

**Office of the President**

**TO MEMBERS OF THE COMPLIANCE AND AUDIT COMMITTEE:**

**DISCUSSION ITEM**

*For Meeting of September 13, 2017*

**INTERNAL AUDIT ACTIVITIES REPORT**

This report is a summary of Internal Audit activities from April 1 through August 15, 2017.

***Highlights of Recent Internal Audit Activity***

*Fair Wage/Fair Work*

Internal Audit has completed its first annual audit of the UC Fair Wage/Fair Work Plan (Plan). The Fair Wage/Fair Work Plan mandated that all University employees who work at least 20 hours a week be paid at least \$15 an hour, to be implemented over the course of three years. The minimum increased to \$13 in October 2015 and \$14 in October 2016, and will increase to \$15 by October 2017. The Plan also requires that contractors doing business with UC guarantee this minimum hourly wage for their workers.

The objective of the audit was to assess compliance with Plan requirements for the use of contractors. In the first year of implementation, Internal Audit observed that in general locations have made progress in implementing the Plan, but additional corrective action is required to fully comply with the Plan requirements. In particular, many locations lacked adequate processes to identify and track contracts subject to the Plan and follow up with suppliers to ensure that they are performing annual audits and submitting certifications to UC in a timely manner.

*Outside Professional Activities*

Internal Audit completed a systemwide audit of outside professional activities. The audit scope focused primarily on adherence with the new policy requirements effective July 2016, including new approval and reporting requirements and new limits on compensated outside professional activities. Internal Audit identified opportunities for improvement in controls to ensure that all outside professional activities are appropriately approved and identified areas where policy requirements could be clarified to facilitate compliance.

*UCPath Pilot Operational Readiness*

Internal Audit has completed fieldwork for the second phase of its operational readiness assessment for the pilot deployment of UCPath, which will include four locations: UCLA, Associated Students UCLA, UC Merced, and UC Riverside. The second phase focused on test

planning and execution, interface remediation, change impact assessments, training, and workarounds. One additional phase of the operational readiness assessment is planned prior to pilot deployment, as well as a post-deployment assessment.

***Cybersecurity Audit Team***

In fiscal year 2016-17, the Office of Ethics, Compliance and Audit Services created a Cybersecurity Audit Team. The team is comprised of three FTEs – a Cybersecurity Audit Director and two Cybersecurity Audit Specialists. In addition to supporting the campus internal audit departments with cybersecurity audit projects, the Cybersecurity Audit Team has completed vulnerability assessments and penetration testing of campus environments systemwide, with the assistance of an external vendor. The team has also helped to coordinate a systemwide cybersecurity risk assessment. Projects planned for the Cybersecurity Audit Team for the current fiscal year include a systemwide review of incident response and vulnerability assessments and penetration testing of the medical center environments.

***Audit and Advisory Services Activity***

Audit and advisory services activity conducted by local UC internal audit departments has focused primarily on the following key risk areas: information privacy and security, financial management, human resources, procurement and business contracts, payroll, and medical billings and receivables.

***Management Corrective Actions***

Every observation identified by Internal Audit has a reciprocal management corrective action (MCA) to address that observation. Target dates for MCA completion are identified by management to remedy the identified risks. These MCAs are tracked and monitored by both local internal audit and management teams and Systemwide Internal Audit until the MCAs are completed. Management responses to address observations are reviewed for appropriateness and timeliness. Escalation processes to senior leadership and the Regents are followed if there are difficulties related to completion of the corrective actions. Management corrective actions that have not been resolved in 300 days (from the audit report date) are discussed with leadership of the Regents Compliance and Audit Committee. Often, these unresolved MCAs address complex risk areas which may be costly or require excess time to implement and therefore may reasonably require extended timelines. In these cases, management usually has implemented mitigating controls in the interim to assure the risk area is controlled. Longer-term solutions typically focus on developing a “best practice” solution that is more efficient, reliable, and a more permanent approach to risk mitigation. Themes in control weaknesses from the audits conducted locally and systemwide in this fiscal year are represented below:

<b>Control Themes</b>	<b>Examples of Control Weaknesses Noted</b>
Oversight and Monitoring	<ul style="list-style-type: none"><li>• Account deficit monitoring and resolution not performed in accordance with policy</li><li>• Insufficient monitoring of donations and gifts</li><li>• Lack of monitoring of system access for segregation of duties issues</li></ul>

	<ul style="list-style-type: none"><li>• Controls not adequate to identify duplicate submissions and prevent overpayments of reimbursements</li></ul>
IT Security	<ul style="list-style-type: none"><li>• Lack of awareness of IT security policies</li><li>• Insufficient access management procedures</li><li>• Unpatched vulnerabilities</li><li>• Weaknesses in password management</li><li>• Unencrypted laptops</li><li>• Units lacking IT security risk assessment and/or IT security plan as required by policy</li></ul>
Financial Management	<ul style="list-style-type: none"><li>• Transactions not properly approved or approvers lacking formal authorization</li><li>• Inadequate documentation to support transactions</li><li>• General ledger accounts used inconsistently</li><li>• Weak controls over cashiering (untimely deposits, individual accountability not maintained, inadequate separation of duties)</li></ul>
Procurement	<ul style="list-style-type: none"><li>• Inadequate record keeping over procurement contracts</li><li>• Insufficient authorization of contracts</li><li>• Inadequate controls over Fair Wage/Fair Work Plan compliance</li><li>• Additional guidance required for foreign purchases</li></ul>

Based on review of management corrective action activity for the year, Internal Audit has concluded that management is properly attending to audit findings and has provided reasonable rationale for changes to corrective actions and/or revised completion dates on corrective actions.

***Investigation Activity***

Themes emerging from recent investigation activity conducted by local internal audit departments include conflicts of interest, use of University resources for personal purposes, theft, improper financial management in research, and employee misconduct.