

The Regents of the University of California

COMMITTEE ON AUDIT

May 16, 2001

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

Members present: Regents Connerly, Davies, S. Johnson, Kohn, Lee, Moores, and Sayles

In attendance: Regents Bagley, Eastin, Hopkinson, O. Johnson, Kozberg, Lansing, Marcus, Miura, Montoya, and Preuss; Advisory members T. Davis, Morrison, and Seymour, Faculty Representative Viswanathan, Secretary Trivette, General Counsel Holst, Provost King, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Drake, and Gurtner, Interim Vice President Gómez, University Auditor Reed, Chancellors Bishop, Cicerone, Dynes, Greenwood, Orbach, Tomlinson-Keasey, Vanderhoef, and Yang, and Recording Secretary Bryan

The meeting convened at 12:37 p.m. with Committee Chair Connerly presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of March 15, 2001 were approved.

2. ANNUAL REPORT ON THE INTERNAL AUDIT PLAN, 2001-02

University Auditor Reed discussed the **Annual Report on the Internal Audit Plan, 2001-02**, noting that the campuses submit individual audit plans for his approval. The overall plan is balanced by location, line of business, type of service, functional elements, and high- and low-risk areas.

Mr. Reed reported that the distribution of audit hours among the campuses, Department of Energy laboratories, medical centers, and Office of the President has remained fairly constant during the past few years, with a slightly increased level of attention to the laboratories because of increases in their staffing. He noted that he examines the proposed individual audit plans with a view toward balance and levels of risk, taking into account the distribution among planned audits, advisory services, and investigations. He reported that, over time, he has increased advisory services in order to be more proactive and efficient. He believed that an ideal overall program would consist of two-thirds audit and one-third advisory services hours, with the addition of investigational time as needed. He believed also that promoting a good control environment with advisory services and reinforcing it with audits would reduce investigational time.

Mr. Reed reported that he also checks the plans for their balance across functional units. Although the first tier of the audit universe includes all the business units, the largest segment of which is financial management, the majority of audit time is spent on research, science, campus departments, and laboratory programs. Another element of balance in the audit plan is the distribution between high-risk audits and non-high-risk audits. The auditors need to spend only about 52 percent of their time auditing those things considered to be the highest risks, although they audit 90 percent of the risks identified as high risk during the planning process. Those that are not specified in next year's plan will be attended to in some way other than by traditional audits. That leaves ample time for a broad spectrum-audit program around the whole University.

Mr. Reed recalled that over the last five years he has grown concerned that some of the most basic business activities may have been given short shrift in terms of risk assessment. Although they may not be risks currently, these important core business activities should be monitored. To address this concern, he decided this year to begin a three-year cycle of risk assessment for all locations, combined with some location-specific topics such as Department of Energy allowable costs for the national laboratories.

Mr. Reed reported that the overall audit plan is based on an average of 111 audit FTE next year.

Regent Lee noted that the audit hours for the Office of the President are high relative to those for the campuses. Mr. Reed explained that the Office of the President is almost as large as a campus and that it houses central functions, including the Treasurer's Office, human resources, and benefits. It also includes overhead for his time and the time of his director of investigations. He believed that the campuses have adequate auditing resources. In addition, about 7,000 hours are budgeted next year for outside specialists who will be hired to bring specific skills to the process. He noted that the hours spent on the health sciences have remained constant. He believed that the attention to clinical research, corporate compliance programs, and billing programs at the health sciences campuses would be adequate.

Regent Marcus asked what area has the highest level of risk and how risk is determined. Mr. Reed could not single out one area. He explained that the risk assessment process involves identifying risk factors and assessing them against every business unit in the University. Risk factors include the dollar volume of activity in the business unit and the liquidity of its resources. Also assessed is the quality of controls in each area as evidenced by prior audit experiences. The ten highest risks are identified as represented by the materiality of the dollars at risk, public and political sensitivity, the quality of controls, the extent of regulations, and the consequences of noncompliance. A formal scoring process is used to assess some 4,000 different business units at the University, following which a subjective assessment is made based on consultations with campus leadership and audit committees, the Chair of the Committee on Audit, and administrative leaders in the Office of the President. This year, areas of growth, which are inherently high risk, planned for auditing include outreach, major construction

programs, hospital building systems, regulatory compliance issues in healthcare, and preparedness for the Health Insurance Portability Accountability Act. In response to a question by Regent Montoya, he specified that outreach programs at several campuses and at the Office of the President will be audited.

[The **Annual Report on the Internal Audit Plan, 2001-02** was mailed to all Regents in advance of the meeting, and copies are on file in the Office of the Secretary.]

The meeting adjourned at 12:50 p.m.

Attest:

Secretary