

The Regents of the University of California

COMMITTEE ON AUDIT

July 17, 1997

The Committee on Audit met on the above date at UCSF-Laurel Heights, San Francisco.

Members present: Regents Connerly, del Junco, Khachigian, Leach, Lee, Levin, Nakashima, and Parsky

In attendance: Regents Atkinson, Brophy, Davies, Gonzales, Johnson, McClymond, Montoya, and Soderquist, Regents-designate Miura and Willmon, Faculty Representatives Mellichamp and Weiss, Secretary Trivette, General Counsel Holst, Treasurer Small, Provost King, Senior Vice President Kennedy, Vice Presidents Darling, Gomes, and Hopper, Chancellors Berdahl, Carnesale, Debas, Dynes, Greenwood, Orbach, Vanderhoef, and Yang, Laboratory Director Tarter, University Auditor Reed, and Recording Secretary Bryan

The meeting convened at 2:15 p.m. with Committee Chair Leach presiding.

ANNUAL REPORT ON INTERNAL AUDIT PLANS, 1997-98

University Auditor Reed explained that the *Annual Report of Internal Audit Plans, 1997-98* contains both an operating plan projecting the deployment of audit resources for the 1997-98 fiscal year and an update to the strategic plan initiatives first undertaken approximately one year ago. The objective of the audit plan is to provide the most timely and comprehensive scope of audit coverage to the University within the constraints of available audit resources. The plan encompasses a blend of approaches to accomplish that objective.

Mr. Reed reported that the Audit Plan calls for emphasis on regular planned audit activities through 112,000 hours of traditional audit activity, which is an increase of 30,000 hours over the projected current year. He acknowledged that it is an aggressive approach, but he emphasized that the goal is to return to the basics of the program. In order to be responsive to changing dynamics, a more disciplined process for making amendments to the plan during the course of the year has been established. Although coverage of the entire University is the auditor's basic charge, constraints demand that resources be deployed effectively and efficiently. The plan and process still rely upon well-accepted risk assessment criteria to help prioritize audit efforts. Each of the campus and laboratory audit plans is designed to be weighted toward the highest identified risks, and as a result 70 percent of the auditors' time in planned audit is devoted to assuring that these highest risks are audited, while 30 percent is still available for broad-based coverage of the University. Traditional audit techniques have their limits, however. New and innovative techniques are required to expand visibility and coverage. This year's plan assumes the use of a process for evaluating certain basic internal controls of business units that are not scheduled for in-depth auditing. The program, which is being tested by the San Diego campus, calls for a multi-layered internal control questionnaire to be

disseminated electronically and completed anonymously by several people within an academic or administrative department. This technique may also be useful in determining which departments or areas should be scheduled for more in-depth audits or self-assessment workshops, which are being orchestrated in partnership with Deloitte & Touche. It is estimated that an additional 554 business units or functional areas can be covered with this technique, effectively doubling audit presence during the year. The combination, therefore, of extensive concentrated coverage in high risk areas, additional broad-based coverage using traditional audit techniques in certain areas, and the newly developed control assessment questionnaire makes the audit plan more effective at fulfilling the objective of providing the broadest and most comprehensive coverage of the University possible. At the same time, the operating plan provides time for continued involvement in internal control training at the campuses and laboratories and through the systemwide business officers' training program, and time for the external audit coordination efforts that are vital in this regulatory environment. It also provides an estimate of what is necessary for the conduct of investigations. As always, this element is the least controllable, but it can be controlled more effectively by sound management practices and an increased incentive to stay focused on the basic audit plan.

Mr. Reed noted that the strategic plan initiatives provide for the continued improvement of the internal audit program with an emphasis this year on three areas: standards, training, and collaboration. The campuses and national laboratories have developed two-day training forums to be devoted to topics most commonly contained in this year's audit plans; thus, for example, auditors assigned to capital program audits will receive training in construction audit techniques, and auditors assigned to Medicare billing issues will receive training in Medicare compliance issues. The campus audit forums are scheduled for late July in Irvine, and the laboratory forums are scheduled for early August in Los Alamos, so that training is delivered early in the year.

Mr. Reed reported that the goal of creating an audit manual to assure consistency at the highest standards of the profession should be realized this year. Techniques for improving collaboration among auditors which leverage their skills, strengths, and experience are also emphasized in the strategic plan. A data warehouse is being created to include the University's audit reports and audit programs for electronic retrieval by any auditor in the system, and a series of audit alert bulletins will keep people apprised on a timely basis concerning information learned through the efforts of auditors around the system. Mr. Reed was confident that the objectives of the audit plan will be met. Quarterly reports will keep the Regents informed as to the auditors' progress.

Regent Lee observed that news stories occasionally describe ways in which employees have circumvented the financial controls of a company. He asked how problems of that nature can be avoided. Mr. Reed explained that the University's auditors routinely check the systems of authorizations and the records they produce. Auditing for appropriate authorization and multiple levels of approval is one of their most basic functions.

Regent Leach asked for a status report on the implementation of a program to audit for fraud. Mr. Reed responded that a headhunter has sent him candidates for the position of Director of

Fraud Auditing but that so far he has been unable to find a person whose skills and approach seem appropriate for the job.

Regent Leach commended Auditor Reed for the improvements he has made to the University's audit program. He believed that the professional capabilities of the audit staff have improved.

[The *Annual Report on Internal Audit Plans, 1997-98* was mailed to all Regents in advance of the meeting, and a copy is on file in the Office of the Secretary.]

The meeting adjourned at 2:25 p.m.

Attest:

Secretary