

The Regents of the University of California

COMMITTEE ON AUDIT

July 16, 1998

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

Members present: Regents Connerly, Davies, Hotchkis, Khachigian, Ochoa, and Sayles

In attendance: Regents Atkinson, Bagley, Chandler, Espinoza, Gould, Johnson, Kozberg, Leach, Lee, Miura, Montoya, Nakashima, Preuss, and Willmon, Regents-designate Taylor and Vining, Faculty Representatives Dorr and Weiss, Secretary Trivette, General Counsel Holst, Assistant Treasurer Young representing Treasurer Small, Provost King, Senior Vice President Kennedy, Vice Presidents Broome, Darling, Gomes, Gurtner, and Hopper, Chancellors Berdahl, Carnesale, Cicerone, Dynes, Greenwood, Orbach, Vanderhoef, and Yang, Vice Chancellor Bainton representing Chancellor Bishop, Auditor Reed, and Recording Secretary Bryan

The meeting convened at 9:25 a.m. with Committee Chair Sayles presiding.

ANNUAL REPORT ON INTERNAL AUDIT PLANS, 1998-99

University Auditor Reed presented the annual report, which he noted will be the driving force behind all audit efforts for the coming year. He commented on the operating plan for the deployment of resources for the year and on the strategic plan to continue the improvement of the internal audit program.

Mr. Reed stated that human resources, which comprise almost 90 percent of the budget, are the most significant resource that internal audit has to manage. He explained that the plan is expressed in hours. This year's plan is based on 107 full-time equivalent auditors, which yields 227,000 gross hours and 190,000 net hours, after reduction for non-controllable time. The 190,000 hours include slightly over 87 percent spent on direct audit activities, 3.5 percent on professional development or training, and just under 10 percent on administration of the program. About 88 percent of the approximately 156,000 hours of direct audit time are deployed in audit, investigations, and advisory services. In addition, at some locations the internal auditors serve as external audit coordinators, which uses 3 percent of the time. At nearly 9 percent of time, support activities encompass the quality assurance program, the use of technology, preparation of the annual audit plan, work in reporting to the Regents and local audit committees, and systemwide efforts to strengthen the internal audit program. Assuring an appropriate balance among these three lines of business is one of the fundamental objectives of the audit plan.

Mr. Reed reported that the Integrated Campus/Lab Audit Program represents both the compliance determinates and a deterrent to inappropriate behavior. Advisory services encompass a broad range of activities in a proactive attempt to assure that sound business practices and good controls are in place. These services include internal control training, consultation on systems development and reengineering efforts, and responding to questions about processes. At 14 percent of the time, this is an investment in reducing future problems. Investigations is the hardest area to budget. The plan, at 22,000 hours, is reasonable and does not inhibit the auditors' ability to carry out a strong audit program. The 22,000 hours budgeted for investigation represent a continuing decline in hours experienced over the last several years. The downward trend in investigation hours and the increase in regular audit hours are a positive change. In 1996 the ratio of audit-to-investigation hours was slightly less than two-to-one. This plan anticipates audit hours increasing to a ratio of 4.5 hours of audit work for each hour of investigation. Although circumstances outside the University's control have influenced this trend, internal audit has also worked hard to manage this outcome. Of the 100,500 hours planned to be spent in regular audit activities, approximately 90,000 are scheduled in advance, based principally on a risk assessment process. The remaining 11,000 hours, called supplemental audits, will be assigned during the year as events require. This flexibility reflects the fact that auditing exists in a dynamic environment.

Mr. Reed noted that the audit schedule represents an appropriate balance in relation to risk and the range of the University's operations among the campuses, health sciences activities, the national laboratories, and the Office of the President. Financial management received the greatest attention. It includes the basic accounting systems such as payroll and benefits, cash accounting, and payables. The health sciences, campus academic and programmatic departments, and the national laboratories also receive attention. Support services, which include athletics, housing and dining, bookstores, libraries, and associated students groups, account for 10 percent of the hours.

Mr. Reed reported that his primary concern is assuring that there is an audit presence where risk is judged to be the greatest. When reviewing the individual campus, laboratory, and Office of the President plans, he looks for balance and checks several key statistics to ensure that the areas planned for the greatest attention are the areas identified as representing the greatest risks. Seventy-five percent of the areas so identified are in the plan of regularly scheduled audits for the coming year. The remainder are dealt with through various types of consultations or by scheduling an audit using the supplemental budget.

The strategic plan for the coming year represents a transition from the efforts that have been under way since 1995 to the next set of initiatives that need to be undertaken to strengthen the program further. Mr. Reed noted that to help identify those, a review of the internal audit program is under way and is being conducted by a team that represents a wealth of experience and perspective. All are seasoned professionals, people independent of the University and the internal audit program. The team's charge is to review the internal audit program's organization and staffing, reporting lines, cost-effectiveness, and quality. They will employ a best practices approach whereby they will compare the University's program to the best practices currently at work in the auditing profession. He expected that the team leader will

report the team's results to the Regents in November. President Atkinson viewed the external team review as an innovative approach.

Regent Leach commended Auditor Reed for increasing the capability and professional skills of the University's audit staff. He noted that investigative hours seem to be trending down, and he asked whether any conclusion should be drawn from that fact. Mr. Reed believed that management controls are working better. He noted that investigation hours peaked in 1996.

Chairman Davies reported that Regent Clark, who was unable to be present, had forwarded to him some questions about the audit plan. He had been informed by Senior Vice President Kennedy that Regent Clark will receive a response to his questions in writing.

Regent Connerly observed that the hours to be allocated to the 1998-98 plan represent about a 10 percent increase over the previous year. Mr. Reed stated that the number of hours available to be spent is dependent on the number of people in the program. There was some employee turnover that caused the actual number of people at work last year to be less than budgeted for. He expected that this year those positions will be filled.

Committee Chair Sayles noted that time has been set aside for advisory services. He asked whether auditing for Y2K compliance has been built into that time. Mr. Reed responded that, although it is not a subject susceptible to a routine audit, each campus audit group has been asked to address Y2K this year in order to stay abreast of the progress made by the information technology community. A report on Y2K compliance is planned for sometime in the fall.

The meeting adjourned at 9:50 a.m.

Attest:

Secretary