ANNUAL REPORT ON INTERNAL AUDIT ACTIVITIES, 2013-14

University of California
Office of Ethics, Compliance & Audit Services
Office of Ethics, Compliance & Audit Services
Annual Report on Internal Audit Activities, 2013-14

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I. EXECUTIVE SUMMARY

Introduction

Fiscal year 2013-14 was another year of significant change for the University of California. Some of these changes were a product of initiatives from systemwide leadership while others were driven by external factors such as the economy, new technology and regulatory developments. Some of the more prevalent changes include:

- Emerging revenue generation and cost savings initiatives
- Operational efficiency and restructuring initiatives, including the implementation of shared services
- Transition in key systemwide and campus leadership positions
- The University’s expanding international activity
- Technology commercialization and investment initiatives
- Increased business transactions with third parties, such as new affiliations and acquisitions
- Ongoing regulatory changes including health care reform and privacy
- Increased scrutiny and sophistication of review from entities supporting the research enterprise
- Implementation of new enterprise IT systems
- Aging IT infrastructure and systems
- Expanding use of mobile technology and cloud services

As the University navigates these changes, the role of internal audit is to provide insight, ensure strategic and operational objectives are being met, and deliver ongoing assurance to the organization that governance, risk management and control processes are in place and optimized for effective and efficient risk mitigation.

This report highlights the outcomes of key activities performed by Internal Audit in Fiscal Year (FY) 2013-14 to help management identify and address significant risks facing our university and drive efficiencies to make the best use of our resources. In addition, this report will demonstrate the accountability of the Internal Audit Program with statistical information on utilization of our resources and other performance metrics.

This Annual Report on Internal Audit Activities contains the following sections:

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Systemwide Audit Results</strong></td>
<td>Results of these audits performed with a common focus and scope of work by the local Internal Audit department at each University location. (Page 4)</td>
</tr>
<tr>
<td><strong>Significant and Recurrent Internal Control Issues</strong></td>
<td>A summary from the body of Internal Audit work performed during the year. (Page 5)</td>
</tr>
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<td><strong>Internal Audit’s Participation in University Initiatives</strong></td>
<td>An update on Internal Audit’s participation at the local and systemwide level. (Page 7)</td>
</tr>
<tr>
<td><strong>Improvements in Internal Audit Methodology, Processes and Systems</strong></td>
<td>An overview of improvements implemented in governance, methodology and systems. (Page 8)</td>
</tr>
</tbody>
</table>
FY 2013-14 Statistical Highlights

During FY 2013-14, the UC Internal Audit Program:

- Completed 96% of the Regents approved Internal Audit plan (goal 70%)
- Completed audit, advisory services, and investigation projects resulting in 379 reports.
- Produced 1,106 recommendations for improvements to governance, risk management and control processes with corresponding agreed upon Management Corrective Actions (MCAs).
- Validated that 1,257 MCAs were completed by management.
- Operated at an 85% efficiency level (goal 85%)
- Summary of MCA balances and past due status:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Summary of MCA Balances and</strong></td>
<td><strong>Past Due</strong></td>
</tr>
<tr>
<td><strong>Status</strong></td>
<td><strong>MCAs</strong></td>
</tr>
<tr>
<td>Beginning MCAs (open at start</td>
<td></td>
</tr>
<tr>
<td>of FY 2013-14)</td>
<td>817</td>
</tr>
<tr>
<td>Ending MCAs (open at end of</td>
<td>666</td>
</tr>
<tr>
<td>FY 2013-14)</td>
<td></td>
</tr>
<tr>
<td><strong>Past Due MCAs</strong></td>
<td></td>
</tr>
<tr>
<td>High risk past due MCAs</td>
<td>20</td>
</tr>
<tr>
<td>Medium/low risk past due</td>
<td>155</td>
</tr>
<tr>
<td>MCAs as of June 30, 2014</td>
<td></td>
</tr>
</tbody>
</table>

Summary and Conclusions

In conjunction with the 379 audit, advisory services and investigation reports issued, we identified no conditions that we believed to represent material deficiencies in internal controls to the University system as a whole from a financial standpoint. In addition, while we acknowledge that management has ultimate responsibility for establishing internal controls to manage risks, we identified no circumstances in which we believe that management’s decisions resulted in the acceptance of unreasonable levels of risk.

Further, based on our FY 2013-14 work, we can assert the following as being generally true with no reportable exceptions:

1. Management of the University is cognizant of their responsibility for internal controls and takes seriously the need for controls and accountability.
2. There is respect for the Internal Audit Program objectives; 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. Management actively participates in the identification of risks and works collaboratively with internal auditors to address issues raised during audits, advisory services, 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. Although we did not identify any material control deficiencies, there are opportunities for the University to implement more effective controls in a number of areas, and there are ongoing challenges to achieving effective controls and compliance.
II. INTERNAL AUDIT PROGRAM – RESULTS & ANALYSIS

A. Systemwide Audit Results

Systemwide audits are conducted for the purpose of reviewing an existing or potential issue across the University system to identify and address risk areas. Commonly, these audits are performed at the request of the systemwide audit office, the Regents and/or the President, have a common focus and scope of work and usually are conducted by the local Internal Audit department at each University location. Results may be summarized from a system perspective and key themes in observations are addressed by system leadership or comparisons may be made between University locations. The following is an overview of systemwide audits performed with the results and themes summarized.

**Laboratory Safety** – At the request of the Office of General Counsel, Internal Audit conducted an advisory services review of laboratory safety under attorney-client privilege. The review helped ensure that the University’s chemical and biochemical laboratories have in place lab safety practices sufficient to certify substantial compliance with the terms of the Prosecution Enforcement Agreement between The Regents and the Los Angeles County District Attorney in connection with *People v. The Regents of the University of California and Patrick Harran*.

**Student Health and Counseling Centers** – We completed a systemwide audit of the 16 student health and counseling centers. The audit focused on governance, credentialing and privileging, peer review, information security and privacy, quality improvement studies, electronic health records, medication and vaccine management, staff/patient boundaries, and occupational safety and health. We found that the centers have made significant progress in implementing systemwide initiatives and are generally in compliance with policy related to the in-scope areas. Some areas for improvement were noted, which were addressed at the local level. We also identified several model practices during our visits which we shared with the centers.

**Dean Travel** – We completed a systemwide review of Dean travel expenses focusing on air travel using non-coach classes of service. In general, we found that Dean air travel at higher classes of service was in compliance with policy and appropriately approved. We identified some areas for improvement relating to documenting justification and/or exceptional approval for higher class service travel. These issues were addressed at the local level.

**Executive Travel and Executive Compensation Reporting** – Periodic reviews of executive travel expenses and executive compensation reporting have been routine for the last eight years, at least once every two years at each location. This year, relatively minor exceptions were noted and were corrected at the local level. No issues were identified that required action from a systemwide perspective.
B. Significant and Recurrent Internal Control Issues

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

**Budget and Resource Constraints** – Ongoing budget pressures and resource commitments toward systemwide and local initiatives have had a significant impact on the control environment across the system. At the departmental level, Internal Audit is observing breakdowns in fundamental controls such as management review and segregation of duties. Additionally, management has struggled to commit resources to address control issues noted in internal audit reviews in a timely manner. Where possible, we have worked with management to identify less costly solutions to mitigate risk.

**IT Security and Information Privacy** – As in prior years, we continue to identify significant control weaknesses related to IT security and protection of sensitive information, including inadequate system access controls, insufficient physical controls over IT equipment and unpatched security vulnerabilities. It is an ongoing challenge to ensure all end users are aware of IT security risks and appropriate mitigation measures. The decentralized nature of IT infrastructure and IT organizations, as well as increased utilization of third party IT service providers, makes it challenging to ensure controls are appropriately in place across all environments within the organization. Ongoing efforts to address IT security and information privacy control issues include centralizing, streamlining and standardizing IT security efforts, expanding IT security resources, enhanced monitoring of network activity, and implementing additional IT security awareness efforts.

**Large-Scale System Implementations** – The UCPath Project and other enterprise IT system implementations, such as electronic medical records, present risk in the implementation itself, but also impact the overall control environment as individuals are pulled away from their core responsibilities to participate in implementation-related efforts. Many of these system implementations have been initiated to replace outdated existing enterprise systems due to the risks associated with their continued maintenance. These large-scale system implementation efforts can present significant risk in the areas of governance, controls and compliance, data governance and conversion and organizational change management. At UCOP and at the campus level, the UCPath project continues to consume considerable resources and has displaced already stretched resources in key administrative support areas. As a result, existing and proposed projects, including some focused on risk mitigation, have been put on hold. At many locations, management is attributing control breakdowns and delayed remediation efforts to stretched resources as a result of UCPath and other system implementation projects. During these implementations, our Internal Audit departments are working with management throughout the system development lifecycle to ensure that best practices are followed, significant risks are appropriately mitigated, and effective controls are in place. We are also assisting management to develop alternative control solutions to address risk areas where resources are limited due to competing priorities.

**Research Compliance** – Compliance with research regulations and policies remains a significant area of risk due to the volume and diversity of research that is conducted at the University and the continued scrutiny from governmental agencies. The National Science Foundation’s Office of Inspector General (NSF/OIG) has performed extensive audits of NSF awards at four UC campuses over the past five years. Research compliance requirements are evolving with the recent release of the omnibus circular from the Office of Management and Budget (OMB). This circular consolidates and revises current uniform administrative requirements, cost principles and audit circulars for federally sponsored contracts and grants. Provisions in the circular may change University requirements for direct charging of administrative costs, effort reporting, financial and progress reporting, procurement and sub-award administration, sub-recipient monitoring, cost transfer, cost sharing and conflict of interest. It is essential that effective internal controls are in place to
ensure the University is compliant with research compliance requirements. Management’s efforts to manage research compliance risks include implementation of IT solutions, enhanced escalation processes, sanctions for non-compliance, centralized reporting, enhanced training and communication and improved monitoring and oversight mechanisms.

**Decentralized Activities** – Due to the decentralized nature of campus departments and activities, inconsistency exists in processes and control activities, leading to increased risk and, in many cases, inefficiency. Often these decentralized activities are manual in nature and lack formalized programs and assigned roles and responsibilities to ensure internal controls are designed and functioning as intended. To mitigate these risks, campuses are centralizing key administrative functions, implementing automated controls, or performing campus-level monitoring of key business activities. Where activities remain decentralized, formalized policies and procedures and background checks help ensure processes and controls are effective.
C. Internal Audit’s Participation in University Initiatives

Internal Audit has continued to partner with management to support key initiatives and priorities both at the local and systemwide level. This section highlights some of the key areas in which Internal Audit has provided support.

**External Audit Support** – Internal Audit has served as external coordinator for several high profile audits conducted by governmental agencies such as the California State Auditor, the National Science Foundation and the National Institutes of Health. The external audit coordinator serves as the central point of contact for the auditors of the external agency, facilitates information requests, informs management of potential audit issues as they arise, and coordinates management responses to audit reports. Internal Audit has also assisted management in performing documentation reviews in advance of external audit fieldwork to help management anticipate and respond to potential issues that may arise during the external audit. External audit coordination has provided a benefit to the University by driving audit efficiency and ensuring appropriate information is provided to agencies in a responsive and timely manner.

**Coordinating Risk Efforts** – At both the systemwide and local levels, Internal Audit has been working to identify synergies and coordinate efforts with other risk-focused departments such as Compliance, Risk Services and the Office of General Counsel. These efforts primarily involve information sharing between our departments and to our stakeholders throughout the year in order to collect information efficiently and prioritize our respective activities in a collaborative manner. The primary objective in this collaboration is to ensure that roles and responsibilities for risk assessment and monitoring are well defined and effectively communicated to our stakeholders.

**IT System Implementations** – UCPath is likely the most significant system implementation and shared services initiative in the history of the University. It is therefore critical for management to effectively administer all components of such a large scale effort. Through delivery of advisory services, Internal Audit has been assisting management in addressing key issues associated with the UCPath project, including risk assessment and monitoring, governance, operational readiness, future state process and internal control design, and IT security. In addition to UCPath, many of our campuses have other ongoing involvement in key IT system implementations including electronic medical records systems at our health science campuses and the payroll certification pilot project currently underway at UC Riverside and UC Irvine.

**Leadership Transition** – For the past several years, Internal Audit has performed senior leadership transition reviews at UCOP and the campuses. These reviews primarily serve to provide an assessment of the internal controls and financial state of the office undergoing transition.

**Systemwide Committees** – Our systemwide committee involvement includes Lawrence Berkeley National Laboratory’s Contract Assurance Council, the Laboratory Management Council, the Ethics and Audit Committee of the Los Alamos National Security and Lawrence Livermore National Security LLC, the Clery Act Compliance Committee and the Privacy and Security Steering Committee. Additionally, Internal Audit personnel actively participate on various committees supporting management initiatives throughout the University system.
D. Improvements in Internal Audit Methodology, Processes and Systems

Like many other University departments, Internal Audit operates in an environment of continuous change. To meet the challenges of new and changing regulations, emerging risks and changes to the University environment, Internal Audit must continue to adapt and improve our methodologies, use of technology, communication strategies and subject matter expertise. This section outlines some of the significant improvements we have made in these areas.

**Management Corrective Action Escalation** – In FY 2012-13, Internal Audit implemented a formal protocol for escalating open management corrective actions (MCAs) through local management, Chancellors, the President, and ultimately the Regents to ensure timely and appropriate resolution of audit issues. Implementation of this escalation process, coupled with increased attention from management and the Regents on aged MCAs, has had a significant impact on the reduction of outstanding MCAs. From November 2012 to July 2014, the number of MCAs aged more than 300 days has decreased from 118 to 57 – a reduction of 52%.

**Cross-Campus Collaboration Initiatives** – We have implemented several new initiatives to facilitate information and resources sharing between campus Internal Audit departments to enhance the development of our auditors and further improve the quality of our audit work. We developed a comprehensive staff skills inventory to identify subject matter experts that could be leveraged in future audit work. We also piloted a knowledge sharing program. Based on an analysis of common scope areas within our FY 2013-14 campus audit plans, we identified two subject matter areas for knowledge sharing – will-ed body programs and critical IT infrastructure. As part of this program, auditors formed workgroups and met periodically to share information on risk areas, audit procedures, and potential audit issues. These collaborative efforts received very positive feedback from our auditors and will continue in the next fiscal year.

**Continuing Education** – In January 2014 the Office of Audit Services hosted a two-day All Auditors Forum for UC Internal Audit staff. This was the first time in several years that the entire UC Internal Audit community came together for education. Regent Zettel delivered opening remarks, in which she shared her thoughts on the role of Internal Audit and discussed the significant challenges UC faces as an organization. The remainder of the first day consisted of teams of auditors attending both technical and interactive sessions that addressed the current UC internal audit program’s strategic initiatives derived from the program’s recent external quality assurance review. Auditors provided feedback in an effort to develop and/or restructure projects devoted to the areas of knowledge sharing, leveraging resources, marketing and professional development. The second day focused on enhancing performance, including simplified report writing and effective communication skills.

Other efforts to provide continuing education to our auditors included webinars on various audit-related topics and specialized classroom training for our IT audit staff. These efforts helped ensure that our audit staff is informed of emerging risk issues and auditing techniques and provided them with the opportunity to receive necessary continuing education requirements to maintain their professional certifications.

**Internal Audit Charter Update** – In March 2014 the Board of Regents approved an amendment to the Internal Audit Charter. The amendment clarified that the Senior Vice President – Chief Compliance Officer has a direct, separate and independent reporting relationship to the Board of Regents through the Committee on Compliance and Audit. Additionally, the amendment included a modification to the Mission section to clarify the description of our stakeholders and to better reflect our collaborative relationship with management, as well as the inclusion of a vision statement to describe how the Office of Audit Services strives to be perceived by its stakeholders.
Data Analytics – Local audit departments have been increasing the use of Computer Assisted Auditing Tools (CAATs) to perform data analytics as part of Internal Audit projects and ad hoc special projects. These tools allow auditors to perform analysis on entire data populations to identify anomalies and discrepancies for further investigation, rather than relying on traditional transactional sampling methods. To facilitate further development in this area, we implemented a tool for campus internal audit departments to share data analytics techniques and methodologies. Additionally, Internal Audit has assisted management in developing data analytics scripts to support continuous monitoring programs which would replace burdensome and inefficient manual review controls. Increasingly, governmental agencies are using data analytics techniques as part of their audit work. Internal Audit has been working with management in an advisory capacity to employ the same techniques in advance of governmental agency audit fieldwork to better prepare for these audits.

Staff and Leadership Development – We launched several initiatives to facilitate the development of our audit staff at all levels, including the development of tools to facilitate performance management discussions and skills assessment, guidelines for leadership development and succession planning, and the establishment of a framework for a mentorship program to be launched in the next fiscal year.
E. Statistics

This section provides a summary of statistical information on the systemwide Internal Audit program for FY 2013-14. Resource and effort data is summarized and analyzed by type of audit service and across functional areas of the University, demonstrating the breadth of coverage. Management corrective actions are analyzed by functional area, severity, and status of corrective actions.

1. Resources and Effort

Table 1 – UC Internal Audit Program Staffing provides statistics on our systemwide Internal Audit staff, benchmarked against the plan and prior year figures, including a summary of statistics in experience, education, professional certifications and turnover. Headcount levels remained relatively stable compared to the prior year, with a slightly higher turnover rate. Training hours for audit staff increased compared to the prior year, mainly due to the All Auditors Forum held this fiscal year which was attended by nearly all UC audit staff.

Qualifications statistics for our staff decreased slightly in comparison to the prior year, which is to be expected as campus audit departments have been hiring less experienced auditors to be mentored which will assist with long term succession planning.

UC Internal Audit Program Staffing

<table>
<thead>
<tr>
<th>Internal Audit Staff</th>
<th>FY14 Plan</th>
<th>FY14 Actual</th>
<th>Prior Year Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorized</td>
<td>107</td>
<td>107</td>
<td>105</td>
</tr>
<tr>
<td>Average Actual Filled</td>
<td>101</td>
<td>98</td>
<td>95</td>
</tr>
<tr>
<td>Percent Filled</td>
<td>96%</td>
<td>92%</td>
<td>90%</td>
</tr>
<tr>
<td>Ending Head count</td>
<td>104</td>
<td>101</td>
<td>98</td>
</tr>
<tr>
<td>Turnover*</td>
<td>N/A</td>
<td>7%</td>
<td>6%</td>
</tr>
<tr>
<td>Training hours per auditor</td>
<td>81</td>
<td>95</td>
<td>72</td>
</tr>
</tbody>
</table>

Qualifications

- Average Years Total Audit Experience: N/A 16 years 16 years
- Average Years UC Audit Experience: N/A 9 years 10 years
- Average Years Audit Director Experience: N/A 25 years 26 years
- Percent of Audit Staff with Bachelors Degree: N/A 98% 99%
- Percent of Audit Staff with Advanced Degrees: N/A 32% 34%
- Percent of Staff holding Professional Certifications: N/A 80% 83%

Table 1

* 7% staff turnover included 2.75 departures for positions within UC, which is generally viewed positively, 4 departures outside of UC and 2.5 retirements.

N/A Not applicable to plan data

Each year, approximately 85% of our staff time is allocated to direct hours. Direct hours include all effort spent completing our annual plan of audit, advisory, and investigation projects, as well as audit support activities such as IT support, systemwide audit support, audit planning and quality assurance.

Table 2 – Projects provides a summary of our direct hours including a breakdown by service line, number of completed projects in each area, and average hours per completed project.
### Projects

<table>
<thead>
<tr>
<th></th>
<th>FY14 Plan</th>
<th>FY14 Actual</th>
<th>Prior Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audits</td>
<td></td>
<td></td>
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<tr>
<td>Audit Program Hours</td>
<td>93,139</td>
<td>89,047</td>
<td>87,111</td>
</tr>
<tr>
<td>Percent of total project effort</td>
<td>65%</td>
<td>63%</td>
<td>66%</td>
</tr>
<tr>
<td>Number of Completed Projects</td>
<td>249</td>
<td>245</td>
<td>244</td>
</tr>
<tr>
<td>Advisory Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advisory Service Hours</td>
<td>33,905</td>
<td>36,055</td>
<td>30,433</td>
</tr>
<tr>
<td>Percent of total project effort</td>
<td>23%</td>
<td>26%</td>
<td>23%</td>
</tr>
<tr>
<td>Number of Completed Projects</td>
<td>84</td>
<td>207</td>
<td>162</td>
</tr>
<tr>
<td>Investigations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investigation Hours</td>
<td>17,799</td>
<td>15,365</td>
<td>14,472</td>
</tr>
<tr>
<td>Percent of total project effort</td>
<td>12%</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Number of Completed Investigations</td>
<td>N/A</td>
<td>91</td>
<td>85</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit, Advisory Services &amp; Investigation hours</td>
<td>144,843</td>
<td>140,467</td>
<td>132,016</td>
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<tr>
<td>Audit Support Hours</td>
<td>13,214</td>
<td>11,845</td>
<td>12,832</td>
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<tr>
<td>Total Direct Hours</td>
<td>158,057</td>
<td>152,312</td>
<td>144,849</td>
</tr>
</tbody>
</table>

### Summary Information

<table>
<thead>
<tr>
<th></th>
<th>FY14 Plan</th>
<th>FY14 Actual</th>
<th>Prior Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Number of Completed Projects</td>
<td>N/A</td>
<td>543</td>
<td>491</td>
</tr>
<tr>
<td>Number of projects per auditor</td>
<td>N/A</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Percent of Audit Plan Completed</td>
<td>100%</td>
<td>96%</td>
<td>95%</td>
</tr>
<tr>
<td>Productivity Percent</td>
<td>86.89%</td>
<td>85.22%</td>
<td>86.06%</td>
</tr>
</tbody>
</table>

N/A  Not applicable to plan data
**Chart 1 – Effort Distributed by Service Type** shows the distribution of effort by service type over the past seven years. The proportion of hours allocated to audit, advisory and investigation effort remained relatively stable in comparison to recent years, with a continued focus on completion of the annual audit plan in lieu of additional advisory and investigations projects. There has been a moderate increase in advisory activity in the past few years as Internal Audit departments have focused efforts on proactive consulting services to assist management.

**Chart 2 – Completion of Audit Plan** shows the results of our focus on audit plan completion over the past few years. Once again, we greatly exceeded our established benchmark for audit plan completion (70%) in FY 2013-14, with a systemwide completion rate of 96%.
Chart 3 – Distribution of FY 2013-14 Hours depicts the breadth of coverage of Internal Audit project hours over the 15 major functional areas of the University. As in prior years, our effort remained concentrated in the areas of financial management, research, academic units & programs, health sciences operations and information management & technology.

**Distribution of FY 2013-14 Hours by Functional Area**

- Development & External Relations, 2%
- Budget/Planning, 1%
- Office of the President, 1%
- Lab Research Programs & Processes, 1%
- Governance, 1%
- Financial Management, 20%
- Research, 14%
- Academic Units & Programs, 12%
- Health Sciences Operations, 12%
- Information Management & Technology, 12%
- Auxiliary, Bus & Employee Support Services, 8%
- Facilities, Construction & Maintenance, 7%
- Human Resources & Benefits, 5%
- Risk, Environment & Safety, 4%
- Lab Research Programs & Processes, 1%
- Budget/Planning, 1%
- Office of the President, 1%

*Chart 3*
2. Management Corrective Actions (MCAs)

MCA Distribution
As previously indicated, our FY 2013-14 audit program work produced 379 audit, advisory service, and investigation reports resulting in 1,106 MCAs. As shown in Table 3 – Comparison of MCAs and Hours, the distribution of MCAs correlates fairly closely with the effort expended across the functional areas, with the exception of a few areas. In the areas of Financial Management, Information Management & Technology and Student Affairs, our reviews have yielded a higher number of MCAs per hour of effort than other areas. The areas of Research, Academic Units & Programs and Facilities, Construction & Maintenance have yielded a lower number of MCAs per hour of effort. It should be noted that the Student Affairs and Governance categories were added during FY 2013-14, which may have affected the quality of the data relevant to these categories.

Comparison of MCAs and Hours

<table>
<thead>
<tr>
<th>Functional Area</th>
<th>MCA %</th>
<th>Hours %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Management</td>
<td>27%</td>
<td>20%</td>
</tr>
<tr>
<td>Information Management &amp; Technology</td>
<td>15%</td>
<td>12%</td>
</tr>
<tr>
<td>Health Sciences Operations</td>
<td>10%</td>
<td>12%</td>
</tr>
<tr>
<td>Research</td>
<td>9%</td>
<td>14%</td>
</tr>
<tr>
<td>Student Affairs*</td>
<td>7%</td>
<td>0%</td>
</tr>
<tr>
<td>Human Resources &amp; Benefits</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>Auxiliary, Bus &amp; Employee Support Services</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>Academic Units &amp; Programs</td>
<td>6%</td>
<td>12%</td>
</tr>
<tr>
<td>Facilities, Construction &amp; Maintenance</td>
<td>4%</td>
<td>7%</td>
</tr>
<tr>
<td>Risk, Environment &amp; Safety</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>Office of the President</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Development &amp; External Relations</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Lab Research Programs &amp; Processes</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Budget/Planning</td>
<td>0%</td>
<td>1%</td>
</tr>
<tr>
<td>Governance*</td>
<td>0%</td>
<td>1%</td>
</tr>
</tbody>
</table>

* Category added in FY 2013-14

Table 3

Status of Completion of MCAs
MCAs are classified initially as open and are only moved to closed status after validation by auditors that the agreed upon corrective actions have been taken or the associated risk has been adequately mitigated and sustainable improvement has been achieved.

The number of open MCAs decreased from 817 to 666 during FY 2013-14 because of the significant volume of closed MCAs resulting from additional efforts spent on audit follow up efforts. At the same time, we also saw a decrease in the number of new MCAs added in FY 2013-14 in comparison to the prior year. Contributing to the downward trend in new MCAs is the increase in the advisory service activity, which is less likely to generate formal MCAs than internal audits.
**Chart 4 – MCAs Added and Closed** shows the number of MCAs added and closed each year for the past seven years. In FY 2013-14, for a fourth year in a row, MCA closures exceeded additions, resulting in a net decrease of 151 in the ending inventory of open MCAs.

**Chart 5 – Ending Inventory of Open MCAs** shows the progress that has been made over the past 7 years in reducing the inventory of open MCAs. Since FY 2009-10, there has been a net decrease in open MCAs of 925.

The systemwide Office of Audit Services routinely monitors MCAs across the system that have been open longer than 300 days from the date of the audit report. Many of the MCAs that are currently open the longest are solutions that are complex, costly, or time-consuming to implement. In nearly all of these cases, a short-term fix has already been implemented to address the noted control weakness. These longer-term solutions typically result in a “best practice” solution that is more efficient, reliable, and has a lower risk of failure than the short-term fix.
Chart 6 – Number of Open MCAs Over 300 Days Old shows the progress that has been made over the last two years in closing these older management corrective actions, due in large part to a formalized escalation process and enhanced oversight from the Regents Committee on Compliance and Audit. Over this time, the number of open MCAs over 300 days has been nearly cut in half, from 118 in November 2012 to 57 in July 2014.
APPENDIX 1 – INTERNAL AUDIT ORGANIZATION CHART

UC Internal Audit Organization Chart

Campus Chancellor or Designee
- UCB: Chancellor Dirks
- UCD: Chancellor Katehi
- UCI: Vice Chancellor Brase
- UCLA: Executive Vice Chancellor Waugh
- UCM: Chancellor Leland
- UCR: Chancellor Wilcox
- UCSB: Vice Chancellor Fisher
- UCSC: Vice Chancellor Latham
- UCSD: Chief Ethics & Compliance Officer Bruner
- UCSF: Senior Vice Chancellor Plotts
- LBNL: Laboratory Director Alivisatos

Total Professional Staff, including the Director, is in parentheses. Total Authorized Professional Positions = 106.7 as of year end FY 2013-14
APPENDIX 2 – FINAL AUDIT REPORTS ISSUED FISCAL YEAR 2013-14

Office of the President
ANR Kearney Research and Extension Center (REC) Review
Capital Projects Audit of the Approval Process for the Pilot Phase of the “Delegated Process”
ANR Firearms Compliance Program
Laboratory Safety (Systemwide)
Medical Centers Clinical Enterprise Management Recognition Plan (CEMRP)
Office of the Treasurer Annual Incentive Plan (AIP)
Agriculture and Natural Resources (ANR) Firearms Compliance Program
ANR Hopland REC Review
Education Partnerships Youth Protection Departmental Policy Implementation
Senior Management Group (SMG) Travel & Entertainment
UCSF Chancellor Transition Review
UC Irvine Chancellor Transition Review
Student Health and Counseling Centers (Systemwide)

UC Berkeley
Contracts and Grants Accounting
Delegation of Authority and Signature Authorization
Identity and Access Management
Key Financial Controls
Research Enterprise Services
Support and Affiliated Organizations
Human Resources - Compensation and Classification
Sponsored Projects - Effort Reporting - Summer Salaries
Sponsored Projects - Cost Transfers
Campus Police Department
Endowed Chairs and Professorships

UC Davis
Donor Restrictions on Gift Expenditures
G-45 (Chancellor’s Expenses)
College of Agriculture and Environmental Services Transition Review
College of Engineering Administrative Review
Capitation Revenue Distribution
School of Nursing Administrative Review
Sales, Use and Unrelated Business Income Tax
Blood Products Management
Department of Dermatology
Information and Educational Technology IT Virtualization Service
Transportation Analysis
University of California Davis Health System (UCDHS) Vice Chancellor (VC)/Dean Transition Review

Software Licensing
Critical Infrastructure IT Systems
Annual Report on Executive Compensation & G-45 Allocations
Financial Conflicts of Interest
School of Biological Sciences
Center for Educational Partnerships
Obstetrics & Gynecology (OBGYN)
Medical Center Facilities Management
Meaningful Use
Pathology
UCI Mind
Main Cashiering
Family Medicine
Dean’s Travel Review (Systemwide)
Structural Engineering Test Hall (SETH) Lab
Psychology & Social Behavior Financial Review

UC Los Angeles
Wilshire Center Operations
Donated Body Program
CareConnect 3 (UCLA’s Electronic Health Record) - Security
Nurse Float Pool (Commitments vs. Actual Effort)
Santa Monica UCLA Medical Center - Surgery Center
Santa Monica UCLA Medical Center - Radiology Services in Orthopaedic Clinic
Marketing (financial management)
Tiverton House
Primary Network Clinics 2
ASUCLA (Associated Students UCLA) Student Union - Event Services and Postal Service
ASUCLA Store - Health Sciences Store
ASUCLA Store - Store Operations
ASUCLA Restaurants - Central Division
ASUCLA Restaurants - Special Events Division, Catering Operations
Customer Relations
Fund Management Review
Tool Crib Review
Work Order Review
Project Management
Capitalization Procedures
Share Point System Review
State of California Prop 1-D
Fleet & Transit - Auto Parts Inventory
Fleet & Transit - Fuel Accountability
Events & Transportation - Pay Stations
Conference Services
Housing and Hospitality Services - Cashiering Operations

UC Los Angeles
Lake Arrowhead Conference Center
Student Technology Center
University Apartments - Revenue, Leasing, and Vacancy
Vending Services - Cashiering Operations
Early Care and Education
Insurance & Risk Management - Operational Review
Equipment Inventory Management
Procurement and Asset Management
Central Ticket Office - Cashiering Operations
University of California Police Department (UCPD) - Cash Management
University of California Police Department (UCPD) - Recharges and Revenue Reconciliation
Residential Life
Neurology-Singer

UC Merced
Control over Cash and Payments
Grants (Including ARRA Grants)
Major Construction Projects - Housing 4 & Student Services Bldg.
Purchase Orders and Business Contracts

UC Riverside
School of Medicine
College of Humanities Arts & Social Sciences (CHASS)
  Dean's Office
Cash Handling
Privacy and Confidentiality
Financial Aid
Kronos Systems Access
University Extension (UNEX)
Physical Plant
Gear Up
Dean Travel Review

UC Santa Barbara
Bren School of Environmental Science and Management
Fund Balances
IT: UCSB Procurement Gateway Post-Implementation Review
University Inventories- Phase 1
IT: UC Trust Compliance Review
University Inventories- Phase 2
IT: Financial System Implementation Project (FSIP) Progress Review Field Audit Follow-up
IT: Student Information Systems (SIS) Modernization Progress Review Field Audit Follow-up
Integration and Control of Auxiliaries- Phase 1
IT: Third Party Services

UC Santa Cruz
Deferred/Preventative Maintenance
Financial Aid Compliance
Sub-Cashier Cash Handling Controls

UC San Francisco
Departmental General Ledger Review
Contracts and Grants
Cash Operations - Campus
Procurement-to-Pay (BearBuy) System
Mobile Devices Security
Physician Billing - San Francisco General Hospital
Chancellor’s Administrative & Housing Expenses (Systemwide)
Clinical & Translational Science Institute (CTSI) - Financial Management
Willed Body Program
Service Contract Review
Network Security - Firewalls
Center for Health Professions - Contracting
Electronic Health Record (EHR) - Monitoring Access to Patient Records
Human Research Protection Program
Dean's Travel Review
China Basin - Parking Vouchers

Intra-University Transfers (IUTs) Awards
Maintenance
Emergency Management

Lawrence Berkeley National Laboratory
FY13 Cost Allowability
Purchase Order (PO) & Subcontract Awards
Conference Activities
Human Resources (HR) Services
Payroll Processing