



Fiscal Year 2019

# Annual Report on Local Audit Activities

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



# Message from the Director

We are pleased to present our Annual Report on Local Activities for FY19. The goal of this report is to provide a better understanding our rolke 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 FY19; 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 FY20 and invite our campus and University colleagues to visit our website at [audit.ucsc.edu](http://audit.ucsc.edu)

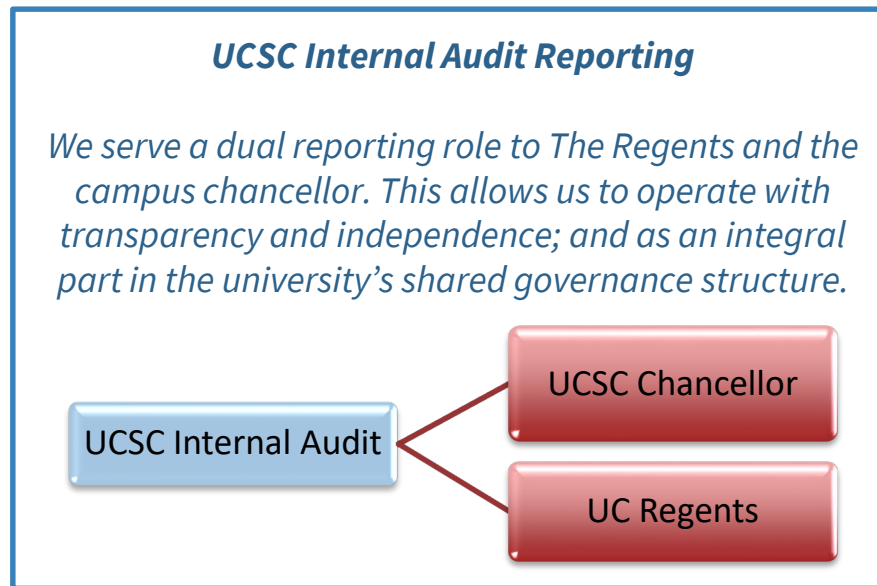
Jim Dougherty

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 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)
- GIAC Information Security Fundamentals (GISF)
- Auditors are required to complete regular Internal Audit training and maintain certifications.



We sit on a variety of Campus Committees & Workgroups:

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

# Fiscal Year 2019

In our role to support the University of California Regents and University of California Santa Cruz Campus Internal Audit Program. Our work generally focuses on the following areas:

## Planned Audits

Assurance services defined as examinations of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes. Examples include financial, performance, compliance, systems security and due diligence engagements.

## Advisory Services & Campus Support

These additional activities are proactive or preventive in nature and are focused in the areas of Internal Control & Accountability, Special Projects and Consultations, and Systems Development and Re-engineering (teams and committees).

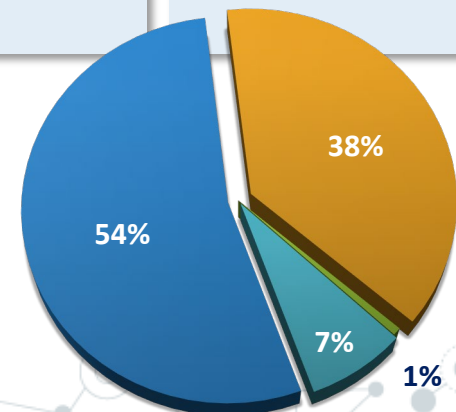
## Audit Follow-up

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.

## Investigations

Independent evaluations of allegations generally focused on improper governmental activities including misuse of university resources, fraud, financial irregularities, significant control weaknesses and unethical behavior or actions.

- Planned New Audits
- Advisory Services
- Audit Follow-up
- Investigations



# FY19 Completed Projects

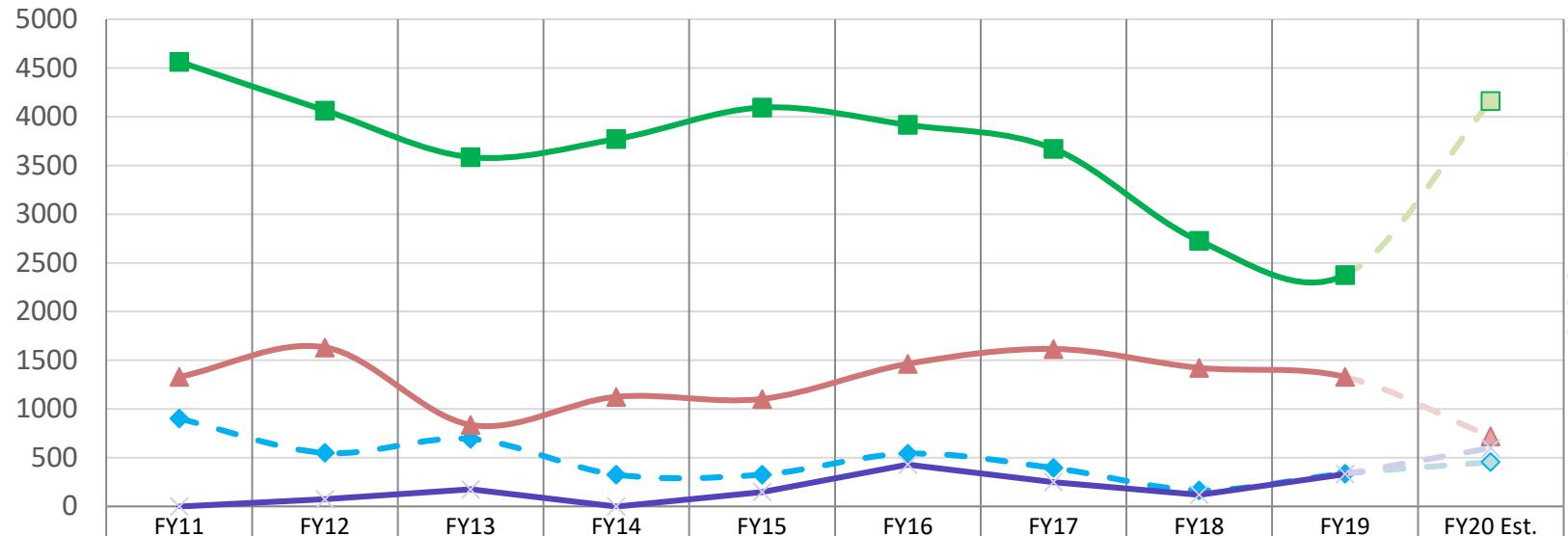
<b>Audit #</b>	<b>Internal Audits</b>
SC-19-01	Campus Use of Consultants
SC-19-02	Succession Planning
SC-19-03	OPERS Diving and Boating Safety Program
SC-19-04	Fair Wage/Fair Work (systemwide)
SC-19-05	Outside Professional Activities (systemwide)
SC-19-06	Counseling and Psychological Services

<b>Project #</b>	<b>Advisory Service Reviews</b>
SC-19-50	NCAA Report Annual Review
SC-19-51	UNEX Annual Monitoring
SC-19-52	Vivarium Time & Attendance
SC-19-53	COSMOS Review
SC-19-54	Annual Monitoring
SC-19-55	Campus Orientation Program Timekeeping
SC-19-59	Annual Report on Executive Compensation (AREC) Validation

## **Investigations** - We conducted campus investigations in the following areas

- Fair Hiring
- Misc. Fees
- Disposition
- Time and Attendance

# FY19 Actual Effort by Service Type (in hours)



	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20 Est.
FTE Average	4.80	4.08	3.65	3.72	3.72	4.00	3.17	3.39	3.50	4.00
Audit Program	4564	4064	3585	3771	4094	3916	3671	2726	2375	4160
Audit Support	902	550	694	326	326	542	395	166	337	455
Advisory / Consultation	1329	1632	837	1125	1103	1463	1616	1422	1329	717
Investigation	0	73	175	0	148	430	250	119	332	600

A return to the “normal” audit staffing levels has allowed us to allocate more time to planned audit work in the FY19-20 audit Program). During the same time we expect a slight decrease of Advisory and Consultation work (Advisory/Consultation)

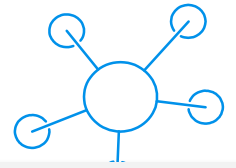
Audit Program = Planned audits and audit follow-up activities

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

Advisory Services/Consultation = Management requested reviews

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

# FY19 Audit Projects Completed



## Fair Wage/Fair Work (systemwide)

**Purpose:** Evaluate the controls in place to ensure supplier compliance with the UC Fair Wage/Fair Work Plan.

**Results Summary:** *UCSC Procurement and Supply Chain Services (Procurement Services) controls are adequate to track and ensure the most updated Fair Wage/Fair Work provision is included in all appropriate contracts. We found opportunities to make improvements in the areas of annual supplier audit certifications and supplier notification processes.*

## OPERS Diving and Boating Safety Program

**Purpose:** Evaluate the Office of Physical Education, Recreation and Sports (OPERS) effectiveness and efficiency of controls for the scuba diving and boating safety programs to ensure the safety of students and employees involved in these programs.

**Results Summary:** *Overall, relevant safety plans and procedures are followed and good practice is maintained, and reflects standards and best practices recognized for these activities.*

## Succession Planning

**Purpose:** Review the effectiveness and efficiency of strategic succession planning in terms of knowledge transfer, talent mentoring, capturing important information, and the campus's ability to provide guidance and career opportunities especially for employees with specialized knowledge and expertise.

**Results Summary:** *There are efforts in place for a succession planning program. The current efforts could be improved with a more systematic centralized approach provided to the campus as a whole.*

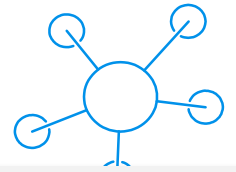
## Campus Management of Independent Contractors and Consultants

**Purpose:** Evaluate the effectiveness of controls related to campus management of independent contractors and consultants.

**Results summary:** *Overall, we found processes for campus management of independent contractors and consultants to comply with key policies and unit oversight of contract deliverables was reasonable, and contractors were paid timely and appropriately. We saw opportunities to improve the standardization of vendor invoices to better align with [UC Independent Contractor Guidelines](#) for Federal Tax Purposes and ensuring appropriate UC Terms & Conditions at the time of signing along with a need to formalize documentation of received deliverables and payment approvals.*



# FY19 Audit Projects Completed



## Counseling and Psychological Services

**Purpose:** Review the campus' ability to provide adequate and effective mental health services.

**Results Summary:** *We found that Counseling & Psychological Services (CAPS) services were adequate and appropriate. Specifically they effectively provide students with access to mental health services and they have logical local procedures to facilitate positive outcomes for those whom seek services.*

## NCAA Report Annual Review

**Purpose:** Annual limited scope review of review the Office of Physical Education, Recreation, & Sports (OPERS) Revenues and Expenses Reporting for Fiscal Year 2018 to confirm the accuracy of the financial data included in that report

**Results Summary:** *We traced selected general and financial information Based on our limited review, the general information and the financial components of the report appear to be accurate. We did not detect any material errors or omissions in the FY18 Revenue/Expense Summary prepared by OPERS.*

## UNEX Programs Financial Review

We reviewed the business program models, financial management controls and reporting activities as well as financial considerations unique to Smarter Balanced. The results were reported to senior UCSC management as an independent assessment and information on UNEX Certificates and Courses (UNEXCC), UC Scout (Scout) program and Smarter Balanced (SB) Memorandum of Understanding (MOU).

## Other Areas Reviewed during FY19

We Provided management with reviews in areas of

- Time and attendance records
- Campus gift cards
- Title IX & EEO
- Travel & lodging expenses
- Improper governmental activities (IGA)
- Executive compensation
- Fair hiring
- Miscellaneous fees
- Disposition practices

# FY19 Significant Recurrent Internal Control Issues/Risks

Top Five (5) Control Issues and Risks, Ranked in Order	How Observed	How Issues/Risks are Being Addressed
Budget impairment – Resource constraints in campus administrative and support areas negatively affect operational effectiveness, and management’s establishment of critical control and compliance activities.	Observed budget cycles over the past decade with across the board cuts.	The campus continues to monitor budget development. In particular, we are addressing the risk within UNEX with annual monitoring.
UCPath project – Expanding budget and timeline over UCPath conversion and testing, and stresses on implementation teams and operations they have left to support the project.	Identified during audit interviews conducted as part of the annual risk assessment process and integrated with campus risk intelligence efforts.	Addressed with the participation in UCPath Steering and Operations Committees, and a readiness audit this fall.
There is no systematic succession planning program for the UCSC campus. This is part of a more general risk regarding recruit and retaining a qualified workforce.	This is an ongoing issue that was highlighted during a FY19 audit.	The Executive Vice Chancellor will request that the Vice Chancellor of Business and Administrative Systems provide a proposal for a systematic succession planning program for the campus.
Accommodation of enrollment growth (student housing)	Identified during audit interviews conducted as part of the annual risk assessment process and integrated with campus risk intelligence efforts.	Student Housing West Project will accommodate approximately 3,000 students. The UC Regents approved the project, but there are still hurdles not least of which are its unpopularity among certain alumni and campus benefactors.
Information management security and privacy - Decentralized management of sensitive data, immature data governance structure, and growing awareness of the need to provide privacy protections.	Identified during audit interviews conducted as part of the annual risk assessment process and integrated with campus risk intelligence efforts.	Completed audit and advisory service projects in the areas of Information Management of Sensitive Data – User Awareness and Data Governance Policy.  Internal Audit is also participating in IT Security and HIPAA working groups to identify emerging risks in related areas.

# FY19 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 FY19

(July 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2019)

### MCA Risk/Aging

Days past agreed completion date (as of 6/30/2019)

Risk	Age in days past due				
	Not Due	0-90	91-180	181-365	366-730
High	1				
Medium	2				
Low					

### FY19 MCA Activity

Between 7/1/18 - 6/30/19

MCAs open on 7/1/2018	6
MCAs added	5
MCAs closed	8
MCAs open on 6/30/2019	3

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

# Student Internships

Internal Audit 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 FY19, Internal Audit 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

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## **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