



Annual Report on Local Audit Activities

UC Santa Cruz - Audit & Management Advisory Services (AMAS)

Fiscal Year 2018
September 10, 2018





Message from the Director

We are pleased to present our Annual Report on Local Activities for FY18. The goal of this report is to provide a better understanding of what we do in support of the University's mission in research, education, and public service.

This report provides a quick look at our reporting structure and staffing; our accomplishments at a glance for FY18; impacts of our work on improving campus governance, risk management, and control environment; the identification of the top five internal control issues/risks facing the campus; and a recap of management corrective action status.

In addition to carrying out the campus internal audit program, we support student education and development through our student intern program. This program provides students with hands-on experience working with our professional audit staff on projects while earning class credits.

We look forward to another successful year in FY19 and invite our campus and University colleagues to visit our website at audit.ucsc.edu

Jim Dougherty

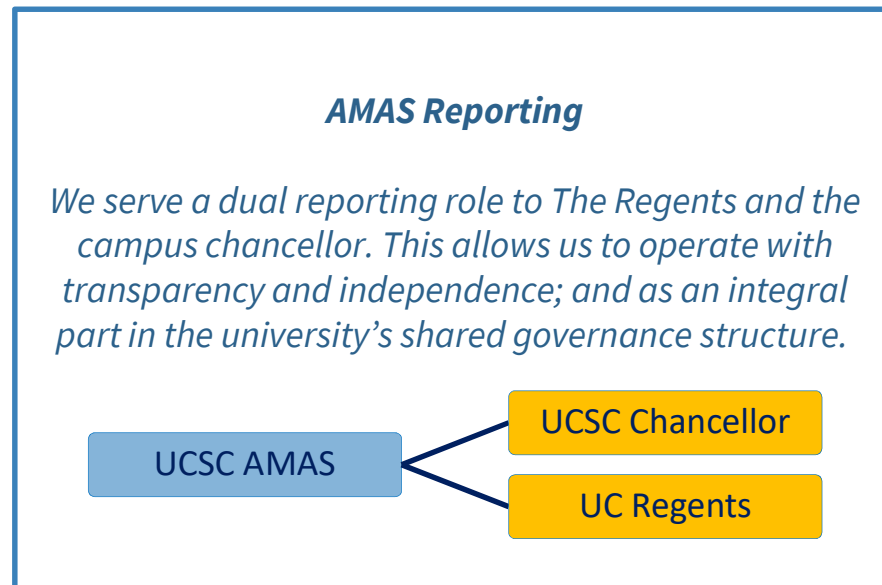
Director, UC Santa Cruz Audit & Management Advisory Services



Campus Audit Reporting Structure

The University of California’s Internal Audit Program operates under UC Regents resolution as the University’s independent and objective audit resource.

Audit and Management Advisory Services (AMAS) carries out the internal audit function at UCSC. Our primary purpose is to provide value-added information and assurances on the governance, risk management, and internal control activities on the campus to assist the chancellor and senior management in the discharge of their oversight, management, and operating responsibilities.





Internal Audit Staffing & Experience

Our staff are uniquely qualified with years of experience and hold a number of certifications including:

- Certified Internal Auditor (CIA)
- Certified Public Accountant (CPA)
- Certified Information Systems Auditor (CISA)
- Certified Fraud Examiner (CFA)
- Auditors are required to complete regular Internal Audit training and maintain certifications.

We sit on a variety of Campus Committees & Workgroups:

- UCPATH Ops Steering Committee
- Risk Intelligence Oversight Committee
- Risk Intelligence Workgroup
- Campus Investigations Workgroup
- IT Security Committee
- HIPAA Security Rule Workgroup
- Computer Incident Response Team
- Data Warehouse Steering Committee
- Accessible Technology Committee
- UC TeamMate Champion Workgroup
- UC Data Analytics Subject Matter Experts
- Key campus staffing search committees

FY18 Notable Activities

Support of UC Regents and Campus Internal Audit Program

- During the year we conducted work on the Internal Audit Plan including:
 - Risk-based and systemwide internal audits
 - UCSC management requested advisory service projects
 - Investigations
 - A variety of ad-hoc consultations and inquiries

Campus Governance and Risk Mitigation

- We support campus governance and risk mitigation by assisting management in identifying governance and risk issues on campus through our work in audits, management advisory services, investigations, and follow-up.

Audit Follow-up Validation

- Once audits, management advisory services, or investigations are completed, we reconnect with departments to verify that agreed changes have been made.

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FY18 Notable Activities

Campus Risk Intelligence - Risk Management & Compliance

- We support the UC Campus Ethics and Compliance Officer (CECO) by coordinating with other campus units that identify and manage risk to ensure efforts are not duplicated, risk intelligence is not siloed, and skills and resources are appropriately assigned.

External Audit Coordination

- We work directly with external auditors to assist in communication with local management.

Student Internships

- We believe that it's important to do our part in supporting UCSC students who may be interested in becoming auditors. In an internal audit internship, students gain hands-on experience as part of the audit team. Our interns work directly with audit staff and gain an in-depth understanding of audit's role in providing information to senior management and assisting in the governance of the UCSC campus units.



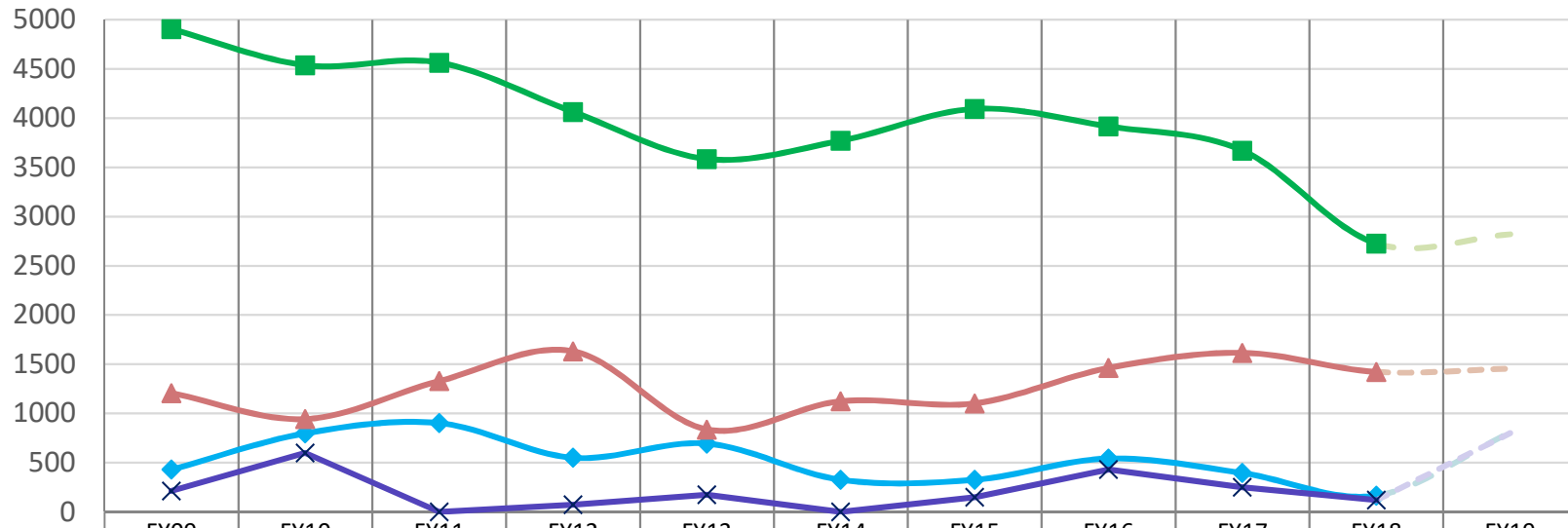
FY18 Audit/Advisory/Investigation Projects Completed

Audit #	Internal Audits - Title
SC-18-01	Information Management of Sensitive Data - User Awareness and Use
SC-18-03	Vivarium Operations and Governance
SC-18-05	Annual Report on Executive Compensation (AREC) UC Systemwide
SC-18-06	Chancellor's Expenses - G-45, UC Systemwide
SC-18-07	Divisional Carryforward/Deficit Management
SC-18-08	Independent Contractors
SC-18-11	Fair Wage/Fair Work - UC Systemwide
n/a	UCSC 2018 Internal Assessment Process (IAP) – Audit Report

Project #	Advisory Service Reviews - Title
SC-18-50	Fraud Management Program - Data Analytics
SC-18-52	Data Governance Policy Development
SC-18-53	AMAS Audit Interviews and Risk Intelligence Governance
SC-18-54	NCAA Report Annual Review
SC-18-56	UNEX, Smarter Balances, UC Scout Review
SC-18-57	CruzHacks Visa Gift Cards
SC-18-58	Title IX & EEO Process Data - UC Systemwide

Investigations
We conducted campus investigations in the areas of Accounting and Travel Expenses

FY18 Planned Effort by Service Type (in hours)



	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
FTE Average	4.65	5.00	4.80	4.08	3.65	3.72	3.72	4.00	3.17	3.39	4.00
■ Audit Program	4904	4537	4564	4064	3585	3771	4094	3916	3671	2726	2820
◆ Audit Support	430	798	902	550	694	326	326	542	395	166	806
▲ Advisory / Consultation	1207	943	1329	1632	837	1125	1103	1463	1616	1422	1455
✕ Investigation	211	598	0	73	175	0	148	430	250	119	800

Internal Audit continues to be responsive to the needs of senior campus leadership as evidenced by a general upward trend in hours devoted to management requested advisory services and consultations. At the same time there has been a downward trend of planned audit work (Audit Program); partially as a result of less internal audit staff.

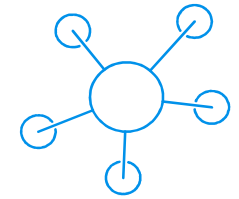
Audit Program = Planned audits and audit follow-up activities

Audit Support = Audit Planning, Audit Committee Support, Systemwide Audit Support, and Quality Assurance

Advisory/Consultation = Management requested reviews

Investigations = Investigations can come from several areas such as whistleblower complaints, management requests, etc.

FY18 Impacts of Audits Completed



Research

- **Vivarium Operations & Governance** Evaluation of the effectiveness of the Vivarium program operations and governance. Several findings were presented to management in the area of teamwork among staff and management, time & attendance methodology, and opportunities for improving cost optimization and revenue sustainability.

Academics

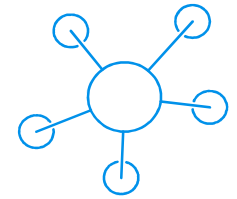
- **Divisional Carryforward / Deficit Balances** reviewed academic unit fund balances for the appropriateness of academic divisional resource management practices over accumulated carryforward/deficit balances. We found an opportunity to improve transparency in carryforward balances with the improvement of documentation, training, and performance metrics.

Internal Controls

- **Information Management of Sensitive Data - User Awareness** Reviewed the awareness for marking, transmitting and storing manual and electronic data containing various levels of sensitivity. Evaluated controls to ensure sensitive information complies with relevant policies and regulations. Several findings were presented to management that included areas of protection for sensitive information, ITS encryption services and Google Drive.
- **Procurement of Independent Contractors** Reviewed the effectiveness of controls related to the procurement of independent contractors. We found opportunities for improvement in the areas of guidance in the CruzBuy requisitioning process training and after-the-fact requisition controls.

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FY18 Impacts of Audits Completed



Assurances (UCSC Chancellor and Executive Vice Chancellor)

- **G-45 Chancellors Expenses** We evaluated the completeness and accuracy of the two financial reports required in UC Business Finance Bulletin (BFB) G-45 Implementing Requirements on Expenses Incurred in Support of Official Responsibilities of the President and Chancellors.
- **Annual Report of Executive Compensation (AREC)** We reviewed the completeness and accuracy of the AREC for the calendar year 2017 as assurance that it was in accordance with UC Policy.
- **Fair Wage/Fair Work** Evaluated the controls in place to ensure compliance with UC Fair Wage/Fair Work policy.
- **NCAA Report Annual Review** We conducted a limited scope review of the Office of Physical Education, Recreation, & Sports (OPERS) to confirm the accuracy of the financial data included in the NCAA annual report.
- **UNEX Programs Financial Review** Provided the CP/EVC with independent assessment and information on UNEX Certificates and Courses (UNEXCC), UC Scout (Scout) program and Smarter Balanced (SB) Memorandum of Understanding (MOU). Reviewed the business program models, financial management controls and reporting activities as well as financial considerations unique to Smarter Balanced.
- **Other Areas** Provided management with reviews in areas of gift cards, Title IX & EEO, travel & lodging expense, and other suspected improper governmental activities (IGA).

FY18 Significant Recurrent Internal Control Issues/Risks

Available upon request



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Available upon request



FY18 Management Corrective Action Activity

- During the course of any review (audit, management advisory services, or investigation) our office may find areas where action(s) can be taken improve performance and generally address risks.
- The responsibility to address risks that arise from our work lies with management. The appropriate and timely implementation of management corrective actions (MCAs) demonstrates management’s commitment to risk mitigation and operational improvement.
- Internal audit helps management complete MCAs by tracking their implementation. We follow up directly with the responsible units and department individuals to verify that risks are being adequately mitigated and we monitor their progress through to completion.

Summary of MCA activity FY18
(July 1st 2017 to June 30th 2018)

MCA Risk/Aging Days past agreed completion date (as of 6/30/2018)						FY18 MCA Activity Between 7/1/17 - 6/30/18	
Risk	Age in days past due					MCAs open on 7/1/2017	
	Not Due	0-90	91-180	181-365	366-730		
High						MCAs added	15
Medium	3	2				MCAs closed	-24
Low	1					MCAs open on 6/30/2018	6

*More information of Audit Follow-up can be found at
https://www.ucop.edu/ethics-compliance-audit-services/_files/audit/auditmanual.pdf*

Student Internships

AMAS contributes to campus student success through its student intern program. Through this program, students are provided with hands-on experience working with our professional audit staff on projects while earning class credits.

Students learn the professional practice of internal auditing: from planning an audit project, engaging with the audit client, developing audit objectives, performing a project risk assessment, developing an audit program, executing a audit testing plan, documenting work performed, using the elements of a finding to support an observation, summarizing results, sharing results with clients, and writing audit reports.

During this process, students gain a perspective on audits role in the governance of an organization and in providing information to senior management to help them carry out their responsibilities. Students also gain valuable experience working on a wide variety of audit topics.

During FY18, AMAS hosted four student interns. Interns are typically senior level UC Santa Cruz Economics students. Many interns receive full-time jobs subsequent to graduation, directly attributable to this experience and the education they have received at UC Santa Cruz.

Intern profile – Sherry - UCSC Internal Audit Internship Fall 2016

“My internship in Internal audit helped me to have a clear understanding of risk/control and campus operations. I currently work as a research analyst in UC Santa Cruz. Without the knowledge and experience from internal audit, I wouldn’t have been able to get this job. I am more confident in my interactions with other departments because of the practice I gained during my intern.”

In March 2017, Sherry started working in the Social Science Research Administration Office at UCSC as a research analyst

Intern Profile - Carly - UCSC Internal Audit Internship Spring 2017

“This internship provided me with valuable insight into the audit profession and gave me an opportunity to develop my audit skills before entering the work force.”

In September 2017, Carly started working at a Tax preparation service in San Jose, California