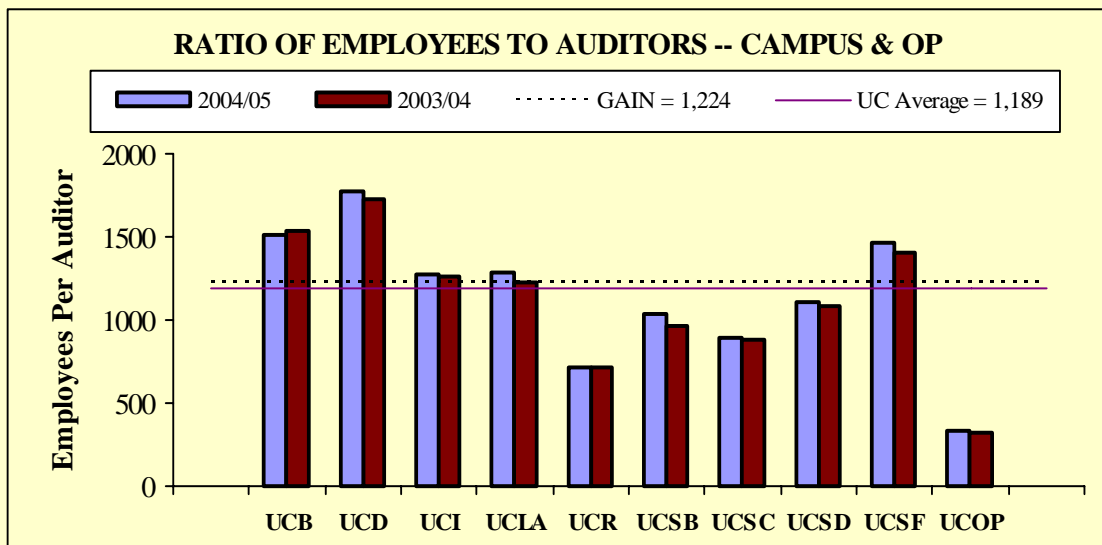


Chart 15

UC in general varies from the GAIN average for expenditures per auditor by a substantial margin. However, when you combine the employee ratio data you can see that UC employees in general are more highly leveraged than our average counterparts. As a result, only three campuses, UCB, UCD and UCSF are the locations where there is some concern regarding staffing adequacy.

In general, the smaller institutions appear to be more well staffed. This is due to the fact that certain audit activities are not directly impacted by size.

Management has used this information in the past to consider augmentation of audit staffing and we continue to share this information with management at each location for the purpose of assessing the adequacy of the audit program staffing.

V. Staffing and Other Benchmark Analyses

The charts below display staffing benchmarks for the national laboratories.

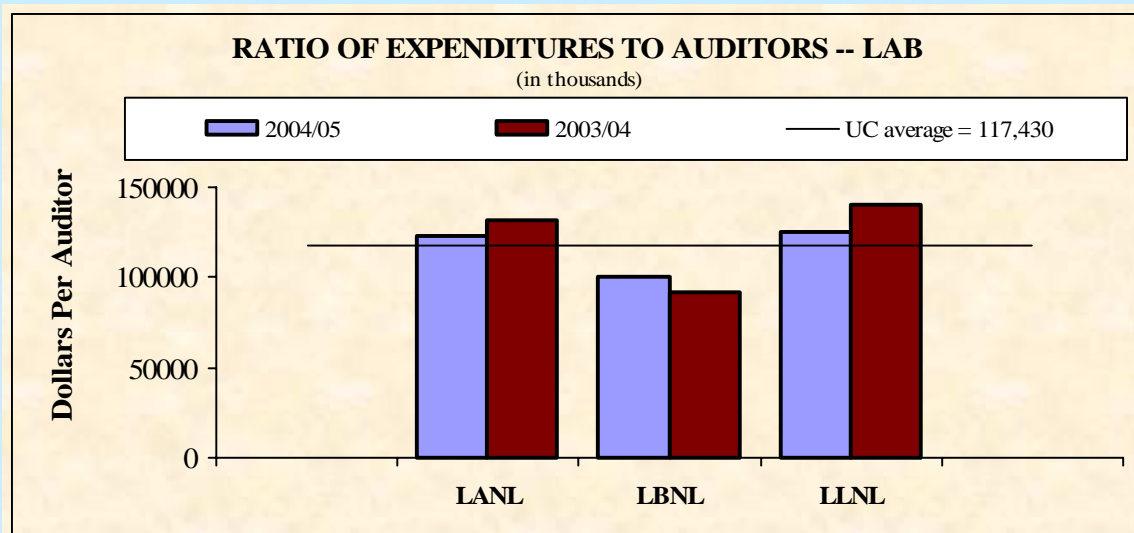


Chart 16

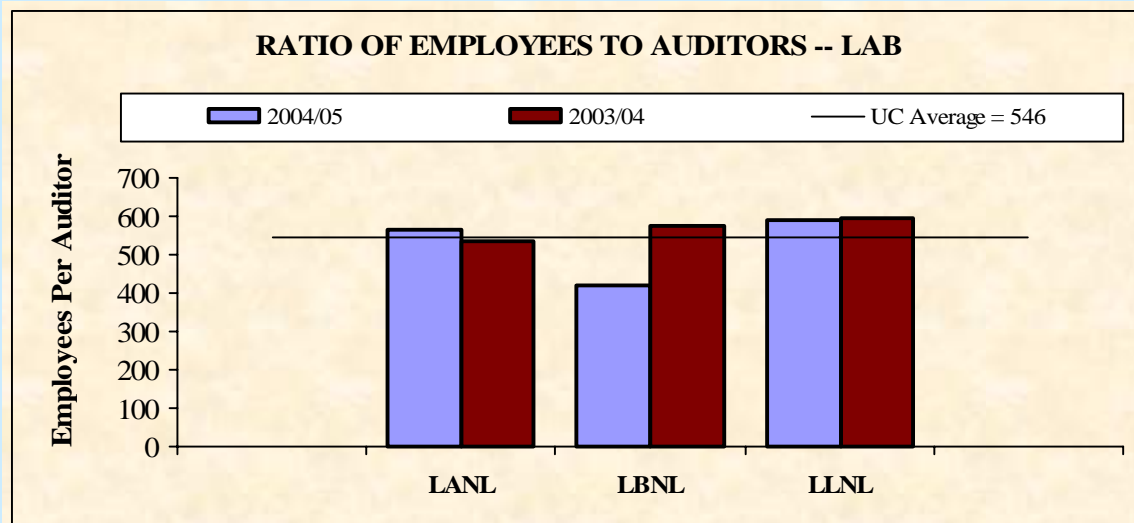


Chart 17

The ratios vary in acceptable degrees and again reflect the tendency for smaller organizations to appear to be better staffed.

There is no readily available benchmark information so the comparison is only among the three UC labs. However, if traditional universal benchmarks were applied, the three national labs would appear to be generally well staffed.

V. Staffing and Other Benchmark Analyses

Other Benchmarks

	<u>UC</u>	<u>Survey</u>		<u>UC</u>	<u>Survey</u>
Professional Staff:			Audit Planning:		
Avg. Years Experience	16.6yrs	19.8yrs	Based on Risk Assessment	Yes	86%
Staff Turnover	15%	19%	Risk Assessment Model	Yes	62%
Training Hours Per Auditor	78hrs	56hrs	Defined Audit Universe	Yes	64%
			Includes Mgmt. Requests	Yes	86%
Distribution of Time:			Audit Expected to Provide Consultations		
Audits	62%	66%	On Operational Matters	Yes	85%
Advisory Services	19%	25%			
Investigations	19%	9%*	Report Drafts Shared with Mgmt.	Yes	99%
Matters Reported to Audit Committee:			Use Customer Satisfaction Survey	Yes	58%
Percent Completion of Plan	Yes	77%			
Productivity Measures	Yes	51%	Reporting Structure:		
Benchmark Comparisons	Yes	50%	Report Functionally to Board		
Organizational Structure	Yes	51%	or Audit Committee	Yes	76%
			Report Administratively to		
			Management	Yes	94%

* Survey includes many non-health sciences and limited research institutions.

VI. Strategic Plan

Strategic Plan Overview

GOALS

The University Auditor and Campus/Lab Internal Audit Directors have sustained a commitment to continuous improvement of the Internal Audit Program over the years. Towards that end, a strategic plan is established and revised every two years to provide strategic guidance to the Audit Program leadership in these efforts. To address contemporary and emerging risks and issues, and to promote a culture of accountability and integrity, the UC Internal Audit Program has identified the following enduring goals:

- **Operational excellence** – Provide timely, quality, cost-effective products and services with the effective use of resources.

- **Stakeholder/Client Relationships** - Be a proactive, responsive, credible, trusted, respected, business-oriented resource.

- **Innovative Service** - Render customized, creative, cutting-edge, functional, and flexible service improvements grounded in our core competencies.

INITIATIVES

In August 2005, the University Auditor and Campus/Lab Internal Audit Directors developed the following strategic initiatives geared towards strengthening the Internal Audit program.

VI. Strategic Plan

2005 INITIATIVES:

• Improve Internal Reporting

- Automate and streamline internal reporting, including enhancements to Audit Tracker and quarterly reporting mechanisms.

• Improve Communications

- Improve senior management communication by providing information on emerging issues.

• Identify Partnership Opportunities for Corporate Governance

- Increase internal audit's role in ensuring excellent UC corporate governance.

• Staffing

- Ensure effective and adequate staff resources are available to accomplish the current and future audit program.

• Continuous Monitoring/Auditing

- Identify and share analytical and data mining tools.

• Benchmarking

- Identify improved benchmarks to measure the effectiveness of the audit program.

Appendix 1 – Past Due MCAs

Location	Report Number	Report Date	Project Name	Finding	Management's Corrective Action	Management's Promised Completion Date	Management's Revised Completion Date
UCSB	00-235	11/30/1998	Accounting Office - General Accounting	Changes to the chart of accounts were not being routinely reviewed for accuracy, validity, and timeliness. Without proper review the University is at risk for inappropriately recorded transactions. The system requires that all chart of account changes be linked to a departmental code. Hence, control over department codes provides control over the chart of accounts.	General Accounting agreed to monitor departmental code changes. New departmental codes are reviewed by the data warehouse manager, who will confirm such with General Accounting by October 1, 2005. General Accounting will establish a process for identifying inactive and dormant departmental codes and validating their appropriateness by November 1, 2005.	6/30/2005	11/1/2005
UCSD	2001-63	8/22/2001	Safety Programs (Environmental Management System)	UCSD needs to develop an infrastructure that will allow for the implementation of an EMS that meets ISO 14001 standards.	The Committee, with the assistance of EH&S, will develop a systematic process that will identify, modify, and update a list of environmental aspects & identify significant impacts.	2/28/2002	11/30/2005
UCSF	01-022	8/31/2001	School of Dentistry LAN Review	The server room does not have adequate fire suppression. Also, there is no water containment barrier around the water cooling device for air conditioning in the server room.	Due to limited space available in the room, the dept. will have to wait until QSI is changed out before they can move the servers around. Moving the servers will also allow them to change the positioning of the air conditioner and build a barrier.	11/30/2001	1/31/2006
				Computer equipment in the server room is not properly secured for earthquakes.	When QSI is changed out the servers will be properly secure for earthquakes.	11/30/2001	12/31/2005
UCSF	00-004	12/5/2001	ITS Administrative Computing	There is no formal disaster recovery plan for departments AC-50, S-15 and EP.	A formal disaster recovery plan will be created for the equipment and personnel in AC-50, S-15 and EP.	6/30/2002	3/31/2006
UCOP	02A010	4/16/2002	Conflict of Interest (COI) Administration	Formal orientation/training should be implemented in accordance with the Government Code, and all employees should receive some orientation/training regarding their obligations as government employees.	A tutorial will be implemented and required for those covered by applicable laws.	1/1/2003	2/1/2006
UCSF	01-007	4/30/2002	PeopleSoft Security Review	The PeopleSoft system is not covered by an adequate disaster recovery plan.	ITS will develop and test a written backup plan in case of hardware failure.	6/30/2002	9/30/2006
UCSF	01-035	7/17/2002	Accounting-Equipment Management System	A sample shows that 47% of the recorded equipment is missing.	The Controller's Office will implement a new software system which encourages reporting disposals.	7/1/2004	12/31/2006
				Biannual equipment inventories are inconsistently performed.	The Controllers Office will implement an education program in conjunction with the new software. Biannual inventories will be done when the new system is implemented.	12/31/2002	12/31/2006
UCSD	2003-15	3/6/2003	Cash Receipts Undistributed (Campus)	In a number of instances, posted cash receipts have not been identified and distributed to the appropriate departmental funds in a timely manner.	The current balance sheet coordinator has identified primary/secondary contacts and will send written procedures for undistributed cash to the contacts	9/30/2004	11/17/2005
UCSC	SC-03-96	6/16/2003	School of Engineering (SOE) Computer Network	SOE account management and network configuration does not comply with University Policy on Information Security. The current SOE Unix network file sharing configuration potentially allows students greater access than needed.	Management will take steps to limit access to restricted and confidential data and assure compliance with University Policy. Management will establish written policies for access to SOE computer and networks.	4/1/2004	8/30/2006
UCR	2003-03	6/27/2003	Academic Conflicts	The procedures for review and appeal of academic conflicts of interest and conflicts of commitment cases appear sufficient and appropriate but are not formally documented.	Management is drafting procedures describing the review and appeal process, which will be reviewed by the Research Disclosure Committee and the Academic Senate Committee on Research before implementation.	6/27/2004	10/31/2005

Appendix 1 – Past Due MCAs

Location	Report Number	Report Date	Project Name	Finding	Management's Corrective Action	Management's Promised Completion Date	Management's Revised Completion Date
UCR	2003-03	6/27/2003	Academic Conflicts	The annual academic conflict of commitment disclosure reports are not consistently submitted to the Executive Vice Chancellor and Provost (EVC&P) as required by policy (APM-025).	Management has initiated communication with the EVC&P to modify procedures to enable the timely collection and review of disclosure forms. The EVC&P has expressed support for such an effort.	6/27/2004	10/31/2005
UCR	2003-21	7/28/2003	Student Conduct	Student Judicial Affairs (SJA) cases are not routinely meeting time deadlines and case files are not consistently completed as specified in the "Standards of Conduct and Guidelines for Administration of the Standards" policy from SJA.	Management will request a policy change from the Campus Board of Review to extend the time requirement for notification of charges from 15 to 20 working days and for notice of decision from 10 to 20 working days.	7/28/2004	10/31/2005
UCI	2002-26	9/9/2003	Renal Dialysis Center	Supply rooms in the unit were unlocked and left unattended. In addition, an outside stockroom door does not have a lock and is accessible to anyone. Acute care supplies stored in the basement in the main hospital are also not secured.	The outside storeroom has been emptied. Key locks are on the supply room doors, and high value and high risk items have been moved to a more secure location. A lock was installed in the basement. Management plans to add a keypad door lock, but Medical Center Facilities has not responded to their requests.	3/31/2004	3/1/2006
UCI	2002-11	9/24/2003	School of Social Ecology	Written consent was not obtained from human subjects before their participation in research projects. This is a violation of Federal regulations and University policy.	SSE management is developing a compliance plan in each department with human subjects activity. A plan has been completed for one division. The others are in progress.	3/31/2004	4/1/2006
UCSF	03-076	10/7/2003	AIDS Health Project Whistleblower Allegations	For the Fiscal Year end June 2003, there were non-compliant charges of \$64,086 for AHP administrative employees.	Management will take steps to assure only administrative employees performing program-specific services, and explicitly identified in program contract budgets, are charged to federal and federal flow-through funds.	1/7/2004	11/30/2005
UCSF	03-080	12/3/2003	SOD Dean's Office Dental Clinics Cash Handling Review	Reconciliations of the deposits to the General Ledger have not been performed in about a year.	A person will be assigned to reconcile the deposits to the general ledger.	7/31/2003	12/31/2005
UCSF	03-024	12/18/2003	Community Health Systems Departmental Audit	One month's salary was paid to employee who did not submit timesheet.	Written procedures will be implemented to ensure that individuals for whom timesheets are required are identified and to determine whether required timesheets have been received prior to employee payment.	3/18/2004	12/31/2005
				The Department billed the State of California an amount that exceeded recorded expense by approximately \$10,000.	The excessive billing included erroneous payments to an RN on disability. The credit balance will be given to the State of California, and the final invoice will be adjusted.	3/18/2004	12/31/2005
				The University invoiced the State of California eight months late and in excess of the projects budget.	Reconciliation of personnel activity forms and subsequent payroll transfers have resolved the variance in the financial records to approximately \$1,000.	3/18/2004	12/31/2005
				The Department has seven deficit funds totaling \$15,971 and one with a \$107,000 deficit.	Credit balances will be reviewed for resolution and adjustments will be made to clear seven old department balances totaling \$123,000.	3/18/2004	12/31/2005
LLNL	2003-11	12/29/2003	Business Continuity Planning Survey	There is not an integrated business continuity plan for critical programmatic and business operations. The result is the Laboratory Director has limited assurances that in time of an emergency or disaster, critical program and business processes will continue uninterrupted.	The Laboratory Director will assign responsibility to the Associate Director who will make a site wide risk assessment, and based on the results, will implement or enhance business continuity plans.	12/28/2004	1/30/2006
UCSF	03-010	1/20/2004	Student Financial Aid	The Office of the Registrar is currently not in compliance with the control procedures and physical security requirements for cash handling as outlined in UCSF Cashiering policy 300-14 and UCOP BUS-49. Non-compliance relates primarily to the lack of segregation of duties, clear custody over checks and currency and the lack of physical security.	Management will present a plan to address segregation of duties in relation to cash handling in the registrar's office.	3/30/2004	6/30/2006

Appendix 1 – Past Due MCAs

Location	Report Number	Report Date	Project Name	Finding	Management's Corrective Action	Management's Promised Completion Date	Management's Revised Completion Date
UCSF	03-060	1/20/2004	IT Interface Engine	There is no control in place to ensure that the source of code for modification is the most recent version of the code.	SourceSafe, the current version control software used on other UNIX servers will be implemented for the production machine.	5/31/2004	6/30/2006
UCSD	2003-19	3/2/2004	Medical Group Reconciliation Process Automation Team	Policy and procedures need to be developed for the disposition of the unidentified and undistributed payments per IDX category.	MGF and MGBS and campus Accounting agreed to collaborate to ensure the development of a policy and procedure for the disposition of "unidentified and undistributed payments per IDX" category on the reconciliation.	3/17/2004	12/15/2005
				Policies and procedures should be developed for the monitoring and ultimate disposition of "other reconciling items."	MGF and MGBS and campus Accounting agreed to collaborate to ensure the development of a policy and procedure for monitoring other reconciling categories representing differences between payments deposited and credit.	6/30/2004	12/15/2005
LANL	03-052	3/31/2004	Computerized Maintenance Management System (CMMS)	Management had not fully implemented the CMMS to manage all work order costs.	Will define specific goals and objectives for the CMMS and consider implementing additional functionality.	6/30/2004	12/1/2005
					Will periodically assess the efficiency and effectiveness of CMMS to meet operational, financial, and reporting requirements and users' needs.	6/30/2004	12/31/2005
				Management did not adequately control rework performed by maintenance employees.	Will establish a business process to ensure no costs are charged to work orders after the work orders are identified as finished, except as approved by facility management.	6/30/2004	12/1/2005
				Significant differences existed between estimated and actual costs for maintenance work orders.	Will define business practices and CMMS Lab-wide standards and guidance to identify, classify, and manage zone craft employee idle time.	10/1/2004	12/20/2005
					Will implement a process to regularly review and assess idle time and dollars, and reconcile zone craft employee direct and indirect time to ensure that LANL reimburses only those labor costs specified by subcontract terms.	6/30/2004	12/20/2005
UCSF	03-070	4/14/2004	Dept. of Urology Departmental	Salaries requested on the original budget proposal were not accurate.	In cases where discrepancies exist, a process will be developed that will assure resolution before the award proposal is submitted to Contracts and Grants for approval.	7/14/2004	12/31/2005
					Employee funding practice will include a review of salaries by the personnel coordinator and financial manager prior to approval by the department manager and the Chair.	7/14/2004	12/31/2005
UCSD	2003-87	5/4/2004	Physical Plant Services	Central campus processes for managing renovations and alterations has not been optimized to ensure consistent compliance with regulatory requirements.	Management agreed to coordinate with appropriate Campus authorities in evaluating whether additional measures are warranted to further mitigate risks associated with potential non-compliance with regulatory requirements.	11/19/2004	11/15/2005
					Management agreed to request that the ECPT to communicate to Cardholders that the Express Card is not intended to be used for bypassing the processes for renovations and alterations & ask the Purchasing implement a central monitoring process.	11/19/2004	11/15/2005
					Management agreed to request that HR evaluate the broad scope of work currently reflected in various Development Technicians' job cards, and determine if any change in classification is needed.	11/19/2004	11/15/2005
UCSF	03-001	5/17/2004	NCIRE Accounting - UCSF EMF	JPA's are incorrectly structured	The single JPA concept was approved for initiation by the UCSF Vice Chancellors in early February, 2004. A detailed project plan will be presented in the coming months, with a projected implementation to occur late FY03-04.	8/17/2004	1/31/2006

Appendix 1 – Past Due MCAs

Location	Report Number	Report Date	Project Name	Finding	Management's Corrective Action	Management's Promised Completion Date	Management's Revised Completion Date
UCSF	03-001	5/17/2004	NCIRE Accounting - UCSF EMF	Administration of effort reporting for NCIRE projects is vested with UCSF accounting.	A business service contract will be developed for the short term that will provide for reimbursement by NCIRE to UCSF for effort reporting services and will appropriately limit UCSF liability.	8/17/2004	1/31/2006
				Some faculty activity at NCIRE may not be known to UCSF Administrators.	The UCSF/Affiliate Employment Policy will be evaluated to determine the need for clarification regarding overall remuneration by affiliates. Adjustment to this policy will be sought as considered necessary.	8/17/2004	1/31/2006
					The need for communication from NCIRE as noted in this finding will be evaluated, and any policy decisions made will be included in the Agreement revision.	8/17/2004	1/31/2006
UCD	03-51	6/24/2004	Human Subjects Research Office	Local policies and procedures governing the protection of human research subjects have not been coordinated across UC Davis, nor have the policies and procedures been adequately communicated to the research community.	Institutional Review Board Administration will assess all existing policies related to human research subject protection, revise policies as necessary, and communicate revised policies to all affected parties.	12/31/2004	1/31/2006
UCD	04-14	6/30/2004	Donated Body Program (DBP)	The existing DBP inventory database is not adequate to manage the receipt, tracking, allocation, cremation, and final disposition of body donations.	DBP will work with the Office of the President to design a systemwide database that will ensure proper accountability of donated body specimens.	12/31/2004	3/31/2006
				The DBP does not have a policy for charging campus and non-campus organizations.	DBP will work with the Office of the President on a standard costing model and once the costing model has been determined, the department will develop new rates that will be used to charge campus and non-campus organizations for body specimens.	9/1/2004	12/31/2005
UCSD	2004-25	8/6/2004	ACT Data Center Operations and Software	Development programmers migrate online system changes on the "web farm" from the development environment to the production environments.	ACT management will be implementing a formal change control process using the CVS tool to manage changes to the web farm. The process of migrating code from the quality assurance environment to the production environment will be managed by ACT Project Managers.	3/30/2005	12/15/2005
				BugTraq and security e-mail notifications from the System Administration, Networking, & Security Institute (SANS) are monitored for communication of newly available patches for the UNIX operating system. This process is entirely manual.	ACT management will evaluate the Solaris patch management tool for automated review of patches installed versus patches available. If the review indicates that the tool would be helpful, then ACT will implement the tool.	3/30/2005	12/15/2005
UCSF	04-011	8/11/2004	Reconciliation of Account Balances	A new aging system is needed of A/R	Implementation of the PeopleSoft accounts receivable module that will provide a subsidiary ledger is currently in the design phase.	5/1/2005	6/30/2006
				Old unmatched receivables need to be cleaned up.	A project to clean up the accounts receivable will be started.	6/30/2005	6/30/2006
				The accounts payable reconciliation does not include sufficient detail Plant fund reconciliations and not done	To enable proper accounts payable reconciliations, a request for a report by voucher and by vendor has been submitted. The CO will complete reconciliations of all plant fund accounts reviewed in this audit.	9/30/2004 3/31/2005	6/30/2006 6/30/2006
UCSF	04-015	8/25/2004	Clinical Trial Billing	Salary for clinical trial principal investigators was not charged to the trials commensurate with their budgeted effort; Salaries of Principal Investigators participating in clinical trials were charged to other extramural fund sources including state 19900 funds, federal funds, and professional fee accounts	Revisions to UCSF Administrative Policy 400-14, "Research Contracts and Clinical Trials" are in process to assure policy provides clear guidance for industry and PI sponsored clinical trials. This includes appropriate charging of PI salaries.	11/1/2004	1/31/2006

Appendix 1 – Past Due MCAs

Location	Report Number	Report Date	Project Name	Finding	Management's Corrective Action	Management's Promised Completion Date	Management's Revised Completion Date
UCD	05-22	9/30/2004	ASUCD HR Policy Violations	Student employees on the bi-weekly pay cycles who are eligible to receive vacation accrual, were not receiving vacation accruals.	To address this campus-wide issue, Information Educational Technology will develop a report that departments will use to identify student employees who are nearing vacation eligibility. Departments will be instructed to determine if employees shown on the report are eligible to earn vacation and if so initiate the appropriate action.	4/1/2005	10/31/2005
UCSF	04-014	10/28/2004	Medical Center Design and Construction	Contracts were awarded without competitive bidding	Processes will be established that all construction contracts will be bid in compliance with University policy. A Contract Administration will refine departmental systems and procedures to make competitive bidding efficient and to facilitate consistent implementation.	10/28/2004 12/15/2004	3/31/2006 3/31/2006
UCSF	05-003	12/1/2004	Willed Body Program Phase II	Periodic Inventory counts are not routinely conducted and reconciled to the database The records of specimen receipt and dispositions are inaccurate and incomplete	Will institute annual inventory counts for all lab areas within the dept. Improved processes and record keeping systems are expected to be in place by December 31, 2004 that will enable accurate and complete inventory reports to be generated automatically at any given time.	12/31/2004 12/31/2004	4/30/2006 1/31/2006
				The numbering and tracking of specimens are inconsistent	All procurements of specimens will flow through the Willed Body Program where unique inventory control numbers will be assigned.	1/1/2005	1/31/2006
UCSF	04-019	1/25/2005	Medical Center Cost Center G/L Review	Discrepancies existed between department inventory records and the Medical Center Asset Register.	To assure the accuracy of the Hospital Accounting asset list and to fully account for Medical Center assets, the Unit has indicated a complete review of the current listing will occur and disposals will be reported to Hospital Accounting.	12/31/2004	12/31/2005
UCLA	05-1208	2/1/2005	Health Insurance Portability and Accountability Act (HIPAA) Privacy	It appears that NPPs are not consistently distributed to new patients in accordance with policy	The Hospital Compliance Office will implement a process whereby accurate acknowledgement form completion data is generated and reviewed on a regular basis. To ensure compliance with HIPAA, management will counsel and provide additional training to areas that do not have a 100% rate of acknowledgement form completion.	3/6/2005	4/6/2006
UCSF	04-016	2/10/2005	Dermatology Department Administrative Practices	The Dermatology equipment inventory was not adequately documented.	The Department will complete an equipment inventory, and will develop a procedure to ensure timely equipment documentation.	6/30/2005	12/31/2005
UCOP	04A001	2/17/2005	Benefits: Blue Cross Claims Processing	The administrative services agreement has not been finalized.	The administrative services agreement will be finalized as soon as possible.	6/1/2005	11/30/2005
UCSD	2004-52B	3/3/2005	Owen Clinic Physical Security	Environmental control mechanisms, and physical access controls, were inadequate for the Owen Clinic file server, that contained personal health information (PHI).	Owen Clinic management, in collaboration with IS, will consider implementation of controls to improve the physical security of the server.	6/30/2005	12/15/2005
				Environmental control mechanisms, and physical access controls, were inadequate for the Owen Clinic file server, that contained PHI.	Owen Clinic and Medical Center management will identify an alternative location for the Owen Clinic file server that provides improved security.	3/31/2005	12/6/2005

Appendix 1 – Past Due MCAs

Location	Report Number	Report Date	Project Name	Finding	Management's Corrective Action	Management's Promised Completion Date	Management's Revised Completion Date
LANL	04-033	4/26/2005	Backup and Recovery	A LANL Business Continuity Plan within the framework of the ITSP initiative is needed.	CIO will incorporate a Business Continuity Plan, within the framework of the ITSP initiative, and submit for Executive Board approval.	6/30/2005	6/30/2006
UCSF	05-034	5/5/2005	Cashiering Controls - Dept. of Radiology	There are no signed acknowledgements evidencing employees with cash handling responsibilities have read and understood the departmental cash handling procedures document as required by Campus Cashiering Policy.	Upon approval by the Campus Cash Coordinator, the policies will be dispersed to departmental cashiering staff. All cash handling employees will read and acknowledge by signature.	6/30/2005	11/4/2005
UCSF	05-022	6/23/2005	Ancillary Services - Medical Records	Follow-up on outstanding provider documentation deficiencies is not timely.	Criteria in the SoftMed system will be set to identify and capture the specific noted deficiencies.	6/23/2005	3/31/2006