

University of California Santa Cruz Internal Audit & Advisory Services

Annual Report on Local Activities
Fiscal Year 2012
9/14/2012



UC SANTA CRUZ

INTERNAL AUDIT
IAS
ADVISORY SERVICES

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Mission Statement - Scope of Work

The mission of internal audit is to provide the UC Regents, President, and Chancellors independent and objective assurance and consulting services designed to add value and to improve operations. It does this by assessing and monitoring the university community in the discharge of its oversight, management, and operating responsibilities. Internal audit brings a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes.

The scope of UCSC Internal Audit and Advisory Services (IAS) work is to determine whether UCSC's network of risk management, control, and governance processes, as designed and represented by management at all levels, is adequate and functioning in a manner to ensure:

- Risk management processes are effective and significant risks are appropriately identified and managed.
- Coordination of activities and communication of information among the various governance groups occurs as needed.
- Employee's actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Financial and operational information is accurate, reliable, and timely.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- The potential occurrence of fraud is evaluated and fraud risk is managed.
- Quality and continuous improvement are fostered in the organization's risk management and control processes.
- Significant legislative or regulatory issues impacting the organization are recognized and addressed properly.
- Information technology governance supports UC strategies, objectives, and the organization's privacy framework.

Executive Summary – Control Environment

Based on the IAS projects completed during Fiscal Year 2012 as presented in **Appendix A and B**, along with risk assessment activities, control implications arising from consulting services, and representations made by management during the course of our reviews, IAS did not identify any significant deficiencies but did identify notable weaknesses in the UCSC network of risk management, control, and governance activities. ⁽¹⁾

Campus resources continued to be constrained. This condition has contributed to recurring weaknesses observed in the campus control environment, as identified below:

- **Span of control/separation of duties** – Campus personnel were responsible for a greater span of control and increased breadth of review and approval responsibilities.
- **Management oversight and monitoring of campus operations/Lack of awareness of internal control condition-** There is an decreasing breadth of monitoring activities dedicated to identifying operational risks and to determining if effective internal control systems are in place and operational.
- **Staff retirements and associated employee turnover** - Key management and staff who have in-depth corporate knowledge of specialized university and campus operations have left the university and there is not the same level of staff to replace them.
- **Lack of resources to address known operational weaknesses / improvement opportunities** - In conducting audits and consultation services, IAS has addressed important strategic campus initiatives and management has agreed to take action. However, time in addressing these initiatives has increased as there are many important initiatives competing for scarce resources.

. ⁽¹⁾ Taken as a whole, the above statements do not mean to imply that fraud and other irregularities do not exist or are certain to be detected. No system of control provides absolute assurance that controls are functioning effectively. The acceptance of an appropriate level of risk given current resource constraints is management's responsibility. Maintaining an appropriate balance between risk and control will be a challenge during the coming years as constrained resources are not expected to keep pace of increasing demands.

Executive Summary – Control Environment

The following observations were noteworthy and contributed to the strength of the control environment:

- The continued development and maturity of the Enterprise Risk Management and Compliance Program (ERMCP) management committee, in support of the Campus Ethics and Compliance Officer and Campus Ethics and Compliance Risk Executive Committee, provided a framework for the identification and resolution of risk and management compliance issues across numerous existing campus entities.
- Management agreed to all corrective actions proposed in response to issues identified in audits completed during Fiscal Year 2012, designed to optimize the balance of risk and control, and address deficiencies in campus governance processes.
- Numerous campus managers and staff sought IAS advice, consultation, and assurances on matters involving campus governance, managements assumption of risk, and existing internal controls.

Summary Observations - FY12 at a Glance

Service Element	FY12 Accomplishments
UC Regents/Chief Compliance and Audit Officer - Internal Audit Program	Successfully executed the FY12 Audit Plan as revised by completing planned Audits and Consulting Services, including CCAO requested systemwide audits
Assist Campus Management in Discharge of Responsibilities	At management's request, completed the following Consulting Service Reviews: <ul style="list-style-type: none"> • Travel & Entertainment Policy Review, UCO/Lick Observatory MOU Funding Review, and NCAA Annual Review. • Numerous Informal Consultations
Committees and Workgroups	Served on: ERMCP Management Workgroup, Investigations Workgroup, IT Security Workgroup, Campus Incident Report Team, HIPAA Workgroup, PCI Committee, Data Warehouse Steering Committee , Staff Advisory Board, and Staff Diversity Group.
Support to UC CCAO	Served on the Internal Audit Directors workgroup in planning and rolling out the systemwide internal audit quality assessment review program.
Governance	Notable observations addressing governance in the areas of Travel and Entertainment Policy, Visa Processing, Mobile Device Security, and UNEX Deficit Management.
Risk Management and Compliance	Continued leadership on ERMCP management committee and presented UCSC's ERMCP structure at a Society of Corporate Compliance and Ethics Conference.
Communicating Results	Improved communication of issues by streamlining the audit report format.
Affecting Change from Results of Audits	Continued to refine the agreement approach in working with management to address management corrective actions.
Audit Follow-up	Closed 39 open management corrective actions in the follow-up system.

Audit Productivity and Plan Completion

For FY12, IAS completed the audit plan by carefully managing time commitments. Refer to table below. IAS completed a total of 8 planned audits, 8 consultation service reviews, and 1 investigation. (see Appendix A, B, & C). Three systemwide audits were dropped with approval from UCOP and three risk based audits were dropped in part due to the loss of one audit staff member and at the request of management due to timing, both approved by the audit committee, and replaced by two FY13 Supplemental audits.

FY12 Audit Plan	
Planned Audits	14
Supplemental Audits	*
Planned Audits Dropped (Approved by Audit Committee)	< 6 >
Total Audits as Amended	8
Total Planned Audits Completed	9*
Overall Audit Plan Completion	>100%
Planned Advisory Services	5
Unplanned Advisory Services – Added	4
Planned Advisory Services – Dropped	< 1 >
Total Consultation Services as Amended	8
Total Consultation Services Completed	8
Investigations –Added	1
Total Investigations Completed	1

* Added two FY13 Audits and completed one in FY12

FY12 Audit Plan Completion

Audit #	Audit Title	Planned Audits						Issue Date
		Audit Plan Status	Planned Complete Qtr	Projected Completion (or Actual)		Audit Plan (Approved) Hours		
Planned New Audits (PNs):								
SC-12-04	Construction (UC)	RF	Q3	Mar 2012	●	0	04/06/12	
SC-12-05	Visa Processing	RF	Q2	Dec 2011	●	180	02/22/12	
SC-12-06	Logical Security	RF	Q4	Jun 2012	●	325	07/31/12	
SC-12-08	Conference Services	RF	Q4	May 2012	●	325	05/10/12	
SC-12-09	Printing Services	RF	Q2	Nov 2011	●	325	01/06/12	
SC-12-10	Student Health Center - Electronic Medical Records System	RF	Q1	Sep 2011	●	289	09/30/11	
SC-12-12	Purchase Order Invoice & Direct Payments	RF	Q2	Nov 2011	●	300	12/21/12	
SC-12-14	Mobile Device Security	RF	Q3	Mar 2012	●	325	07/31/12	
SC-13-09	Volunteers/Volunteer Groups	A		Jul 2012				Added FY13
SC-13-05	UNEX Deficit Management	RF		Jun 2012	●		06/07/12	Added FY13
Advisory Services								
SC-12-50	Dining Services Cash Controls	RF			●		11/22/11	Added
SC-12-51	Travel and Entertainment Policy Review (SC)	RF	Q3	Mar 2012	●	214	04/13/12	
SC-12-52	NCAA Report Annual Review	RF	Q2	Dec 2011	●	80	12/22/11	
SC-12-54	Internal Quality Assurance Review	RF	Q3	Oct 2011	●	120	10/12/11	
SC-12-55	CASFS Checking Account	RF		Nov 2011	●		11/22/11	Added
SC-12-56	VPDUE-UCCP funds (SC)	RF		Nov 2011	●		11/29/11	Added
SC-12-57	UCO/Lick Observatory - Memorandum of Understanding Funding Review (SC)	RF		Jan 2012	●		01/06/12	Added
SC-11-50 Y2	UNEX Enterprise System Implementation (SC Year 2)	RF	Q1	Oct 2011	●	60	10/31/11	
Investigations								
SC-12-99	CASFS Trading Practice	RF		Apr 2012	●		04/30/12	Added

- (1) Planned audits dropped with approval from Audit Committee; 12-01, 12-02, 12-03, 12-07, 12-11 and 12-13:
- (2) Additions to audit plan with blue background include: 13-09, 13-05, 12-50, 12-55, 12-56, 12-57, and 12-99
- (3) Audit Plan Completion Metric:

- On target to meet audit plan due date
- Schedule slippage from audit plan estimated due date, cleared if issued prior to year end.
- Not on schedule to be completed (draft report issued) by fiscal year-end

Audit Coverage By Subject

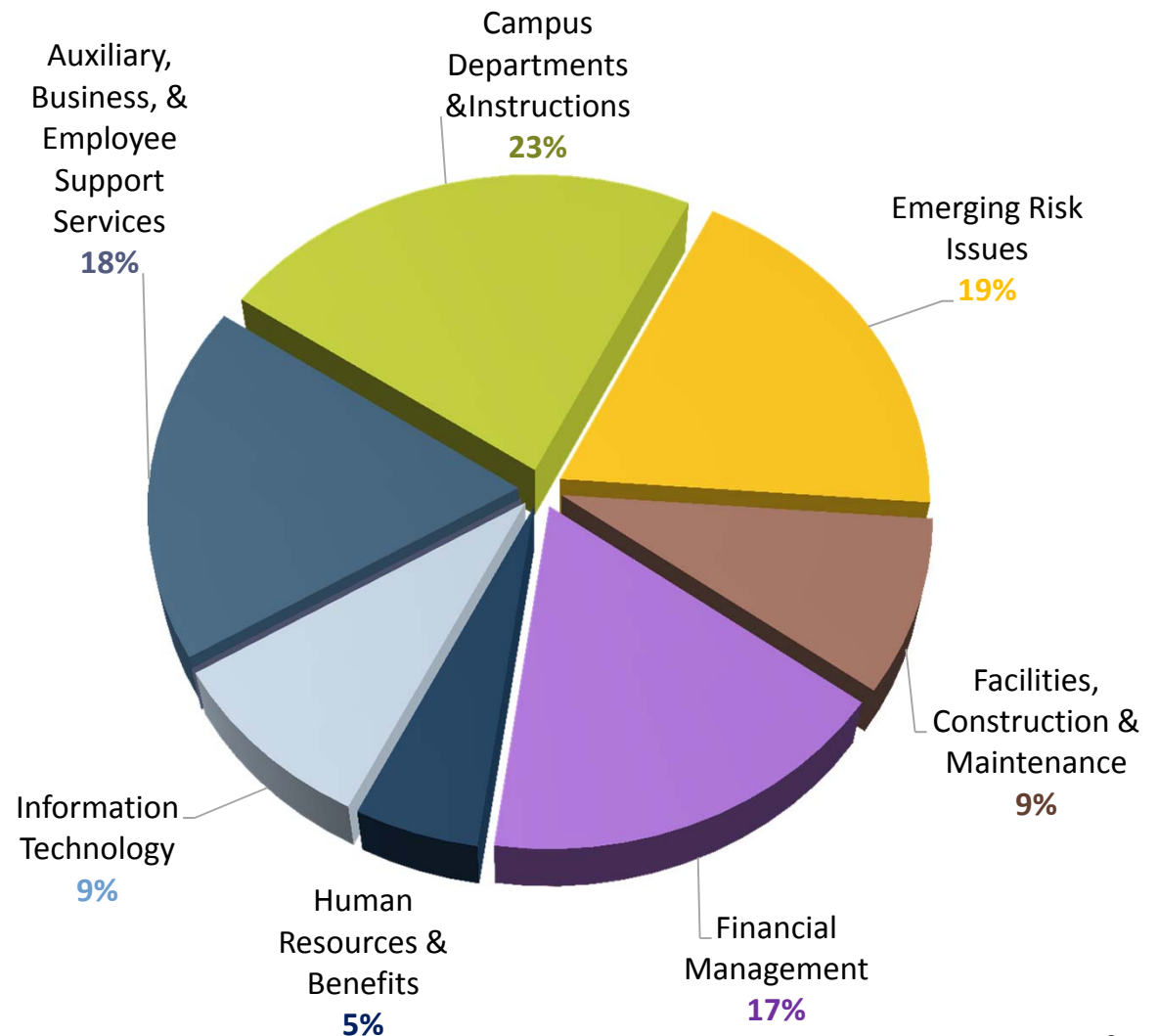
The Annual Audit Plan for FY12 included a wide variety of operational, compliance, governance, financial, and information systems audits.

The allocation of internal audit resources was risk-based, designed to provide depth and breadth of coverage for all areas of campus operations.

Many audits also included an information technology component.

The UCSC Annual Audit Plan is approved each year by the UCSC Audit Committee.

DISTRIBUTION OF FY12 HOURS BY SUBJECT AREA



Distribution of Audit Resources

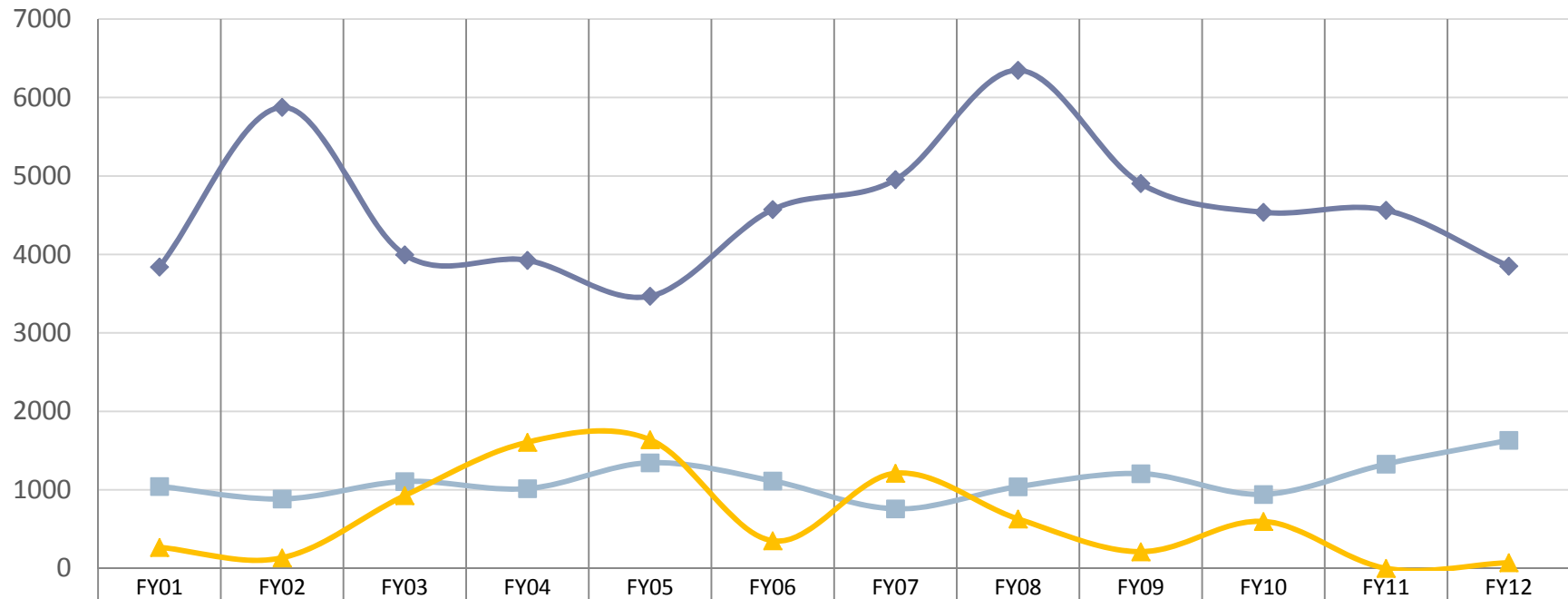
GROSS & NET AVAILABLE HRS CALCULATION	Plan	Actual	Var.
Gross Available Hours	9918	8950	968
Non Controllable Hours	1714	1330	384
Total Net Available Hours	8204	7620	584
INDIRECT HOURS	Plan	Actual	Var.
Administration	1040	1133	-93
Professional Development	300	168	132
Other	0	0	0
Total Indirect Hours	1340	1301	39
Total Indirect Percent	16%	17%	-1%
DIRECT HOURS	Plan	Actual	Var.
Audit Program			
Planned Carried Forward Audits	0	0	0
Planned New Audits	3669	3850	-181
Supplemental Audits	420	0	420
Unplanned Carried Forward Audits	0	0	0
Audit Followup	281	214	67
Total Audit Program Hours	4370	4064	306
Total Audit Program Percent	53%	53%	0%
Advisory (Consulting) Services			
Consultations/Spec. Projects (SC)	1114	1513	-399
Ext. Audit Coordination (SE)	42	0	42
Internal Control & Accountability (SI)	0	34	-34
IPA, COI & Other (SP)	0	0	0
Compliance Support (SU)	56	77	-21
Systems Dev., Reengineering Teams, etc. (SR)	98	8	90
Total Advisory Services Hours	1310	1632	-322
Total Advisory Services Percent	16%	21%	-5%
Investigations Hours	540	73	467
Investigations Percent	6.58%	0.96%	6.58%
Total Audit Support Hours	645	550	95
Total Audit Support Percent	8%	7%	1%
Total Direct Hours	6864	6319	545
Total Direct Percent	84%	83%	1%

Direct hours (3.75 actual FTE, down 1.00 from last year) were charged as follows:

Planned Audits: 53%
Advisory Services: 21%
Investigations: 1%
Audit Support: 7%

About 83% of net available hours were spent on direct audit activities.

Effort Distribution by Service Type



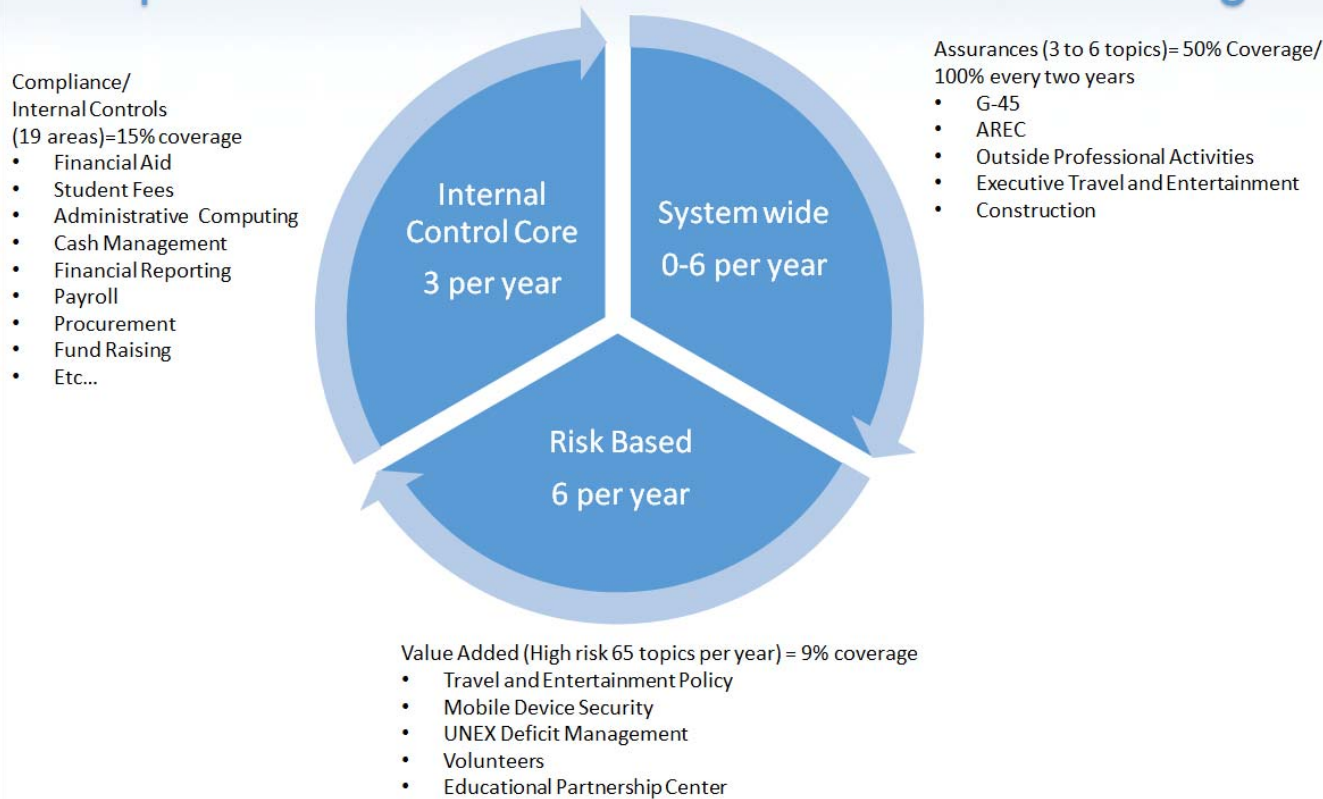
◆ Audits	3840	5876	3995	3925	3468	4573	4953	6347	4904	4537	4564	3850
■ Advisory Services	1044	884	1107	1016	1346	1114	758	1041	1207	943	1329	1632
▲ Investigations	267	134	927	1607	1639	351	1212	630	211	598	0	73

A trend analysis of IAS actual hours by service type displays the number of hours each year devoted to Audits, Consultation Services, and Investigations.

Although our focus is on the planned audit program, hours are also dedicated to consultation services and investigations. These hours fluctuate yearly based on local needs.

Impact of Reductions to Audit Resources

Impact of Audit Resources on Risk Coverage



All systemwide audits requested are performed on a two year cycle.

However, recent cuts to the IAS budget and reduction in professional audit staffing has resulted in:

Only 6 (9%) of high risk topics are addressed in any given year.

Only 3 of hundreds of campus internal control/core business and administrative activities are audited each year.

Audit Project Summaries – Top 10 from FY12 - #1

SC-12-51 Travel & Entertainment Policies Review

Review Type: Management Requested - Consulting Services Report

Observations

Overall, we found engrained in the campus culture, a robust control environment for ensuring compliance with travel and entertainment expense policy. However, this level of control may no longer be the most effective use of resources. Opportunities were identified for re-examining existing controls as follows:

- Campus and internal divisional travel and entertainment policies, interpretations, and guidance were substantially more restrictive than stated University policy in specific areas, particularly the approval process. In addition, some divisions, vice chancellors and deans have placed stricter controls over travel, business meals and entertainment expenses.
- Opportunities existed for reducing the level of review of travel and entertainment reimbursement requests conducted by Financial Affairs (FA) and relying more on divisional approval processes and oversight.
- Due to unique characteristics of the student community, opportunities may exist for streamlining the student programming approval process of food orders placed “by students for students”.
- While early in the system rollout, and in spite of the positive promises of the ERF, we could not ignore the level of multiplicity of additional tasks generated with the new implementation.

Reduction in Risk/Cost Benefit by Conducting the Audit

- Provided the EVC with information on the balance of risks and controls over campus travel and entertainment processing .
- Resulted in a campus wide streamlining of travel and entertainment policy and savings in administrative resources in travel and entertainment reimbursement approval and processing.

✓ Management agreed to take corrective action on all recommended management corrective actions.

Audit Project Summaries – Top 10 from FY12 - #2

SC-13-05 UNEX Deficit Management

Review Type: Risk Based – FY13 Planned Consulting Services Report

Observations

Overall, the current UNEX business model does not allow payback of its deficit condition. By addressing the following critical elements, and exempting UNEX from paying STIP interest, it is possible for the UNEX to operate at break-even as follows:

- UNEX needs to adopt activity based costing on various funding/revenue sources to derive more accurate financial information for units and allow for improved forecasting, monitoring and reporting.
- UNEX needs to focus on continuous monitoring of variable costs, mainly on instructor compensation and printed materials. Opportunities were identified for improving contribution margin by limiting maximum compensation on more courses.
- The UCOA budget will need to be refined to determine allowable costs that can be allocated to the program. UCOA funding source may not be permanent and may further prevent UNEX from achieving a break-even position after the program is terminated.
- The international student portfolio will need to be rebuilt to generate additional revenue and utilize existing excess daytime capacity at the UNEX facility.
- A reduction or discontinuation in the current tuition discount, and the establishment of different tuition pricing between on-line and classroom courses should be considered as the market allows.

Reduction in Risk/Cost Benefit by Conducting the Audit

- Provided the EVC with information needed to determine whether or not UNEX could operate at a break-even level, and to determine whether further operation of UNEX was feasible.
- Provided the EVC with expert analysis and operational steps needed to reach a break-even operation.
- Provided UNEX management with expert analysis and counsel on business operations.

✓ Management agreed to take corrective action on all recommended management corrective actions.

Audit Project Summaries – Top 10 from FY12 - #3

SC-12-14 Mobile Computing Device Security

Review Type: Risk Based – Planned Audit

Observations

Overall, mobile device security controls appeared to be in place and generally effective in protecting university data, except as identified below:

- Rapidly changing technology and user behavior present challenges in the university’s ability to control and protect university data. There was no process in place for managing access or storage methods using mobile devices that could put university data at risk.
- Governance over mobile device security and use, including roles and responsibilities for data accessed by mobile device users, had not been fully defined or communicated. Campus support for mobile device users was generally limited to help desk support with additional support provided on an informal basis.
- Some users indicated they had FERPA data in their email and third party cloud storage accounts that was sensitive and could be broadly defined as restricted, which is in violation of existing campus guidance. Mobile devices accessing third party storage accounts were not configured to comply with the campus password protection policy. Much of the mobile device security was reliant on third party application security, device configuration settings, and user knowledge.
- Nearly all users surveyed were not aware of mobile device security training or best practices.

Reduction in Risk/Cost Benefit by Conducting the Audit

- Reduced security risk and increased awareness of appropriate methods of securing, accessing, using, and storing data, while using mobile devices.
- Increased guidance in identifying the roles and responsibilities of Resource Proprietors/Data Stewards as it relates to electronic data on personally and university owned mobile devices.
- Reduced risk of inappropriate disclosure of university data by implementing limited failed attempts on four digit PIN devices. Better adherence to normal university security standards by communicating the campus electronic data policy and recommended practices. Better communication of best practices for mobile device security including access to third party cloud storage and lost or stolen devices.
- Reduced risk of compromised university data by conducting system-wide security training as it relates to mobile devices.

✓ Management agreed to take corrective action on all recommended management corrective actions.

Audit Project Summaries – Top 10 from FY12 - #4

SC-12-05 Visa Processing	
Review Type: Risk Based Audit – Planned Audit	
Observations	Reduction in Risk/Cost Benefit by Conducting the Audit
<p>Overall, ISSS has established effective controls over the acquisition and maintenance of international scholar and student visas, and provided reasonable assurance that visa processing was in compliance with immigration laws and university policy, except as identified below:</p> <ul style="list-style-type: none"> • The authority and reporting protocol of the ISSS Office was compromised when ISSS staff were pressured by faculty sponsors to process visas in support of projects viewed as important to the campus mission, but in conflict with federal immigration law. • Due to their unusual federal responsibilities and very distinct compliance requirements, the level of ISSS staff training and mentoring from subject area experts needed to be given a higher priority. • Principal investigators may not be sufficiently aware of the risks associated with deemed export control regulation when considering the use of foreign nationals in their research and completing certification requirements for H-1B international scholar petitions. 	<ul style="list-style-type: none"> • Reduced the campus risk of incurring a regulatory violation and reduced exposure to penalties to UCSC by clarifying ISSS Office authority and protocol for applying immigration law to campus activities and managing disputes between sponsors. • Improved the effectiveness of the ISSS Office in keeping the campus compliant with federal immigration laws by encouraging increased knowledge of these laws and their most recent changes and interpretations. • Reduced risk of principal officers invalidating the Fundamental Research Exclusion (FRE) and being subjected to severe fines and penalties for export control violation, by directly or unknowingly allowing foreign nationals access to work outside the parameters covered by FRE.
<p>✓ Management agreed to take corrective action on all recommended management corrective actions.</p>	

Audit Project Summaries – Top 10 from FY12 - #5

SC-12-12 Purchase Order Invoice and Direct Payments

Review Type: Internal Control/Core – Planned Audit

Observations

Overall, limited testing of transactions and controls in place provided reasonable assurance that payments were appropriate. However, for some transactions tested, errors should have been detected at both the unit level and Financial Affairs prior to payment. The following observations were identified requiring management corrective action:

- A campus unit had established a longstanding checking and savings account at a local credit union using the university's tax ID number without proper approval, oversight or detection by campus management. A fictitious vendor had been inappropriately created in FIS and used to fund the account.
- Two vendors were inappropriately paid multiple times using the one-time vendor process.
- A direct payment reimbursement for \$5,416 to an employee should not have been approved and paid as it included entertainment expenses; payments to a third party that should have been tax reported; and lacked original receipts.
- Four of 26 direct payment transactions coded as miscellaneous services were reimbursements for other payments for tangible goods and not services.
- Direct payments were made for donations without senior officer approval.

Reduction in Risk/Cost Benefit by Conducting the Audit

- Reduced risk of misappropriation of campus assets by identifying an unauthorized bank account.
- Reduced the likelihood that disbursements could be made to a fraudulent vendor that could be caused by the lack of documentation and approvals over vendors maintained in the FIS vendor database.
- Reduced risk of incurring duplicate payments to one-time vendors that might not be otherwise detected in the normal course of business.
- Reduced the campus exposure to public scrutiny and reputational risk by addressing an inappropriate direct entertainment payment.
- Reduced the likelihood of incurring a penalty for not fulfilling 1099 tax reporting requirements.
- Improved the accuracy of financial reporting and reduced the likelihood of misclassifying payments.
- Reduced the likelihood of a claim of campus conflict of interest by addressing the lack of senior level approval on requests for donations.
- Analyzed the cost benefit of raising dollar limits on direct pay reimbursements to determine if efficiencies could be gained in the process.

✓ Management agreed to take corrective action on all recommended management corrective actions.

Audit Project Summaries – Top 10 from FY12 - #6

SC-12-06 Data Center Logical Security

Review Type: Internal Control/Core - Planned Audit

Observations

In general, logical security controls over the Data Center Windows virtual environment were adequate in the areas of system patching, account permissions, change controls, and the software resided behind a firewall. However, opportunities were identified for improving logical security controls within the Data Center and the following issues required management corrective action:

- There is not an adequate log management infrastructure to allow for an effective and efficient review of audit logs of the virtual environment, nor is there an intrusion detection or prevention system in the Data Center that generates reports tracking malicious traffic or security incidents.
- There was no standardized user vetting process or predefined user groups, resulting in overly complex access control lists with little assurance that all user permissions were appropriate for their job duties.
- The campus does not have an account management system to efficiently identify and track employee access privileges to campus computing resources.

Reduction in Risk/Cost Benefit by Conducting the Audit

- Identified ways to improve the timely identification of security threats and to help reduce the risk of data center systems being attacked without detection.
- Identified ways to reduce workload in managing the VPN, eliminate unnecessary privileged user permissions, and reduce the risk of unauthorized access to restricted information.
- Increased assurance that appropriate user access is recorded and reported.

✓ Management agreed to take corrective action on all recommended management corrective actions.

Audit Project Summaries – Top 10 from FY12 - #7

SC-12-10 Student Health Center - Electronic Medical Records System

Review Type: Risk Based Audit – Planned Audit

Observations

Overall, the EMR system was effectively implemented. This is a notable achievement, as the transition from a paper-based medical record to an electronic medical record must be addressed and managed on many different and complex levels. Opportunities for improvement were identified as follows:

- The EMR (PnC) system did not have the functionality to automatically close open notes entered by the clinician after a specified period of time. As a result, the initial notes could be subsequently changed or deleted, and could not be preserved for review.
- SHS did not have a procedure to verify that an exceptional charting error did not result in a treatment error before the charting error was deleted.
- The EMR (PnC) backup procedure did not include a test of backup media reliability.
- The information system quarterly surveillance program has not yet been implemented; nor have its scope and methodology been fully defined.
- A documented record of actions for compliance with some areas of the HIPAA Security Rule is incomplete. Consequently, it is difficult for SHS management to monitor and provide assurance that such actions took place.

Reduction in Risk/Cost Benefit by Conducting the Audit

- Identified ways to improve technical control and allow for more timely signoff of clinical notes.
- Clarified direction and improved management written into SHS policy for exceptions to signoff policy.
- Clarified and strengthened guidance over procedures for deleting charts.
- Provided assurance that backup media was intact and able to be restored if necessary.
- Increased compliance with HIPAA Security Rule by monitoring electronic protected health information and access logs as part of the quarterly surveillance program reviews.
- Improved documentation of HIPAA security program related to patient access requests and back-up testing.

✓ Management agreed to take corrective action on all recommended management corrective actions.

Audit Project Summaries – Top 10 from FY12 - #8

SC-12-08 Conference Services	
Review Type: Risk Based - Planned Audit	
Observations	Reduction in Risk/Cost Benefit by Conducting the Audit
<p>In general, Conference Services was in compliance with university accounting and management policies, except as identified below:</p> <ul style="list-style-type: none"> • Sales tax rules and regulations may not have been applied correctly and calculations omitted board credits on student meals. • Opportunities were identified for improving the efficiency of cash operations and for addressing BUS-49 compliance issues identified with cash and cash equivalent handling processes by converting cash payments to an automated clearing house (ACH) and cashless transaction process. • An insurance certificate's effective period did not cover the conference period. 	<ul style="list-style-type: none"> • Reduced risk of overpayment or underpayment to California Board Of Equalization that may have led to interest and penalties. • Reduced the likelihood of fraud or loss of income from not following BUS-49 when receiving and processing manual cash and cash equivalents. • Reduced the exposure of the University to liability due to compensation claims, demands, judgments, awards and lawsuits.
<p>✓ Management agreed to take corrective action on all recommended management corrective actions.</p>	

Audit Project Summaries – Top 10 from FY12 - #9

SC-12-09 Printing Services	
Review Type: Risk Based Audit – Planned Audit	
Observations	Reduction in Risk/Cost Benefit by Conducting the Audit
<p>Overall, the downsizing and integration of Printing Services into Physical Plant has been successful, except as identified below:</p> <ul style="list-style-type: none"> Professors and academic division administrators were using outside vendors for printing course readers; as a result, these materials were not subject to on-site copyright clearance service review provided by Print Services. The Copier Program has a recent history of making monthly deposits averaging more than \$1,000 which is not in compliance with BUS 49 (Policy for Cash and Cash Equivalents Received). Written policies and procedures over business continuity, internal controls, and data loss prevention had not been updated to reflect the reorganization and changes in operations within Print Services. 	<ul style="list-style-type: none"> Reduced the risk of copyright infringement. Reduced the risk of misappropriation of cash and loss of interest by improving the timeliness of deposits. Improved the likelihood of Printing Services to continue to provide services in an emergency, improve internal controls, and prevent the loss of data.
<p>✓ Management agreed to take corrective action on all recommended management corrective actions.</p>	

Audit Project Summaries – Top 10 from FY12 - #10

SC-12-04 Systemwide Construction Audit	
Review Type: Systemwide – Planned Audit	
Observations	Reduction in Risk/Cost Benefit by Conducting the Audit
<p>In general, Physical Planning & Construction (PP&C) maintained effective internal controls and processes, and was in compliance with applicable UC construction policies and procedures, except as identified below:</p> <ul style="list-style-type: none"> • During the review period, a small number of contractors received significantly more negotiated and informally bid contracts than other contractors. This trend was due to a small pool of responsible contractors and not selecting contractors on a rotational basis • During a construction project we sampled, the contractor changed the way it calculated the cost for insurance and bonds when calculating costs for change orders. The new calculation was contrary to the methodology agreed to in the CM-at-Risk contract, general conditions. 	<ul style="list-style-type: none"> • Reduced the likelihood of liability to the campus and helped the campus avoid appearances of favoritism and impartiality in campus informal competitive bidding solicitations. • Increased campus credibility in contractor selection process. • Identified and corrected an error by a contractor in applying a standardized practice in calculating insurance and bonding expenses.
<p>✓ Management agreed to take corrective action on all recommended management corrective actions.</p>	

Investigations

Investigations are coordinated and managed by a campus-wide Investigations Workgroup, chaired by the Locally Designated Official (LDO) for Whistleblower matters. The Investigations Workgroup triages, assigns, and tracks all allegations of misuse and improper governmental activities in accordance with the University of California Whistleblower Policy.

IAS conducts investigations involving allegations of known or suspected misuse of University resources, including fraud, financial irregularities, significant weaknesses in internal controls, and the financial consequences of other matters under investigation:

Refer to Appendix C for a list of the completed investigation during FY12 in support of campus management.

External Audit Coordination

FINAL 070910



Role of Internal Audit & Advisory Services in External Audit Coordination and Reporting

Background:

Internal Audit & Advisory Services (IAS) has been requested by the UC SVP Chief Compliance and Audit Officer to maintain a listing of external audits/reviews/inspections/visits at the campus for periodic reporting to UC.

External agencies conducting reviews on site will typically notify the affected department or unit who then coordinates the logistics of the visit. Presently, there is no requirement or protocol for providing IAS with information about external audit/review/inspection/visit activity.

This guideline outlines responsibilities and protocol for coordinating and reporting on audits, reviews, assessments and inspections from external groups.

Campus Unit Responsibilities:

Campus departments, divisions, units or laboratories, will continue to be responsible for coordinating external audits/reviews/inspections/visits in their respective areas, and are requested to report contacts by an external auditor, assessor, reviewer or inspector to IAS so that visits can be centrally monitored and senior campus officials can be advised as necessary. For general notification, please contact Deb Collins, IAS Analyst at 9-3205 or email at deb@ucsc.edu.

IAS Responsibilities:

IAS will maintain a central file on external visits, including name of agency, agency contact and phone number, dates of visit, topic and title of review, campus department/unit reviewed, type of review, and provide a listing of external audit activity to the UC SVP Chief Compliance and Audit Officer. In addition, IAS will maintain a list of reportable findings and management corrective actions. For reports containing reportable findings and recommendations, IAS will coordinate audit follow-up and status of management corrective actions.

IAS External Audit Coordination Support:

IAS is available to assist campus departments in their interactions with outside agencies, including counsel and information requests; verification of the accuracy of report findings, conclusions, and related management corrective actions; and assistance in the writing of responses.

If you need assistance with external audit coordination, please contact Internal Audit Director Barry Long at 9-2241 or email at blong@ucsc.edu. For more information on external audit coordination, visit the IAS website at <http://audit.ucsc.edu/>

IAS is available (on a limited basis) to provide consultation to campus units who are being audited or reviewed by outside groups.

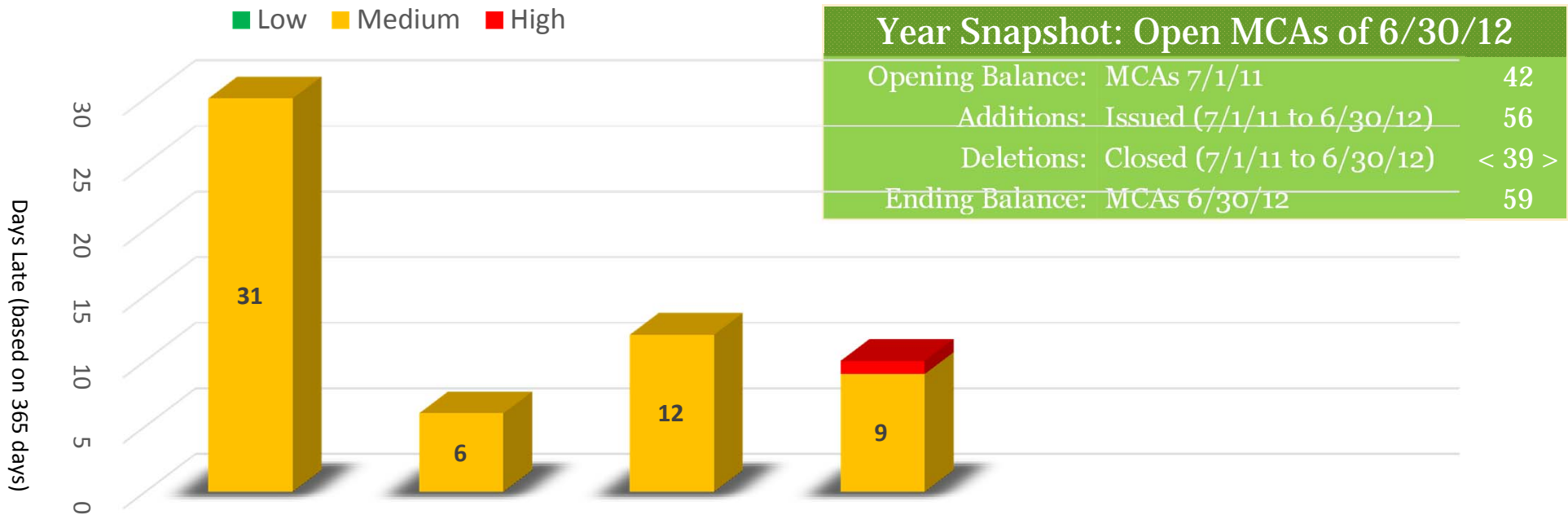
Management Corrective Actions

IAS monitors the progress and completion of each Management Corrective Action (MCA) identified to address the control weaknesses noted in the audits, advisory services, and investigations we perform. Timely correction of control weaknesses demonstrates management's commitment to operating in accordance with sound business practices. IAS obtained agreements from management on all corrective actions identified and reported in for audits issued in FY12.

In FY12, IAS closed 39 corrective actions completed by management. Reports issued in FY12 resulted in 56 new MCAs added, for a total of 59 open MCAs as of June 30, 2012.

	MCA's Open as of 7/1/11	MCAs Added During FY12	MCAs Closed During FY12	Total MCAs as of 6/30/12
Total	42	56	(39)	59

Aging Report Open MCA's as of 6/30/2012



	Not Due	0-90	91-180	181-365	366-730	731-	Total
High Risk				1			1
Med. Risk	31	6	12	9			58
Low Risk							0
Total	31	6	12	10			59

Local Program Initiatives

Enterprise Risk Management and Compliance Program (ERMCP):

The IAS director served as co-chair of the ERMCP management committee, providing consultation and advice in the establishment and formation of this important supporting workgroup to the campus ethics and compliance risk executive committee.

Investigations Workgroup:

The IAS director is a member of the campus investigations workgroup. This workgroup assists the campus Local Designated Official (LDO) in assigning investigation cases to the appropriate campus organization for resolution. This includes identifying whistleblower cases involving improper governmental activities and requested internal audit participation and support.

Student Interns:

The IAS assistant director manages the student intern program. This program contributes to the campus educational mission by offering students an opportunity to work within the internal audit office, and gaining hands on internal auditing experience. During FY11, IAS hosted three 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.

Staff Advisory Board (SAB):

The IAS analyst serves as a SAB voting member on the Transportation Advisory Committee (TAC). The TAC assists the Transportation And Parking Services (TAPS) director in making decision on fee changes, traffic management, sustainability efforts, and various other transportation related issues.

Local Program Initiatives

Information Security Teams:

Provided advice on computing security, policy and procedures and participated on UC Santa Cruz information security teams:

- Payment Card Industry Security Team
- Security Policy Team
- Information Security Team
- HIPAA Security and Privacy Rule Team
- Computing Security Incident Response Team

Audit Administration Practices:

- Established consistent audit report format
- Implemented audit report “agreement” approach to corrective actions
- Enhanced project management system software
- Improved Audit Committee communication

IAS Quality Improvement Efforts

Implemented a New Client Satisfaction Survey:

Customer Satisfaction Survey

Internal Audit & Advisory Services - Customer Satisfaction Survey

To help us maintain and improve the quality of our services, we are requesting your assistance in completing this survey. Your responses will be forwarded directly to me.

Barry Long, Director
 Your username (deb@ucsc.edu) will be recorded when you submit this form. Not deb? [Sign out](#)

Your Name: (optional)

SC-12-14 - Mobile Device Security

Lead Auditor: David V. Lane

1. Please rate the auditors ability to clearly communicate the audit objectives, purpose and scope.

- Exceptional
- Above Expectations
- Met Expectations
- Improvement Needed
- Insufficient Information or N/A

Comments
 Please feel free to provide additional comments below

Improved the Framing of Report Observation:

A new format for reporting observations, risks, and MCA's was rolled out in 2012. Feedback on clarity and readability has been very positive. We continue to look for ways of improving on our reporting.

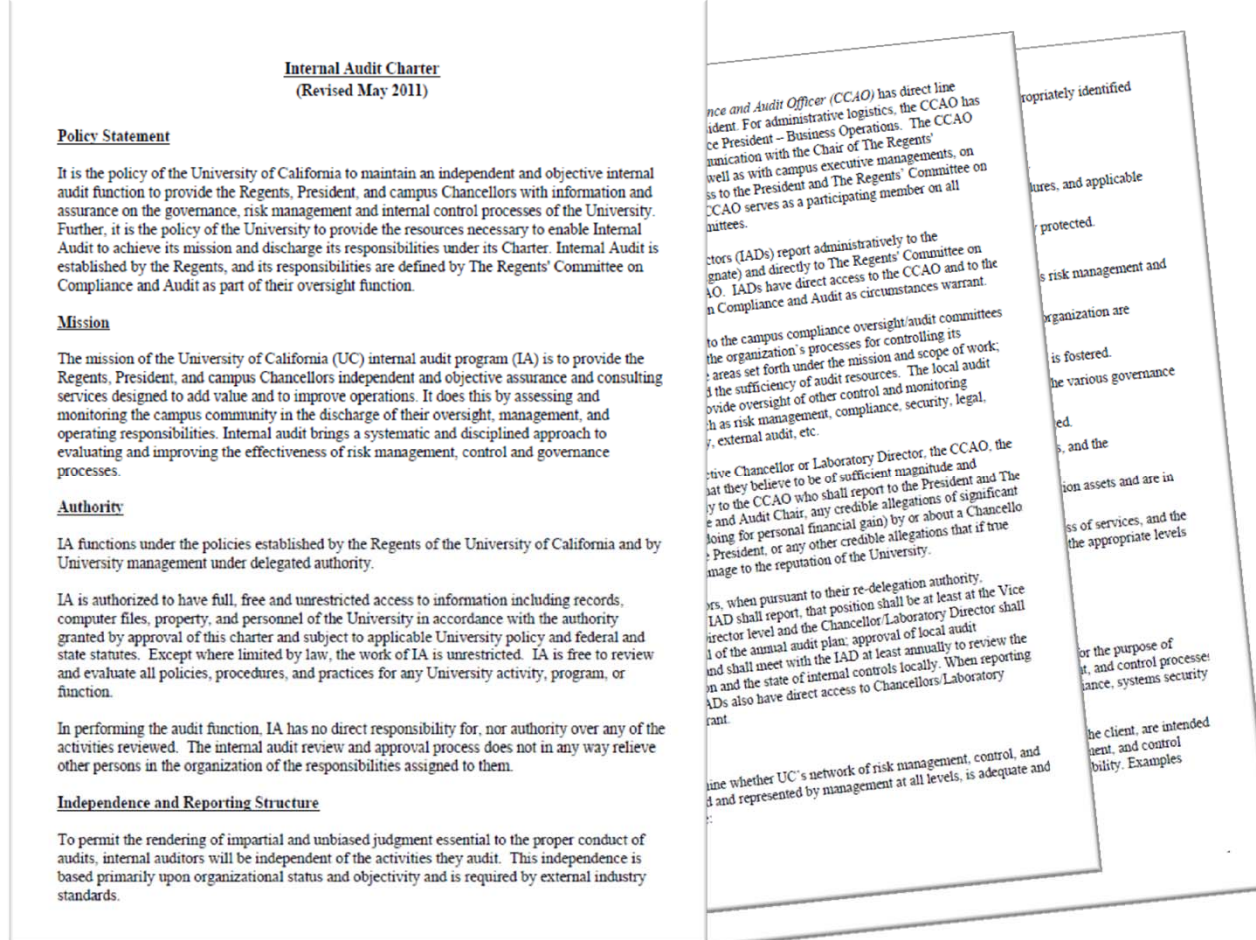
Framing Report Observations, Risks, MCA's

C.	Account Access Management System	
	The campus does not have an account management system to efficiently identify and tract employee access privileges to campus computing resources.	
	Risk Statement/Effect	
	Limited assurance that employees have appropriate access to computer accounts according to the principle of least privilege.	
	Agreements	
C.1	ITS Client Services & Security will conduct a cost/benefit analysis for implementing an employee account reporting system, such as one that would interface with the IT Request system to efficiently record and report on employee access to campus computing system accounts.	Implementation Date
		July 1, 2013
		Responsible Manager
		Director - Client Services & Security

Support to UC Internal Audit Program

Update UC Internal Audit Mission and Charter:

Last year, the IAS director led a UC internal audit director workgroup tasked to rewrite and replace the UC Regents Audit Management Plan with an updated UC Internal Audit Mission and Charter. The revision was approved by the Regents in May 2011. For FY12, the IAS director served on a UC systemwide workgroup in planning a systemwide external quality assessment review.

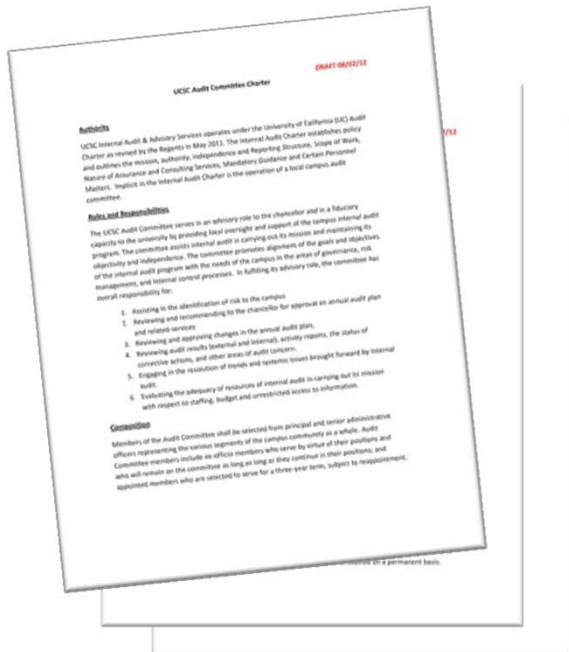


Campus Audit Governance

The UCSC internal audit director and staff report administratively to the Chancellor through the VC BAS, and to Regents' Committee on Compliance and Audit, through the Senior Vice President – Chief Compliance and Audit Officer, and has direct access to the President or The Regents Committee on Compliance and Audit as the circumstances warrant.

During FY12, three audit committee meetings were held and facilitated by IAS. Highlights of actions taken to update and improve campus audit governance activities and communication between IAS and the campus audit committee:

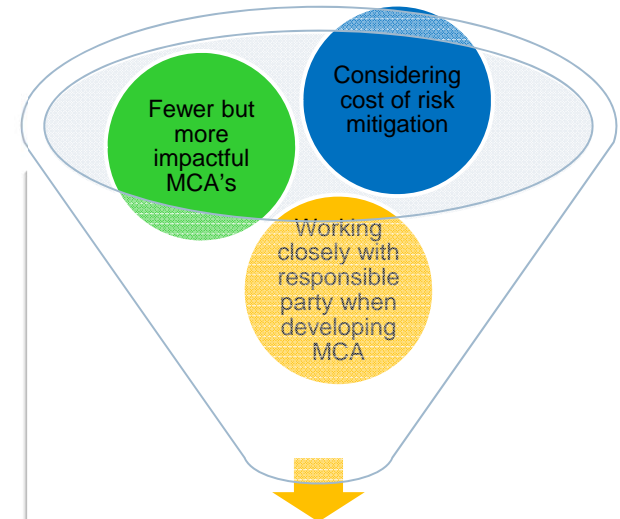
- Updated audit committee charter
- Quarterly MCA reporting to Principal Officers
- Focusing on quality MCA's



The top part of the image shows an email from H. Huhner, dated 7/18/12. The email discusses the status of open MCA's and mentions a meeting to discuss the reporting process.

Below the email is a table titled "All Open Audit MCA's As of July 18, 2012 VPDUE". The table has the following columns: Project Code, Project Name, FINDING, MCA, Estimated Completion Date, Original Completion Date, VC Area, STATUS, Responsible Manager, and Auditor. The table lists three open MCA's with their respective findings and completion dates.

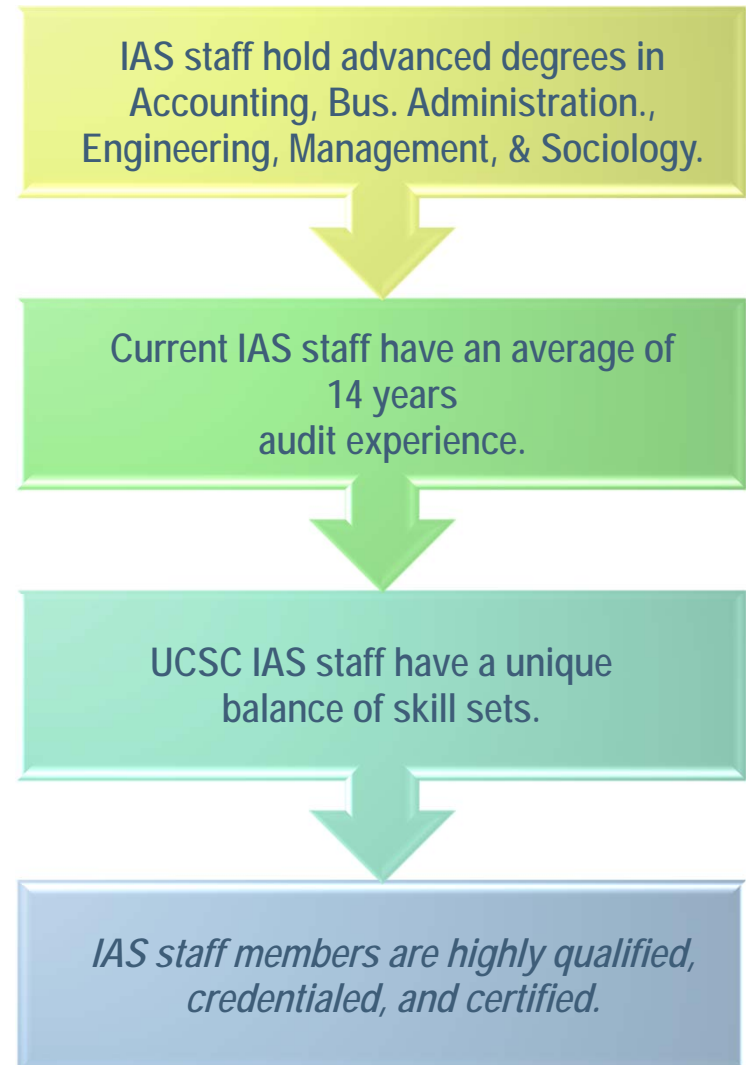
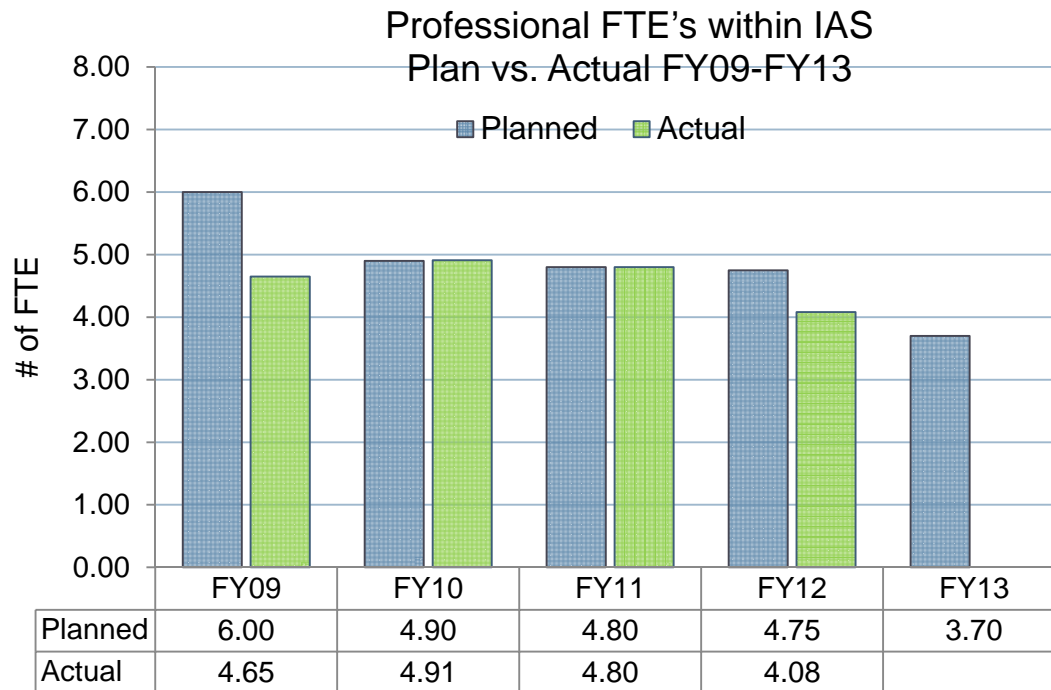
Project Code	Project Name	FINDING	MCA	Estimated Completion Date	Original Completion Date	VC Area	STATUS	Responsible Manager	Auditor
SC-12-03	Vice President	A. 2. F. The subcommittee will review the status of the 2012 audit plan and recommend to the 2012 Office any changes to the 2012 audit plan.	A. 2. F. The vice president of Undergraduate Education will review the findings of the 2012 audit plan and recommend to the 2012 Office any changes to the 2012 audit plan.	11/13/12		Vice President / Undergraduate Education	On Track	Ann Sade	Regina Chantrel
VC-12-05	Vice President	A. 1. E. The subcommittee will review the status of the 2012 audit plan and recommend to the 2012 Office any changes to the 2012 audit plan.	A. 1. E. The vice president of Undergraduate Education will review the findings of the 2012 audit plan and recommend to the 2012 Office any changes to the 2012 audit plan.	9/9/12		Vice President / Undergraduate Education	At Risk	Ann Sade	Regina Chantrel
VC-12-05	Vice President	A. 1. E. The subcommittee will review the status of the 2012 audit plan and recommend to the 2012 Office any changes to the 2012 audit plan.	A. 1. E. The vice president of Undergraduate Education will review the findings of the 2012 audit plan and recommend to the 2012 Office any changes to the 2012 audit plan.	11/13/12		Vice President / Undergraduate Education	At Risk	Ann Sade	Regina Chantrel



It's not about the finding, its about cost effective risk mitigation.

Staffing / Resources

- For FY12, IAS had a permanent budget of 4.0 (3.70) FTE professional staff, down one FTE from the prior year.
- The department continues to work without funding for supplies, training and travel.
- Cuts to staffing within internal audit for the past few years continue to ripple thru the campus as audit is unable to properly review key risk areas of this campus.



Appendices

Appendix A: Internal Audits Completed FY12

Issue Date	Audit #	Audit Title
04/06/12	SC-12-04	Construction (UC)
02/22/12	SC-12-05	Visa Processing
07/31/12	SC-12-06	Logical Security
05/10/12	SC-12-08	Conference Services
01/06/12	SC-12-09	Printing Services
09/30/11	SC-12-10	Student Health Center - Electronic Medical Records System
12/21/12	SC-12-12	Purchase Order Invoice & Direct Payments
07/31/12	SC-12-14	Mobile Device Security
06/07/12	SC-13-05*	UNEX Deficit Management

* FY13 audit

Appendix B: Consultation Services Completed FY12

Issue Date	Audit #	Audit Title
04/13/12	SC-12-51	Travel and Entertainment Policy Review (SC)
12/22/11	SC-12-52	NCAA Report Annual Review
10/12/11	SC-12-54	Internal Quality Assurance Review
10/31/11	SC-11-50 Y2	UNEX Enterprise System Implementation (SC Year 2)
11/22/11	SC-12-50	Dining Services Cash Controls
11/22/11	SC-12-55	CASFS Checking Account
11/29/11	SC-12-56	VPDUE-UCCP Funds
01/06/12	SC-12-57	UCO/Lick Observatory – Memorandum of Understanding Funding Review

Appendix B: Advisory Services Completed FY12

Issue Date	Audit #	Audit Title
04/30/12	SC-12-99	Investigation – CASFS Trading Practice