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

Campus Audit Reporting Structure and Staffing

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.

UCSC Audit & Management Advisory Services (AMAS)
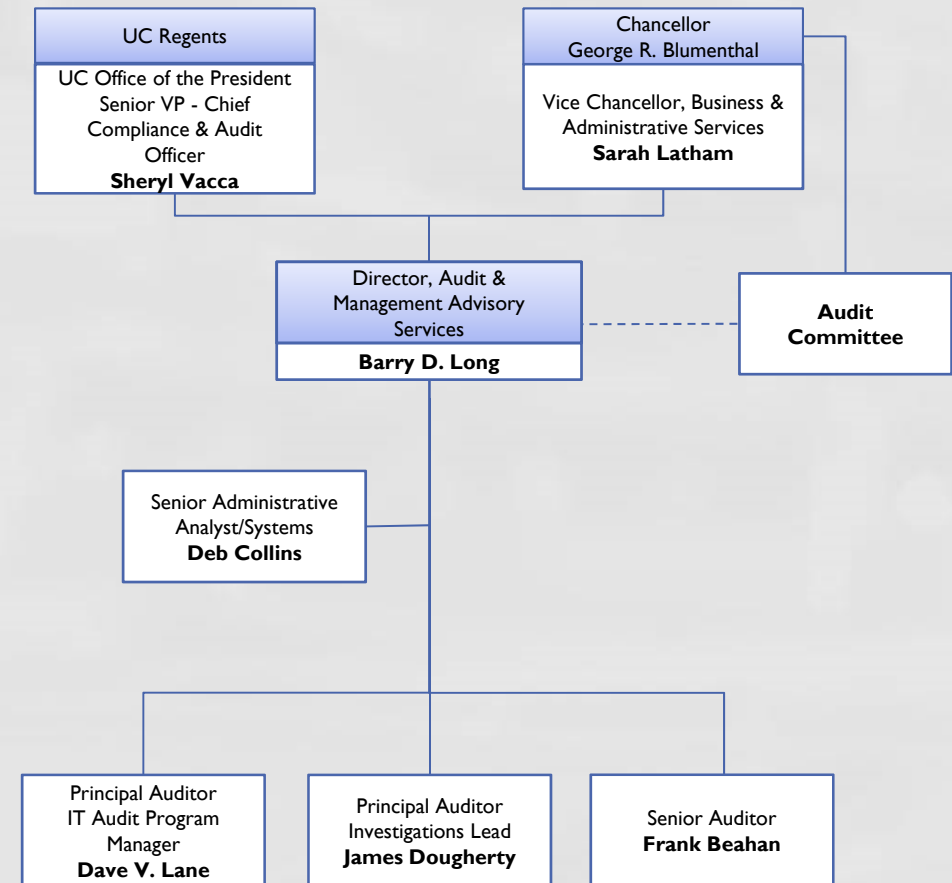
AMAS Effort by Service Type (in hours)
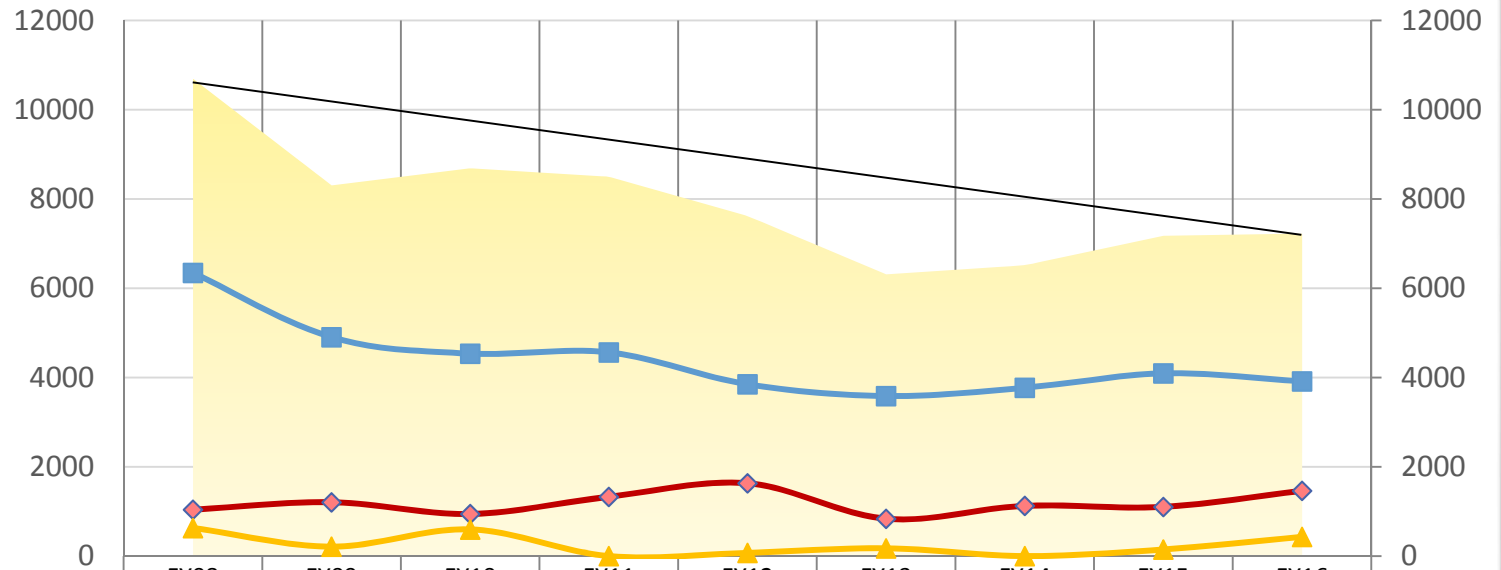
	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16 Planned
Total Net Available Hours	10695	8305	8688	8497	7620	6311	6516	7176	7227
Audits	6347	4904	4537	4564	3850	3585	3771	4094	3916
Advisory Service/Consultations	1041	1207	943	1329	1632	837	1125	1103	1463
Investigations	630	211	598	0	73	175	0	148	430

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

Service Element	FY15 Accomplishments
Support the Regents/UC/Campus Internal Audit Program	Successfully executed the FY15 Audit Plan by completing planned Audits, Consulting Services, and requested UC systemwide audits. Completed reviews included: Intellectual Property Security, Contracts and Grants Administration, Pro-Card Administration, Gift Administration – Donor Intent, IT – Physical Security, Annual Report on Executive Compensation and G-45 Chancellors Expenses.
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.
Committees & Workgroups	Served on: Investigations Workgroup, IT Security Workgroup, HIPAA Workgroup, PCI Committee, and the Data Warehouse Steering Committee, Accessible Technology Committee, BAS Fiscal Analysis and Reporting Task Force, BAS Strategic Finance Workgroup Meeting.
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

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

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

Audit #	Investigation Title
SC-15-99	*

* Confidential topics – title or detail not shown

FY15 Projects Completed and Scope (1 of 2)

SC-14-07 **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.

SC-15-02 **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.

SC-15-04 **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.

SC-15-05 **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.

SC-15-06 **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.

SC-15-07 **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.

SC-15-08 **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.

SC-15-09 **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.

SC-15-10 **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.

SC-15-11 **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.

SC-15-12 **Chancellor Expenses G-45 systemwide:** Reviewed and evaluated the completeness and accuracy of the two financial reports required by G-45, the Annual Report of Fiscal Year Expenses of the Chancellor for Fiscal Year 2013-2014 and the Annual Report of Taxable Expenses of the Chancellor for the period Nov. 1, 2013 – Oct. 31, 2014 and the effectiveness of the approval process of the chancellor's expenses.

FY15 Projects Completed and Scope (2 of 2)

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SC-15-50	**Website Management:** 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.
SC-15-51	**NCAA Report Annual Review:** Reviewed the annual NCAA revenue and expense report for accuracy and reasonableness in support of the chancellor's annual certification.
SC-15-52	**PayPal Controls Review:** 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.
SC-15-53	**Cost of Construction Primer:** Completed a whitepaper discussion and approach to understanding the cost of campus construction at the request of senior management.
SC-15-55	**Annual Risk Assessment and Audit Plan:** The FY16 report, provided to the campus audit committee, provides a compilation of documents including Schedules 1, 2 & 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.
SC-15-57	**Arboretum Gifts***

* Confidential topic – detail not shown

Impacts of Audit Projects Completed in FY15 (1 of 2)

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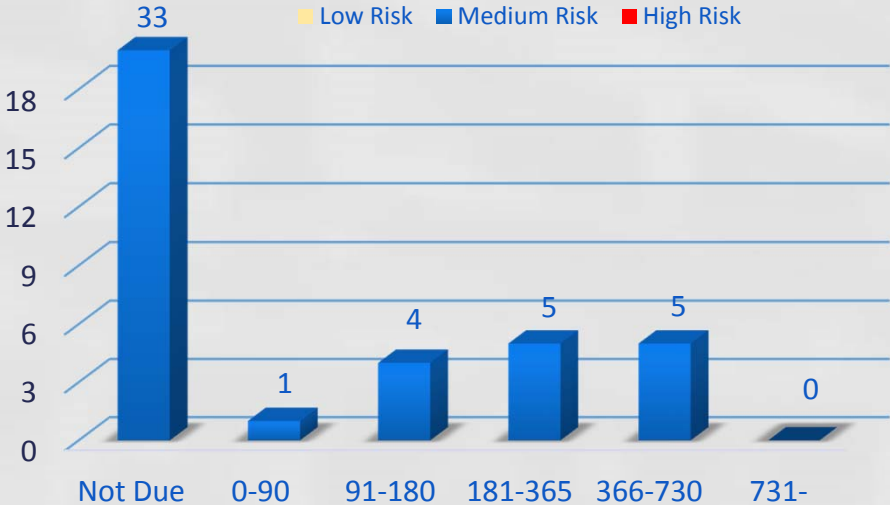
Open Management Corrective Actions (MCAs)

Total MCA Activity for FY15
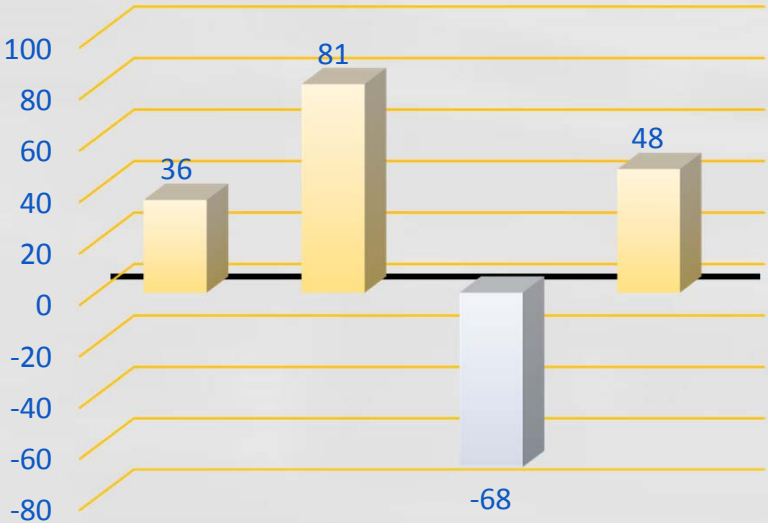
Open on 07/01/14	MCAs Added	MCAs Closed	Open on 06/30/15
36	81	(68)	48

Aging of Open MCAs as of 6/30/15
* Based on the MCA original expected completion date

Low Risk ■ Medium Risk ■ High Risk

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.