TO MEMBERS OF THE COMMITTEE ON COMPLIANCE AND AUDIT:

DISCUSSION ITEM

For Meeting of November 7, 2011

ANNUAL REPORT ON INTERNAL AUDIT ACTIVITIES, 2010-11

In accordance with the Schedule of Reports, the Annual Report on Internal Audit Activities, 2010-11 is submitted for discussion.

BACKGROUND

The Annual Report on Internal Audit Activities highlights the outcomes of key activities performed in FY 2010-11 to help management identify and address significant risks facing the University and drive efficiencies. In addition, it demonstrates the accountability of the internal audit program through statistical information on utilization of resources and other performance metrics.

Local internal audit activity at UC locations, including the Office of the President and Lawrence Berkeley National Laboratory, consisted of a total of 465 reports. Primary areas of focus of this local activity included financial management, information technology, campus departments, health sciences, and research and compliance.

Internal audit reviews produced 1,423 agreed upon Management Corrective Actions (MCAs) as a result of recommendations for improvements to internal controls. The internal audit program also validated the closure of 1,785 MCAs. As of June 30, 2011 (fiscal year end), the current inventory of open MCAs was 1,229 (compared to 1,591 as of the end of the previous fiscal year), including 54 high risk MCAs past due (compared to 69 at the end of the previous fiscal year).

Systemwide audits are conducted for the purpose of reviewing an existing or potential issue systemwide where information is needed to determine potential risks. Commonly these audits are performed at the request of the systemwide audit office, the Regents and/or the President and have a common focus and scope of work and usually are conducted by the local internal audit department at each University location. Results may be summarized from a system perspective and key themes in observations are addressed by system leadership or comparisons may be made between University locations. The five systemwide audits conducted in FY 2010-11 addressed Fraud Risk Management, Executive Compensation & Expenses, Information Technology Security, Conflict of Interest/Conflict of Commitment, and Compensated Outside Professional
Activities. There were no critical observations in these audits that management was unable to resolve.

Significant and recurrent internal control issues identified by internal audit include information technology security and information privacy, cash handling, research compliance, manual/paper-based processing, and management oversight/segregation of duties. In conjunction with the 465 audit, advisory services, and investigation reports issued, the internal audit program identified no conditions that it believed to represent material deficiencies in internal controls to the University system as a whole from a financial standpoint. In addition, while internal audit acknowledges that management has ultimate responsibility for establishing internal controls to manage risks, internal audit identified no circumstances in which it believes that management’s decisions resulted in the acceptance of unreasonable levels of risk.

The attached report outlines in more detail the work of the internal audit program during the past fiscal year.

(Attachment)
ANNUAL REPORT ON INTERNAL AUDIT ACTIVITIES, 2010-11

University of California
Office of Ethics, Compliance & Audit Services
# Office of Ethics, Compliance & Audit Services
## Annual Report on Internal Audit Activities, 2010-11

**Table of Contents**

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. EXECUTIVE SUMMARY</td>
<td>3</td>
</tr>
<tr>
<td>II. INTERNAL AUDIT PROGRAM – RESULTS &amp; ANALYSIS</td>
<td>5</td>
</tr>
<tr>
<td>A. Systemwide Audit Results</td>
<td>5</td>
</tr>
<tr>
<td>B. Significant and Recurrent Internal Control Issues</td>
<td>6</td>
</tr>
<tr>
<td>C. Internal Audit’s Participation in Universitywide Initiatives</td>
<td>7</td>
</tr>
<tr>
<td>D. Improvements in Internal Audit Methodology, Governance and Systems</td>
<td>8</td>
</tr>
<tr>
<td>E. Statistics</td>
<td>9</td>
</tr>
<tr>
<td>i. Resources and Effort</td>
<td>9</td>
</tr>
<tr>
<td>ii. Management Corrective Actions</td>
<td>12</td>
</tr>
<tr>
<td>APPENDIX 1 – INTERNAL AUDIT ORGANIZATION CHART</td>
<td>14</td>
</tr>
<tr>
<td>APPENDIX 2 – FINAL AUDIT REPORTS ISSUED FY 2010-2011</td>
<td>15</td>
</tr>
</tbody>
</table>
I. EXECUTIVE SUMMARY

Introduction

The higher education industry is currently faced with a multitude of risks from a financial, operational and regulatory perspective. Some of the more prevalent risk trends impacting universities include:

- Exposure to IT security vulnerabilities and data breaches
- Student health and safety, in light of recent laboratory safety incidents and campus climate issues
- Adaptation to changes in research and healthcare regulations and increased scrutiny from governmental enforcement agencies
- Challenges associated with current economic conditions and associated organizational changes such as restructuring and staff reductions
- Emerging regulatory and operational risks associated with increased participation in international activities

Not surprisingly, the University’s recent fiscal struggles have exacerbated many of these risks. As budget circumstances result in reduced staff and increased workload, there is heightened risk of breakdown in the routine internal controls which are designed to ensure efficient operations, safeguard University resources and to ensure compliance with policies and government regulations. Additionally, the decentralized nature of the University’s organization, processes and IT infrastructure continues to contribute to inefficiencies and control weaknesses. Finally, while the use of credit cards and other payment methods continue to grow, there is still a significant level of cash handling activity occurring in healthcare and auxiliary organizations at the University, contributing to the risk of theft and loss.

The role of internal audit is to proactively work with management to navigate these risks and to provide assurance that existing internal controls and processes are in place and optimized for effective and efficient risk mitigation. This report will highlight the outcomes of key activities performed by Internal Audit in FY 2010-11 to help management identify and address significant risks facing our University and to drive efficiencies to make the best use of our limited resources in these challenging times. In addition, we will demonstrate the accountability of the Internal Audit program through statistical information on utilization of our resources and other performance metrics.

This Annual Report on Internal Audit Activities contains the following sections:

- The results of systemwide audits performed with a common focus and scope of work but are conducted by the local internal audit department at each University location (page 5)
- A summary of the most significant and recurrent control issues from the body of internal audit work performed during the year (page 6)
- An update on Internal Audit’s participation in University initiatives at the local and systemwide level (page 7)
- An overview of improvements we have implemented for the internal audit program in governance, methodology and systems (page 8)
- A summary of statistical information on the systemwide internal audit program for FY 2010-11 (page 9)
FY 2010-11 Statistical Highlights

During FY 2010-11, the UC Internal Audit Program:
- Completed audit, advisory services, and investigation projects resulting in 465 reports that produced 1,423 recommendations for improvements to internal control with corresponding agreed upon Management Corrective Actions (MCAs)
- Validated that 1,785 MCAs were completed by management as indicated. The following is a summary of MCA activity for the past year:
  - Beginning MCA Number – 1,591 (open at start of FY 2010-11)
  - MCAs added – 1,423
  - MCAs closed – 1,785
  - Ending MCAs (open at end of FY2010-11) – 1,229, including:
    - 54 High risk past due MCAs
    - 427 Medium/low risk past due MCAs as of June 30, 2011
- Met or exceeded internal audit benchmarks for:
  - Productivity – 85% (goal 85%)
  - Completion of the Audit Plan – 96% (goal > 70%)

Summary and Conclusions

In conjunction with the 465 Audit, Advisory Services and Investigation reports issued, we identified no conditions that we believed to represent material deficiencies in internal controls to the University system as a whole from a financial standpoint. In addition, while we acknowledge that management has ultimate responsibility for establishing internal controls to manage risks, we identified no circumstances in which we believe that management’s decisions resulted in the acceptance of unreasonable levels of risk.

Further, based on our FY 2010-11 work, we can assert the following as being generally true with no reportable exceptions:
1. Management of the University is cognizant of their responsibility for internal controls and takes seriously the need for controls and accountability.
2. There is respect for the objectives of the Internal Audit Program; a high level of cooperation is received, and there is no interference with either the accomplishment of our tasks or our responsibilities to report to The Regents.
3. Managers actively participate in the identification of risks and work collaboratively with Internal Auditors to address issues raised during Audits, Advisory Services engagements, and Investigations.
4. Management is comfortable seeking out Internal Audit for advice and consultation on matters with internal control implications.
5. Matters of importance are reported to The Regents. Although we did not identify material control deficiencies, there are opportunities for the University to implement more effective controls in a number of areas and there are ongoing challenges to effective controls and compliance.
II. INTERNAL AUDIT PROGRAM – RESULTS & ANALYSIS

A. Systemwide Audit Results

Systemwide audits are conducted for the purpose of reviewing an existing or potential issue systemwide where information is needed to determine potential risks. Commonly these audits are performed at the request of the systemwide audit office, the Regents and/or the President and have a common focus and scope of work and usually are conducted by the local internal audit department at each University location. Results may be summarized from a system perspective and key themes in observations are addressed by system leadership or comparisons may be made between University locations. The following is an overview of systemwide reviews performed with the results and themes summarized.

Conflicts of Interest/Conflict of Commitment — In response to increasing scrutiny from regulatory agencies, an audit was conducted to assess the effectiveness of the research conflict of interest and faculty conflict of commitment disclosure process. Generally, it appeared that controls over conflict of interest and conflict of commitment disclosures were adequate. However, we found that certain areas, such as follow-up, monitoring and retention processes, required some improvement for consistency with governmental guidelines or UC policies and procedures.

Fraud Risk Management — Fraud, waste and abuse in all areas of operations has not only been a focus of recent regulatory agencies at the state and federal level but also in the internal audit profession. Recently, new professional standards were developed which require internal audit to conduct an evaluation of how the organization manages fraud risk. Methods utilized by management at each campus to address fraud risk were reviewed and assessed to determine the comprehensiveness and effectiveness of fraud risk management programs. Increased awareness in this area served as a catalyst for fraud risk management programs at many of our University locations, resulting in the establishment of roles and responsibilities for managing fraud, periodic fraud risk assessments, and monitoring mechanisms for potential fraud activity.

Information Security Policy Compliance — For several years, management has performed an annual self-assessment of compliance with the systemwide information security policy. This year, due to the evolving and increasing risks around information security and privacy, internal audit conducted an independent systemwide assessment of information security policy compliance for campus environments and Lawrence Berkeley National Laboratory. The audit identified areas for improvement in governance and planning as well as certain information security controls. These observations resulted in a systemwide monitoring mechanism established by the systemwide Chief Information Officer to track remediation efforts. A similar information security policy review for academic medical centers is planned for FY 2011-12.

Executive Compensation Reporting — Annual reviews of executive compensation reporting and executive travel and entertainment expenses have been routine for the last six years. This year, relatively minor exceptions were noted and were corrected by the responsible parties at the local level. No issues were identified that required action from a systemwide perspective. As these annual reviews have not yielded any significant findings for several years, we are reassessing the need to continue performing these reviews at the systemwide level on an annual basis.
B. Significant and Recurrent Internal Control Issues

From the body of audit work performed during the year, including investigations, the following are the most significant and recurrent control issues. Many of these are the subject of specific management corrective actions in the environment where the issues were identified; others are the subject of broader systemwide initiatives, while still others are endemic and require continual attention by management.

**IT Security and Information Privacy** – We continue to identify significant control weaknesses related to IT security and protection of sensitive information, including inadequate review of system access, unencrypted restricted data, insufficient physical controls and unpatched security vulnerabilities. Efforts to address these issues include establishment of enhanced IT governance structures to implement campus-wide information security programs, new encryption requirements, and use of emerging technology to proactively assess and remediate IT security vulnerabilities.

**Cash Handling** – Due to its pervasiveness across the University system, cash continues to be an area in which control deficiencies are frequently noted. In particular, departments that collect cash outside of main cashiering and sub-cashiering units represent higher risk (but generally not material) as employees in these areas often are not adequately informed of cash handling policy requirements. New training programs, enhanced monitoring processes, and additional physical controls are being put in place to address exposures in this area.

**Research Compliance** – Compliance with research regulations and policies remains a significant area of risk due to the volume and diversity of research that is conducted at the University and the continued scrutiny from federal and state agencies. Effort reporting, export compliance, clinical research billing, conflict of interest and human and animal subjects research have been highlighted as primary areas of exposure due to inconsistent understanding of requirements and inadequate management oversight. In response, management has implemented new monitoring mechanisms and escalation processes, sanctions for non-compliance, additional training programs and centralized administrative processes, where appropriate. This will continue to be a focus area for internal audit and compliance due to its complexities and impact on the university.

**Manual/Paper-Based Processing** – Campus internal audit departments have noted that the continued prevalence of paper-based activities in lieu of automation in certain processes have contributed to control breakdowns, errors and inefficiencies. As new IT systems are implemented to replace existing manual processes, efficiencies are gained over the long term and the risks associated with manual processing are generally reduced.

**Management Oversight/Segregation of Duties** – As resources are limited due to budget cuts, management is asked to assume increased breadth of review and approval responsibilities and proper segregation of duties over key processes is not always maintained. To address this risk, many campus departments are looking to consolidate administrative functions and establish new monitoring protocols in central offices with campus-wide responsibility to periodically assess compliance with and effectiveness of controls. It is not uncommon to see control weaknesses increase when resources are decreased and therefore this area continues to be a focus for internal audit.
C. Internal Audit’s Participation in University Initiatives

Internal Audit has continued to partner with management to support key initiatives and priorities both at the local and systemwide level. This section highlights some of the key areas in which Internal Audit has provided support.

Policy Support – Internal Audit serves as a key review point for new policies and policy revisions. Our exposure to policies, procedures and other University guidance as part of our daily work puts us in an ideal position to provide feedback on these documents.

External Audit Support – The Office of Audit Services served as a central point of contact for the University to coordinate several large scale audits conducted by federal and state governmental agencies in FY 2010-11. In this role, internal audit coordinated, directed and monitored the status of information requests between the agency and the University. Additionally, it served as an internal repository for information provided to the agency, coordinated responses to audit recommendations, and kept management apprised of the status of the audit, including any significant issues that are identified. This coordination has provided a benefit to the University by driving audit efficiency and ensuring appropriate and concise information is provided to agencies.

Information Transparency – Internal audit continues to provide support to the University’s reporting transparency efforts. In the previous fiscal year, internal audit launched a website to make all internal audit reports available to the general public. We have continued to update this website on a quarterly basis. Additionally, internal audit served as an independent reviewer to ensure the accuracy and completeness of public reports issued by the University including the Annual Report on Executive Compensation and the annual reports on Chancellors’ and President’s expenses.

IT System Implementations – The University has recently taken significant steps toward improving efficiency and effectiveness through large scale IT system implementations spanning multiple locations. Internal Audit has served as an ongoing advisor to ensure these implementations meet established goals and include adequate control mechanisms. The Systemwide Payroll and Personnel System (PPS) Initiative, the largest current IT system implementation in progress at the University, represents significant opportunity for improvement but also presents numerous risks to the University, from both an organizational and technical perspective. Members of our systemwide internal audit group have participated in workgroups to support this important initiative and ensure key risks are addressed early on in the implementation. Other involvement in key IT system implementations include electronic medical records systems at our health science campuses and the payroll certification pilot project currently underway at UC Riverside and UC Irvine.

Strategic Sourcing – A systemwide Strategic Sourcing Initiative was launched in 2004, focused on gaining purchasing efficiencies and leveraging the University’s combined purchasing power. At the Office of the President, internal audit staff have participated in an advisory capacity on various committees to support this effort, including a committee to evaluate vendors on sustainability points, and an RFP committee to select a preferred vendor for storage and shredding services.

Systemwide Committees – Our systemwide committee involvement includes Lawrence Berkeley National Laboratory’s contract assurance committee, the Laboratory Management Council, the Ethics and Audit Committee of the Los Alamos National Security and Lawrence Livermore National Security LLCs and the Privacy and Security Steering Committee. Ad hoc participation on various committees of internal audit also occurs periodically.
D. Improvements in Internal Audit Methodology, Governance and Systems

Like many other University departments, Internal Audit operates in an environment of continuous change. To meet the challenge of new and changing regulations, emerging risks and changes to the University environment, we must continue to adapt and improve our methodologies, use of technology, communication strategies and subject matter expertise. This section outlines some of the improvements we have made in these areas.

Governance and Methodology – We implemented several improvements and enhancements through the development of a strategic plan focused on effective resources, institutional governance, and improving risk assessment methods. These strategic objectives were translated into tactical efforts by multiple working groups. Our primary governance documents, the internal audit mission and charter, were revised and approved by the Regents this past year. Additionally, our systemwide Internal Audit Manual, a comprehensive guidance document for our auditors to support consistent application of auditing techniques, documentation, resource management and quality assurance methods, was revised and streamlined. Finally, our audit risk assessment methodology was updated to improve our ability to effectively react and adapt our internal audit plan to emerging risks.

Audit Management System – We continued to implement functional enhancements to our systemwide audit management system, TeamMate. The most significant enhancement was the implementation of a centralized tracking and reporting module which allows us to more effectively and efficiently track and report on the status of internal audit projects and management corrective actions locally and at the systemwide level.

Communication – In November 2010, the systemwide Office of Audit Services launched the “Audit Clips & Tips” newsletter, a quarterly publication written by our internal audit staff and distributed to the University community that provides current and relevant information on internal control considerations and other topics related to risk management and governance.

Continuing Education – In coordination with the systemwide Office of Ethics and Compliance, the Office of Audit Services sponsored a four-day Compliance and Audit Symposium that was attended by over 450 University employees. This conference, held in two locations to serve the northern and southern campuses separately to minimize travel costs, provided training sessions in three tracks: Audit, Compliance and Investigations. Regent Ruiz, Chief Financial Officer Taylor and Executive Vice President Brostrom made visits to the conference to address the attendees.

Other efforts to provide continuing education to our auditors included a 12-week information security training session for our IT auditors, a 2-day audit report writing class, and numerous webinars on audit-related topics that were made available to all University employees.
E. Statistics

This section provides a summary of statistical information on the systemwide internal audit program for FY 2010-11. Resource and effort data is summarized and analyzed by type of audit service and across functional areas of the University, demonstrating the breadth of coverage. Management corrective actions are analyzed by functional area, severity, and status of corrective actions.

i. Resources and Effort

Table 1 provides statistics on our systemwide internal audit staff, benchmarked against the plan and prior year figures, including a summary of statistics in experience, education, professional certifications and turnover. Headcount levels remained relatively stable compared to the prior year, with limited turnover. Training hours for audit staff were higher than the prior year, mainly due to the four-day Systemwide Compliance and Audit Symposium offered in the spring that was attended by nearly all UC audit staff.

Qualifications statistics for our staff generally remained level in comparison to the prior year, rising slightly in the areas of advanced degrees and professional certifications.

<table>
<thead>
<tr>
<th>People</th>
<th>FY11 Plan</th>
<th>FY11 Actual</th>
<th>Prior Year Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorized</td>
<td>111</td>
<td>111</td>
<td>113</td>
</tr>
<tr>
<td>Average Actual Filled</td>
<td>101</td>
<td>100</td>
<td>102</td>
</tr>
<tr>
<td>Percent Filled</td>
<td>92%</td>
<td>90%</td>
<td>91%</td>
</tr>
<tr>
<td>Ending Head count</td>
<td>101</td>
<td>99</td>
<td>101</td>
</tr>
<tr>
<td>Turnover*</td>
<td>N/A</td>
<td>4%</td>
<td>9%</td>
</tr>
<tr>
<td>Training hours per auditor</td>
<td>82</td>
<td>93</td>
<td>73</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Qualifications</th>
<th>N/A</th>
<th>17 years</th>
<th>18 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Years Total Audit Experience</td>
<td>N/A</td>
<td>10 years</td>
<td>11 years</td>
</tr>
<tr>
<td>Average Years UC Audit Experience</td>
<td>N/A</td>
<td>27 years</td>
<td>27 years</td>
</tr>
<tr>
<td>Percent of Audit Staff with Bachelors Degree</td>
<td>N/A</td>
<td>99%</td>
<td>99%</td>
</tr>
<tr>
<td>Percent of Audit Staff with Advanced Degrees</td>
<td>N/A</td>
<td>36%</td>
<td>34%</td>
</tr>
<tr>
<td>Percent of Staff holding Professional Certifications</td>
<td>N/A</td>
<td>85%</td>
<td>83%</td>
</tr>
</tbody>
</table>

* 4% staff turnover included 2.32 departures for positions within UC, which is generally viewed positively, 2 departures outside of UC, 2 retirements and 1 long-term leave.

N/A Not applicable to plan data
Each year, approximately 85% of our staff time is allocated to direct hours. Direct hours include all effort spent completing our annual plan of audit, advisory, and investigation projects, as well as audit support activities such as IT support, systemwide audit support, audit planning and quality assurance. Table 2 provides a summary of our direct hours, including a breakdown by service line, number of completed projects in each area, and average hours per completed project.

### Projects

<table>
<thead>
<tr>
<th></th>
<th>FY11 Plan</th>
<th>FY11 Actual</th>
<th>Prior Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Audits</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit Program Hours</td>
<td>93,945</td>
<td>90,844</td>
<td>95,181</td>
</tr>
<tr>
<td>Percent of total project effort</td>
<td>64%</td>
<td>67%</td>
<td>67%</td>
</tr>
<tr>
<td>Number of Completed Projects</td>
<td>255</td>
<td>275</td>
<td>275</td>
</tr>
<tr>
<td><strong>Advisory Services</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advisory Service Hours</td>
<td>32,000</td>
<td>27,667</td>
<td>28,151</td>
</tr>
<tr>
<td>Percent of total project effort</td>
<td>22%</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Number of Completed Projects</td>
<td>97</td>
<td>140</td>
<td>181</td>
</tr>
<tr>
<td><strong>Investigations</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investigation Hours</td>
<td>20,515</td>
<td>17,797</td>
<td>17,792</td>
</tr>
<tr>
<td>Percent of total project effort</td>
<td>14%</td>
<td>13%</td>
<td>12%</td>
</tr>
<tr>
<td>Number of Completed Investigations</td>
<td>N/A</td>
<td>112</td>
<td>99</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit, Advisory Services &amp; Investigation hours</td>
<td>146,460</td>
<td>136,308</td>
<td>141,124</td>
</tr>
<tr>
<td>Audit Support Hours</td>
<td>11,882</td>
<td>13,371</td>
<td>12,721</td>
</tr>
<tr>
<td><strong>Total Direct Hours</strong></td>
<td>158,342</td>
<td>149,679</td>
<td>153,844</td>
</tr>
</tbody>
</table>

### Summary Information

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Number of Completed Projects</td>
<td>N/A</td>
<td>527</td>
<td>555</td>
</tr>
<tr>
<td>Number of projects per auditor</td>
<td>N/A</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Percent of Audit Plan Completed</td>
<td>100%</td>
<td>96%</td>
<td>95%</td>
</tr>
<tr>
<td>Productivity Percent</td>
<td>87.30%</td>
<td>84.86%</td>
<td>86.12%</td>
</tr>
</tbody>
</table>

N/A  Not applicable to plan data
Chart 1 shows the distribution of effort by service type over the past seven years. The proportion of hours allocated to audit, advisory and investigation effort remained relatively stable in comparison to recent years, with a continued focus on completion of the annual audit plan in lieu of additional advisory and investigations projects. Chart 2 shows the results our focus on audit plan completion over the past couple of years. Once again, we greatly exceeded our established benchmark for audit plan completion (70%) in FY 2010-11, with a systemwide completion rate of 96%.

Chart 3 depicts the breadth of coverage of internal audit project hours over the 13 major functional areas of the University. As in prior years, our effort remained concentrated in the areas of financial management, information technology, campus departments, health sciences and research and compliance.
ii. Management Corrective Actions

MCA Distribution

As previously indicated, our FY 2010-11 audit program work produced 465 audit, advisory service, and investigation reports resulting in 1,423 Management Corrective Actions (MCAs). As shown in table 3, the distribution of MCAs correlates fairly closely with the effort expended across the functional areas, indicating that we have generally identified opportunities for improvement in the functional areas we have reviewed.

<table>
<thead>
<tr>
<th>Functional Area</th>
<th>MCA %</th>
<th>Hours %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Management</td>
<td>27%</td>
<td>23%</td>
</tr>
<tr>
<td>Health Sciences</td>
<td>19%</td>
<td>12%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>15%</td>
<td>12%</td>
</tr>
<tr>
<td>Campus Departments &amp; Instruction</td>
<td>10%</td>
<td>12%</td>
</tr>
<tr>
<td>Research &amp; Compliance</td>
<td>9%</td>
<td>10%</td>
</tr>
<tr>
<td>Auxiliary, Business &amp; Employee Support Services</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Risk Management</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Human Resources</td>
<td>3%</td>
<td>6%</td>
</tr>
<tr>
<td>Laboratories</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Facilities &amp; Construction</td>
<td>2%</td>
<td>6%</td>
</tr>
<tr>
<td>Office of the President</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>Development &amp; External Relations</td>
<td>1%</td>
<td>3%</td>
</tr>
<tr>
<td>Budget &amp; Planning</td>
<td>0%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Table 3

Status of Completion of MCAs

MCAs are classified initially as open and are only moved to closed status after validation by auditors that the agreed upon corrective actions have been taken and sustainable improvement has been achieved.

The number of open MCAs decreased from 1,591 to 1,229 during FY 2010-11 because of the significant volume of closed MCAs resulting from additional efforts spent on audit follow up. At the same time, we also saw a minor decrease in the number of new MCAs added in FY 2010-11 in comparison to the prior year. The overall processing of MCAs, with closures representing over 112% of the opening volume and over 125% of new MCAs, demonstrates that in general management completes the agreed upon corrective action in a timely fashion.
Chart 5 below shows the number of MCAs added and closed each year for the past seven years. In FY 2010-11, we were able to reverse a recent trend of annual MCA additions exceeding closures. As shown in Chart 6, this has resulted in a net decrease of 362 in the ending inventory of open MCAs.

Table 4 shows the aging statistics of the inventory of open high risk MCAs at year end for FY2009-10 and FY2010-11. Our increased efforts to work with management to close aged MCAs has resulted in a significant reduction in open and past due high risk MCAs. Significantly aged MCAs generally rely on more broad-scale infrastructural or organizational changes to implement. Internal Audit works with management to ensure that interim risk mitigation strategies are implemented while long-term solutions are developed for these issues.

<table>
<thead>
<tr>
<th>Aging of Open High Risk MCAs</th>
<th>FY11 Year End</th>
<th>FY10 Year End</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Yet Due</td>
<td>95</td>
<td>156</td>
</tr>
<tr>
<td>0 – 90 Days Past Due</td>
<td>21</td>
<td>27</td>
</tr>
<tr>
<td>91 – 180 Days Past Due</td>
<td>8</td>
<td>17</td>
</tr>
<tr>
<td>181 – 365 Days Past Due</td>
<td>16</td>
<td>21</td>
</tr>
<tr>
<td>Over 365 Days Past Due</td>
<td>9</td>
<td>4</td>
</tr>
<tr>
<td>Total Open High Risk MCAs</td>
<td>149</td>
<td>225</td>
</tr>
</tbody>
</table>

Table 4
UC Internal Audit Organization Chart

The Regents’ Committee on Compliance and Audit

UC President
M. G. Yudof

SVP, Chief Compliance and Audit Officer, S. Vacca

UCB
W. L. Riley
(7)

UCD
J. Maher
(11)

UCI
B. Nielsen
(9)

UCM
T. Kucker
(1)

UCR
M. Jenson
(5)

UCSB
R. Tarsia
(5)

UCSC
B. Long
(4)

UCSD
S. Burke
(15.2)

UCSF
R. Catalano
(12)

UCOP
M. Hicks
(2.5)

UC President
M. G. Yudof

Systemwide & UCOP
M. Hicks
(2.5)

UCD
J. Maher
(11)

UCI
B. Nielsen
(9)

UCM
T. Kucker
(1)

UCR
M. Jenson
(5)

UCSB
R. Tarsia
(5)

UCSC
B. Long
(4)

UCSD
S. Burke
(15.2)

UCSF
R. Catalano
(12)

UCB
W. L. Riley
(7)

UCB
W. L. Riley
(7)

UCD
J. Maher
(11)

UCI
B. Nielsen
(9)

UCM
T. Kucker
(1)

UCR
M. Jenson
(5)

UCSB
R. Tarsia
(5)

UCSC
B. Long
(4)

UCSD
S. Burke
(15.2)

UCSF
R. Catalano
(12)

UCB
W. L. Riley
(7)

UCD
J. Maher
(11)

UCI
B. Nielsen
(9)

UCM
T. Kucker
(1)

UCR
M. Jenson
(5)

UCSB
R. Tarsia
(5)

UCSC
B. Long
(4)

UCSD
S. Burke
(15.2)

UCSF
R. Catalano
(12)

Systemwide & UCOP
M. Hicks
(2.5)

UCD
J. Maher
(11)

UCI
B. Nielsen
(9)

UCM
T. Kucker
(1)

UCR
M. Jenson
(5)

UCSB
R. Tarsia
(5)

UCSC
B. Long
(4)

UCSD
S. Burke
(15.2)

UCSF
R. Catalano
(12)

The Regents’ Committee on Compliance and Audit

UC President
M. G. Yudof

SVP, Chief Compliance and Audit Officer, S. Vacca

UCB
W. L. Riley
(7)

UCD
J. Maher
(11)

UCI
B. Nielsen
(9)

UCM
T. Kucker
(1)

UCR
M. Jenson
(5)

UCSB
R. Tarsia
(5)

UCSC
B. Long
(4)

UCSD
S. Burke
(15.2)

UCSF
R. Catalano
(12)

Systemwide & UCOP
M. Hicks
(2.5)

UCD
J. Maher
(11)

UCI
B. Nielsen
(9)

UCM
T. Kucker
(1)

UCR
M. Jenson
(5)

UCSB
R. Tarsia
(5)

UCSC
B. Long
(4)

UCSD
S. Burke
(15.2)

UCSF
R. Catalano
(12)

Total Professional Staff, including the Director, is in parentheses. Total Authorized Professional Positions = 103.9 as of year end FY 2010-11 (LANL & LLNL Audit Departments not reflected in UC Audit Program)
APPENDIX 2 – FINAL AUDIT REPORTS ISSUED FY 2010-2011

Systemwide
Executive Compensation (Systemwide)
Assessment of Fraud Risk Management (Systemwide)
Chancellor Travel & Entertainment (Systemwide)
Conflict of Interest/Conflict of Commitment (Systemwide)
IT Security (Systemwide)

Office of the President
Agriculture and Natural Resources (ANR)
Extension/Food and Nutritional Education Program
Agriculture and Natural Resources (ANR)/Four-H Central Office
Conflict of Interest/Conflict of Commitment (Systemwide)
Emergency Preparedness/Mission Continuity - UC Ready
Fraud Management (Systemwide)
Institutional Advancement Cash Controls
Laboratory Management Office Cost Allowability FY2010
Other Post Retirement Benefits/Health Insurance
Travel and Entertainment (Systemwide)

UC Berkeley
Annual Report of Executive Compensation (Systemwide)
Berkeley Seismological Laboratory
Budget Monitoring Deficit Spending
Conflict of Interest/Conflict of Commitment (Systemwide)
Cost Sharing
Disaster Recovery
Fraud Risk Management (Systemwide)
Funds Functioning as Endowments
Graduate School of Education
IT Architecture
Performance Management
Research Enterprise Services
Subaward Monitoring and Acceptance of High Subawardees

UC Davis
Assessment of Fraud Management (Systemwide)
Bookstore Purchases
Chancellor’s Expenses Business Finance Bulletin-G45 (Systemwide)
Conflict of Interest/Conflict of Commitment (Systemwide)
Contract Management
Control & Management of Privileged Access Accounts
Cyber Safety - Chemistry
Electronic Matching of Services
Electronic Medical Record Security
Executive Compensation (Systemwide)
Hospital Payor Reimbursement
Intercollegiate Athletics Cyber Safety
Web Application Security

UC Irvine
American Recovery and Reinvestment Act Reporting & Compliance
California Institute for Telecommunications and Information Technology Business Processes
Chancellor’s Expenses (Systemwide)
Donald Bren School of Information and Computer Sciences
Facilities
Humanities
IT - Logical Security
New Hospital Security
Senior Management Group Travel and Entertainment (Systemwide)
School of Medicine - Dermatology
School of Medicine - Neurology
School of Medicine - Psychiatry & Human Behavior
Annual Report on Executive Compensation (Systemwide)
Assessment of Fraud Management (Systemwide)
Conflict of Interest/Conflict of Commitment (Systemwide)
IT Security (Systemwide)
Travel Expenditures and Related Approval Processes
UCI Medical Center - Cash Collections - Otolaryngology - Head and Neck Surgery Outpatient Clinic
UCI Medical Center - Cash Collections - Obstetrics and Gynecology, Oncology
UCI Medical Center - Medical Director Contracts
UCI Medical Center - Pharmacy Operations
University Advancement

UC Los Angeles
Assessment of Fraud Management (Systemwide)
Cash Handling - Graduate School of Education and Information Studies
Central Warehouse Inventory Review
Conference Services
Conflict of Interest/Conflict of Commitment (Systemwide)
Continuing Education of the Bar
Data Center Review - Campus
Data Center Review - Hospital
Entertainment Policy Compliance
Annual Report on Executive Compensation (Systemwide)
Fleet Auto Parts Inventory
Front Desk Operations
Hospital Licensure and Certification
Hospital Senior Capitated Contracts
Medical Staff Administration
Morgue - Santa Monica: UCLA Medical Center and Orthopaedic Hospital
Office of Insurance and Risk Management Operational Review
President and Chancellors' Expenses (Systemwide)
Primary Network Head and Neck Surgery
Purchased Services
Radiology Imaging Center - Women's Imaging Center
Santa Monica Medical Staff Dues Administration
Store - Apparel & Accessories Division
Student Technology Center
Tiverton House
Tool Crib/Equipment Assignment
Transportation Cashier’s Office
UCLA Foundation 09-10

UC Merced
Conflict of Interest/Conflict of Commitment (Systemwide)
Construction Review of Social Sciences Building
Construction Review of Social Sciences Building (Bid Processing and Construction Manager Pay Application)
Laboratory Safety

UC Riverside
Analytic Review & Fraud Detection
Annual Report on Executive Compensation (Systemwide)
Balance Sheet Accounts and Bank Reconciliations
Campus Fraud Management Program (Systemwide)
Campus Store - Computer Store
Chancellor Housing Expenses (Systemwide)
Child Development Center
Conflict of Interest/Conflict of Commitment (Systemwide)
Electronic Information Security - Business & Finance Bulletin IS-3 (Systemwide)
Environmental Health & Safety
Graduate School of Education
Housing Services, Dining Services and Child Development Center Employee Time Reporting
Mechanical Engineering
Senior Management Group Travel & Entertainment (Systemwide)
Student Recreation Center
Technology Transfer

UC Santa Barbara
Assessment of Fraud Management Program (Systemwide)
Cash Controls
Clery Act - Reporting Processes
Conflict of Interest/Conflict of Commitment (Systemwide)
Department of Psychology
Electrical and Computer Engineering
Executive Compensation - Annual Report on Executive Compensation Review (Systemwide)
Executive Compensation - Chancellor's Expenses G-45 Review (Systemwide)
Institute for Social, Behavioral and Economic Research
Intercollegiate Athletics
Interdisciplinary Humanities Center
Solid State Lighting and Energy Center (SSLEC)
Travel (Systemwide)

UC Santa Cruz
Annual Report on Executive Compensation & G-45 Chancellor Allocations (Systemwide)
Assessment of Fraud Risk Management (Systemwide)
Automated Invoice Payment
Conflict of Interest & Conflict of Commitment (Systemwide)
IT Security (Systemwide)
Information Technology Services Change Management Process
Main Cashier's Office
Student Fees Usage
Temporary Staffing Services Program (TSSP)
University Affiliated Research Center (UARC) Stipend

UC San Diego
Department of Pediatrics
Assessment of Fraud Management (Systemwide)
Integrative Oceanography Division (IOD)
Department Limited Scope Review - Visual Arts
Epic Inpatient Pharmacy System Implementation
On-line Entertainment My Meeting and Hosted Events Post Implementation
Division of Biological Sciences
Thurgood Marshall College
Conflict of Interest/Conflict of Commitment (Systemwide)
Physician Compensation Plan Management
Medical Group Overhead Allocation Methodology
Scripps Institution of Oceanography (SIO) Birch Aquarium Business Operations

UC San Francisco
Campus Recharges to Medical Center
Chancellor's Allotment Review (Systemwide)
Conflict of Interest/Conflict of Commitment (Systemwide)
Controlled Substances
Executive Compensation: Annual Report on Executive Compensation (Systemwide)
Executive Travel & Entertainment (Systemwide)
Fraud Monitoring Program Assessment (Systemwide)
International Research
IT Security Policy Compliance Review (Systemwide)
Material Services - Receiving & Inventory Controls
Medical Center System Vulnerability Assessment
Mission Bay Hospital - KPMG Support
Office of Technology Management Review
Offsite Pediatrics Specialty Clinics
Outpatient Pharmaceutical Billing
Procurement Card Review
Pyxis - Systems & Operations
School of Medicine Departmental Review

Lawrence Berkeley National Laboratory
Annual Report on Executive Compensation/Senior Management Group Policies (Systemwide)
Assessment of Fraud Risk Management (Systemwide)
Budget Planning and Formulation
Conflict of Interest/Conflict of Commitment (Systemwide)
Construction Contract Change Order Proposal-WebCor
Electronic Information Security: Business Finance
Bulletin IS-3 (Systemwide)
Emergency Preparedness
Electric Power Group Subcontract 6811836
General Ledger