University of California Santa Cruz
Audit & Management Advisory Services (AMAS)

Annual Report on Local Activities
Fiscal Year 2015
September 14, 2015
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Message from the Director

We are pleased to present the UCSC internal audit program - Annual Report on Local Activities for FY15.

This report provides a quick look at who we are; our accomplishments; a high level observation of the campus governance, risk management, and control environment; our opinion on the top five internal control issues facing the campus; an overview of projects completed, scope and impacts, and a recap of management corrective action status.

We recently changed our name to Audit and Management Advisory Services (AMAS) to acknowledge our role in supporting senior campus management in the discharge of their fiduciary responsibilities.

Our hope is that this report will help provide a better understanding and transparency of our function and our contributions to the campus over this past year.

Barry
Audit & Management Advisory Services (AMAS) operates under UC Regents approved resolution as the University’s independent and objective resource providing value added information and assurances to The Regents, president, the chancellor, and senior management on the governance, risk management and internal control activities of the University.

The audit director has dual reporting lines to the Chancellor, delegated to the VC BAS; and to the Regents Committee on Compliance and Audit, through the UC Senior Vice President – Chief Compliance and Audit Officer.

AMAS provides a critical assessment, monitoring, and consultative role; assisting the chancellor and senior management in the discharge of their oversight, management, and operating responsibilities; and is an integral part of the university’s shared governance structure.

AMAS has a permanent budget of 4.0 FTE professional staff during FY15, which was low relative to other UC campuses and limits the ability of AMAS to provide breadth of coverage of campus activities.

AMAS professional internal audit staff are formally educated in the areas of business and management and have an average 17 years of internal auditing experience.

- **Professional certifications held:** Certified Internal Auditor, Certified Information Systems Auditor, Certified Fraud Examiner
- **Professional License held:** Certified Public Accountant

In addition, AMAS professional staff attend professional education and training annually to stay current in their knowledge, skills and abilities; and maintain certifications/licenses.
While the bulk of our work is allocated to conducting planned, risk based audits, a growing trend is the increase in management requested advisory services, consultations, and investigations support. These hours fluctuate yearly based on local needs.
## Accomplishments - FY15 at a Glance

<table>
<thead>
<tr>
<th>Service Element</th>
<th>FY15 Accomplishments</th>
</tr>
</thead>
</table>
| Support Campus Management and Discharge of Responsibilities | At management’s request, we conducted the following Audits and Consulting Service Reviews:  
  • PayPal Controls Review, Cost of Construction, Arboretum Gifts and NCAA Annual Review.  
  • Numerous confidential investigations and whistleblower/LDO directed support projects. |
| Support UC CCAO                        | Appointed by UC SVP - Chief Compliance and Audit Officer (CCAO) to serve on the UCOP Policy Advisory Committee. Served on Lawrence Berkeley National Laboratory Contractor Assurance Council. |
| Governance                             | Notable observations and agreements in campus governance were identified in several of our projects including Off-boarding controls.                                                                                     |
| Risk Management & Compliance          | • Notable observations and agreements were reached to address risk management and compliance elements within the following reviews: Intellectual Property Security, IT – Physical Security, Contracts and Grants Administration, Gift Administration – Donor Intent.  
  • Completed FY16 Annual Risk Assessment and Internal Audit Plan which outlined the results of our annual risk assessment exercise, deployment of audit resources, and generated a list of auditable topics of interest and risk themes.  
  • Supported Campus Ethics and Compliance Officer (CECO) in development of campus risk register and risk intelligence model. |
| Audit Follow-up                       | Closed 68 open management corrective actions in the follow-up system.                                                                                                                                                |
Top Five Internal Control Issues

(available upon request)
Internal Audit Projects in FY15

<table>
<thead>
<tr>
<th>Audit #</th>
<th>Audit Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>SC-14-07</td>
<td>Distributed Computing Logical Security (PY)</td>
</tr>
<tr>
<td>SC-15-02</td>
<td>AREC (Systemwide)</td>
</tr>
<tr>
<td>SC-15-04</td>
<td>Intellectual Property Security</td>
</tr>
<tr>
<td>SC-15-05</td>
<td>Service Contracts Administration</td>
</tr>
<tr>
<td>SC-15-06</td>
<td>Contracts and Grants Administration</td>
</tr>
<tr>
<td>SC-15-07</td>
<td>IT Physical Security</td>
</tr>
<tr>
<td>SC-15-08</td>
<td>Endowment Administration- Donor Intent</td>
</tr>
<tr>
<td>SC-15-09</td>
<td>Pro-Card Review</td>
</tr>
<tr>
<td>SC-15-10</td>
<td>Use of Policy Exceptions</td>
</tr>
<tr>
<td>SC-15-11</td>
<td>Off-Boarding Controls</td>
</tr>
<tr>
<td>SC-15-12</td>
<td>Chancellor Expenses G-45 (systemwide)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Audit #</th>
<th>Advisory Service Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>SC-15-50</td>
<td>Website Management</td>
</tr>
<tr>
<td>SC-15-51</td>
<td>NCAA Report Annual Review</td>
</tr>
<tr>
<td>SC-15-52</td>
<td>PayPal Controls Review</td>
</tr>
<tr>
<td>SC-15-53</td>
<td>Cost of Construction Primer</td>
</tr>
<tr>
<td>SC-15-55</td>
<td>FY16 Annual Risk Assessment and Audit Plan</td>
</tr>
<tr>
<td>SC-15-57</td>
<td>Arboretum Gifts*</td>
</tr>
<tr>
<td>SC-15-58</td>
<td>University Relations*</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Audit #</th>
<th>Investigation Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>SC-15-99</td>
<td>*</td>
</tr>
</tbody>
</table>

* Confidential topics – title or detail not shown
### FY15 Projects Completed and Scope (1 of 2)

<table>
<thead>
<tr>
<th>Project Code</th>
<th>Project Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>SC-14-07</td>
<td>Distributed Computing Logical Security – Windows Domain Controllers: Evaluated the security and administration of Windows Domain Controllers maintained both within Information Technology Services units and in the campus distributed environment.</td>
</tr>
<tr>
<td>SC-15-02</td>
<td>Annual Report on Executive Compensation (AREC) Systemwide: Reviewed UCSC’s Annual Report on Executive Compensation for 2014. This UC systemwide audit was conducted to evaluate and determine the completeness and accuracy of executive compensation reporting to UCOP.</td>
</tr>
<tr>
<td>SC-15-04</td>
<td>Intellectual Property Security: Reviewed the security over intellectual property generated by campus research to determine the adequacy of controls in providing reasonable assurance that campus intellectual property, particularly patentable inventions, are properly safeguarded and protected against unauthorized access.</td>
</tr>
<tr>
<td>SC-15-05</td>
<td>Service Contracts Administration: Evaluated the effectiveness of the administration and oversight of campus service contracts for ensuring that services provided meet the terms and conditions of the contract and that services paid for have been received.</td>
</tr>
<tr>
<td>SC-15-06</td>
<td>Contract and Grant Administration – Office of Sponsored Projects: Evaluated the effectiveness of the campus office of sponsored projects in supporting campus efforts in reviewing, endorsing and submitting proposals with funding agencies.</td>
</tr>
<tr>
<td>SC-15-07</td>
<td>IT Physical Security: Determined the effectiveness of physical security controls over distributed information technology facilities and devices on campus, including physical access and access monitoring, physical surroundings and environmental conditions, protection in case of fire, and quality of electrical supply.</td>
</tr>
<tr>
<td>SC-15-08</td>
<td>Gift Administration - Donor Intent: Evaluated the effectiveness of controls for ensuring that gift funds are spent in accordance with the donor’s instructions. Our review focused primarily on controls over Endowment payout fund balances and expenditures, also the controls over other gift funds.</td>
</tr>
<tr>
<td>SC-15-09</td>
<td>Pro-Card Administration: Reviewed the campus Pro-Card administration and review program to assess its effectiveness and to evaluate controls in place to prevent unauthorized purchases.</td>
</tr>
<tr>
<td>SC-15-10</td>
<td>Use of Policy Exceptions: Limited scope review of the use of policy exceptions to identify the extent of exception requests, the appropriateness of exception request justification procedures, and determine if the level of exceptions were indicators that selected policies were in need of revision.</td>
</tr>
<tr>
<td>SC-15-11</td>
<td>Off-boarding Controls: Reviewed campus off-boarding practices for separating employees to evaluate their effectiveness at ensuring that separated employees are prevented from gaining unauthorized physical and electronic access to campus systems and facilities, and that campus property is returned before employees separate.</td>
</tr>
</tbody>
</table>
## FY15 Projects Completed and Scope (2 of 2)

<table>
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</tr>
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<tbody>
<tr>
<td>SC-15-50</td>
<td>Website Management</td>
<td>The purpose of this consultation service, endorsed by the Campus Website Steering Committee, was to identify broken website links in selected department websites using an automated website broken link tool; share the results with departmental website editors; and assist units in correcting, as requested, the most critical broken web links.</td>
</tr>
<tr>
<td>SC-15-51</td>
<td>NCAA Report Annual Review</td>
<td>Reviewed the annual NCAA revenue and expense report for accuracy and reasonableness in support of the chancellor’s annual certification.</td>
</tr>
<tr>
<td>SC-15-52</td>
<td>PayPal Controls Review</td>
<td>Evaluated the effectiveness of processes, procedures, and controls over the campus PayPal pilot program administered by the School of Engineering. Examine the feasibility and alternate delivery models for expanding the PayPal pilot program to include campus units/departments other than the School of Engineering.</td>
</tr>
<tr>
<td>SC-15-53</td>
<td>Cost of Construction Primer</td>
<td>Completed a whitepaper discussion and approach to understanding the cost of campus construction at the request of senior management.</td>
</tr>
<tr>
<td>SC-15-55</td>
<td>Annual Risk Assessment and Audit Plan</td>
<td>The FY16 report, provided to the campus audit committee, provides a compilation of documents including Schedules 1, 2 &amp; 3 required by the UC Ethics, Compliance and Audit Office for rollup to the system wide internal audit program report for regental approval; as well as a list of auditable topics of concern and risk themes generated from surveys and interviews conducted with campus personnel, audit universe risk scoring results, and other supporting information outlining this year’s effort.</td>
</tr>
<tr>
<td>SC-15-57</td>
<td>Arboretum Gifts*</td>
<td>* Confidential topic – detail not shown</td>
</tr>
</tbody>
</table>

* Confidential topic – detail not shown
Impacts of Audit Projects Completed in FY15 (1 of 2)

(available upon request)
Open Management Corrective Actions (MCAs)

AMAS monitors the progress and completion of management corrective actions (MCAs) identified in audits issued throughout the year.

Timely closeout of MCAs demonstrates management’s commitment to risk mitigation and operational improvement.

AMAS obtained agreements from management on all corrective actions identified and reported in for audits issued in FY15.
Student Intern Program

AMAS continues to host a student intern program. This program contributes to the campus educational mission by offering students an opportunity to earn units working with professional internal audit staff, gaining hands on internal auditing experience.

During FY15, AMAS hosted two student interns. Interns are typically senior level UC Santa Cruz accounting students. Most interns have received full time jobs subsequent to graduation, directly attributable to this experience and the education they have received at UC Santa Cruz.