Fiscal Year 2020

Annual Report on Local Audit Activities

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

UC SANTA CRUZ

Message from the Director

We are pleased to present our Annual Report on Local Activities for FY20. The goal of this report is to provide a better understanding our role 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 FY20; 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
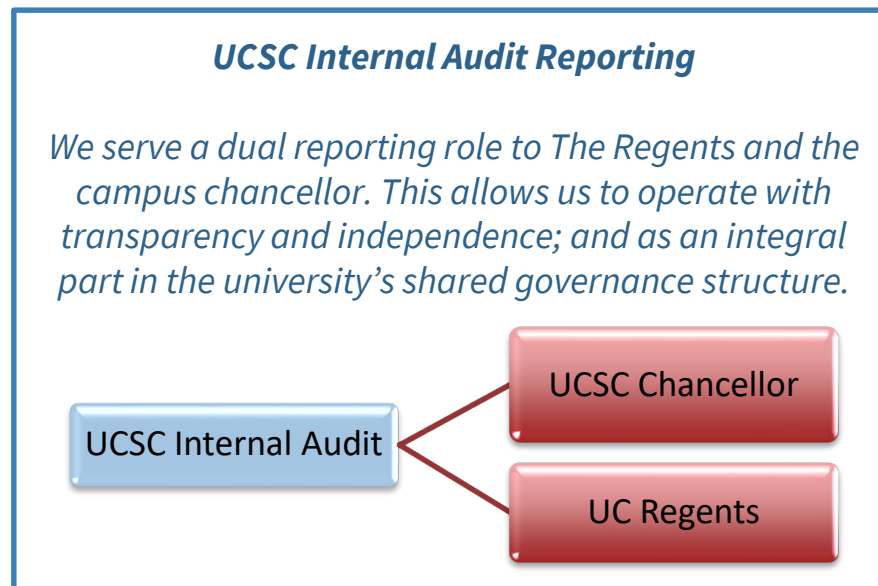
Jim Dougherty

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.

UCSC Internal Audit 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.

UCSC Internal Audit → UCSC Chancellor

UCSC Internal Audit → UC Regents

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 2020

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 — 78%
- Advisory Services — 17%
- Audit Follow-up — 3%
- Investigations — 2%
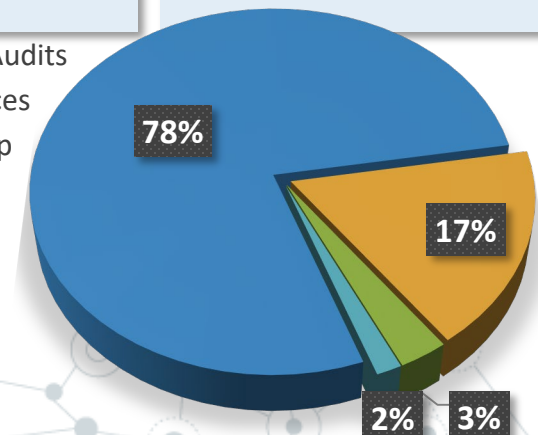
FY20 Completed Projects

Audit #	Internal Audits
SC-19-09	Year 2 Admissions Process (systemwide)
SC-20-01	Change Management
SC-20-02	Accessibility Accommodation
SC-20-03	Lab Safety
SC-20-07	Extramural Fund Accounting
SC-20-08	UCPath Operational Readiness Assessment (systemwide)
SC-20-09	Foreign Influence (systemwide)
SC-20-10	Fair Wage/Fair Work (systemwide)
SC-20-12	Admissions Phase II (systemwide)
SC-20-13	Scientific Scuba and Boating Safety Review

Project #	Advisory Service Reviews
SC-20-50	NCAA Report Annual Review
SC-20-51	UNEX Annual Monitoring
SC-19-53	Title IX Gender – Based Compliance

Investigations - We conducted campus investigations in the following areas

- A & R Cash Deposits
- UCSC Genomics Institute

FY20 Actual Effort by Service Type (in hours)
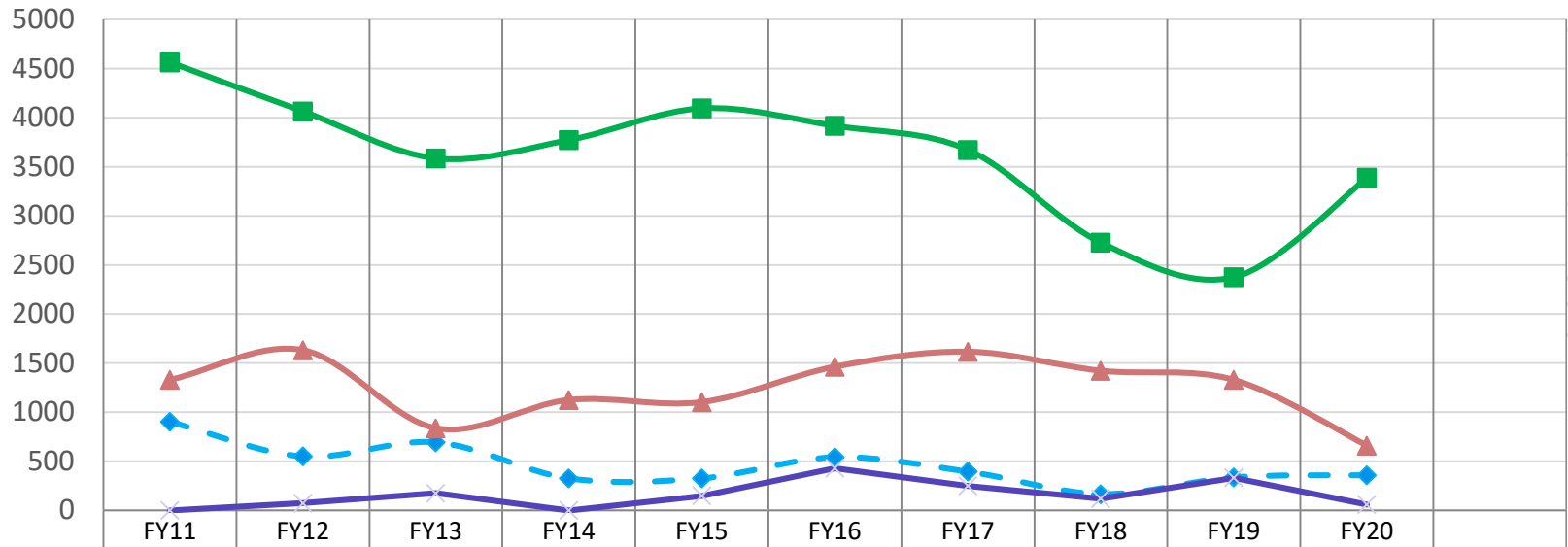
	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
FTE Average	4.80	4.08	3.65	3.72	3.72	4.00	3.17	3.39	3.50	4.00
Audit Program	4564	4064	3585	3771	4094	3916	3671	2726	2375	3388
Audit Support	902	550	694	326	326	542	395	166	337	358
Advisory / Consultation	1329	1632	837	1125	1103	1463	1616	1422	1329	660
Investigation	0	73	175	0	148	430	250	119	332	59

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.

FY20 Audit Projects Completed
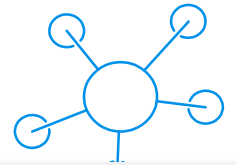
Fair Wage/Fair Work (systemwide)

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.*

Admissions Process Phase I & Phase II (systemwide)

Purpose: To assess the campus' adherence to their controls over undergraduate admissions, assess the effectiveness of campus policy and controls over undergraduate admissions, and identify any effects of deficiencies in those controls.

Results Summary: *We observed that, in general, the campus has controls over the admissions process to address compliance with policy. We also identified controls within Athletics and Admissions to address admissions fraud risk. However, we found several opportunities exist to strengthen those controls and further reduce the risk of admissions fraud.*

Change Management

Purpose: Evaluate its effectiveness and efficiency is achieving its goal of managing changes to the production environment by minimizing impact and reducing the risk of unintended service disruptions.

Results Summary: *We believe that ITS can improve its change management, but will have to begin from support from its senior management to ensure it is adequately resourced and the division understands what change management process they need to implement. This is an iterative process that will require project management over time.*

Title IX Gender – Based Compliance

Purpose:. The purpose of the review was for AMAS to identify UCSC gendered programs and to enable the Title IX Office to evaluate whether the programs allow participation by all or meet a legal exception to do so, and thus permit the Title IX Office to properly assess the risk those programs pose for the university and mitigate non-compliance through targeted education.

Results summary:. *AMAS identified gendered programs and provided the Title IX Office with a list of these programs.*

FY20 Audit Projects Completed
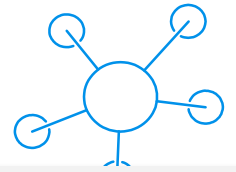
Lab Safety

Purpose: Review of the Environmental Health & Safety (EH&S) Laboratory Research Safety Program with a focus on chemistry and biochemistry laboratories.

Results Summary: *We found EH&S is overall, adequately monitoring whether principal investigators and laboratory personnel are completing laboratory safety training. However, there are opportunities to achieve better compliance with University of California policy and California Code of Regulations regarding training requirements.*

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.*

Extramural Fund Accounting

Purpose:. Review of the Extramural Funds unit (EMF) with a focus on their processes for the setup, billing, and closeout of awards.

Results Summary: *We found that current processes ensure unit responsibilities are carried out appropriately in regards to the setup, billing, and closeout of awards. However, documented procedures are not consolidated or formalized. Further, EMF was not tracking how often existing procedures are reviewed and updated by appropriate staff.*

Scientific Scuba and Boating Safety Review

Purpose: Evaluating the system of internal controls in place to manage safety risks associated with scientific scuba and boating.

Results Summary: *Generally we found that the Scientific Diving and Boating Safety Program had appropriate controls including logical oversight, appropriate training requirements, regular equipment inspections, and accurate record keeping. However, we did find some instances of scientific dives occurring while participants were "out-of-date" on required safety items.*

FY20 Audit Projects Completed
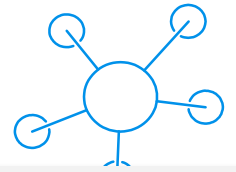
Foreign Influence (systemwide)

Purpose: Evaluate the system of internal controls in place to manage risks identified by the federal government related to foreign influence. For the context of this audit, foreign influence refers to the concern that foreign entities may be using the academic research enterprise in an attempt to compromise the United States' economic competitiveness and national security.

Results Summary: *Overall, we did not find any specific internal control weakness at UC Santa Cruz requiring immediate corrective actions in regards to managing risk related to foreign influence.*

Outside Professional Activities (systemwide)

This systemwide project did not materialize during FY20.

UCPath Operational Readiness Assessment (systemwide)

Purpose: Purpose was to conduct an assessment of campus readiness for UCPath implementation and highlight any key risks that could impact deployment.

Results Summary: *Based on our work, we determined that the project is overall proceeding as planned and that there are no critical issues that should impact the Go-Live date.*

Stakeholders interviewed as of October 2019, were generally positive about the direction and progress of the project. All stakeholders were confident about meeting the proposed Go-Live date.

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FY20 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. Coronavirus also affecting state tax revenue.	The campus continues to monitor budget development. The coronavirus has already reduced the state's higher education budget for FY21, and this is expected to continue. Hiring for campus positions is restricted and budget cuts are expected.
Compliance with contract and grant funding requirements, and now additional federal funds for coronavirus relief. Further, indirect cost returns may be sacrificed to obtain grants.	Observed through audits and campus reports on C&G activity and reductions in indirect cost recovery in spite of more C&G revenue.	Recent reorganization of the Office of Research and improved IT tools for C&G applications.
Recruitment and retaining a qualified workforce.	Efforts to develop a campus talent and succession management program have highlighted this issue.	The chancellor and EVC are supporting a talent and succession management program, but these efforts have taken a back seat to coronavirus response.
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 was meant to address this issue, but it is now on hold while the campus addresses coronavirus response. This involves only a limited amount of face-to-face instruction, reduced demand for on-campus accommodation, and revenue loss that impacts planning for funding new accommodation.
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.	We will audit compliance with UC IT security policy in FY21. Further, the coronavirus response means users are working from home with sensitive information and subjected to coronavirus-related scams. VPN addresses some security risks.

FY20 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 FY20
(July 1st 2019 to June 30th 2020)

MCA Risk/Aging
Days past agreed completion date (as of 6/30/2020)

Risk	Age in days past due				
	Not Due	0-90	91-180	181-365	366-730
High					
Medium	6	9	2		
Low					

FY20 MCA Activity
Between 7/1/19 - 6/30/20

MCAs open on 7/1/2019	31
MCAs added	17
MCAs closed	31
MCAs open on 6/30/2020	17

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

12

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 FY20, 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

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