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.

**AMAS Reporting**

*We serve a dual reporting role to The Regents and the campus chancellor. This allows us to operate with transparency and independence; and as an integral part in the university’s shared governance structure.*
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

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<th>Audit #</th>
<th>Internal Audits - Title</th>
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<tr>
<td>SC-18-01</td>
<td>Information Management of Sensitive Data - User Awareness and Use</td>
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<tr>
<td>SC-18-03</td>
<td>Vivarium Operations and Governance</td>
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<td>SC-18-05</td>
<td>Annual Report on Executive Compensation (AREC) UC Systemwide</td>
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<td>SC-18-06</td>
<td>Chancellor's Expenses - G-45, UC Systemwide</td>
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<td>SC-18-07</td>
<td>Divisional Carryforward/Deficit Management</td>
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<td>SC-18-08</td>
<td>Independent Contractors</td>
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<td>SC-18-11</td>
<td>Fair Wage/Fair Work - UC Systemwide</td>
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<tr>
<td>n/a</td>
<td>UCSC 2018 Internal Assessment Process (IAP) – Audit Report</td>
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<thead>
<tr>
<th>Project #</th>
<th>Advisory Service Reviews - Title</th>
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<tr>
<td>SC-18-50</td>
<td>Fraud Management Program - Data Analytics</td>
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<td>SC-18-52</td>
<td>Data Governance Policy Development</td>
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<td>SC-18-53</td>
<td>AMAS Audit Interviews and Risk Intelligence Governance</td>
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<td>SC-18-54</td>
<td>NCAA Report Annual Review</td>
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<td>UNEX, Smarter Balances, UC Scout Review</td>
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<td>SC-18-57</td>
<td>CruzHacks Visa Gift Cards</td>
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<td>SC-18-58</td>
<td>Title IX &amp; EEO Process Data - UC Systemwide</td>
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**Investigations**

We conducted campus investigations in the areas of Accounting and Travel Expenses
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
FY18 Significant Recurrent Internal Control Issues/Risks

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 to 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.

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