

The Regents of the University of California

COMMITTEE ON AUDIT

June 17, 1999

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

Members present: Regents Connerly, Davies, Khachigian, Lee, Moores, and Sayles

In attendance: Regents Atkinson, Bagley, Espinoza, Hopkinson, S. Johnson, Kozberg, Lansing, Miura, Montoya, and Preuss, Regents-designate Pannor, Taylor, and Vining, Faculty Representatives Coleman and Dorr, Secretary Trivette, General Counsel Holst, Provost King, Senior Vice President Kennedy, Vice Presidents Broome, Darling, Gurtner, and Hopper, Chancellors Carnesale, Dynes, Greenwood, Orbach, Vanderhoef, and Yang, Vice Chancellor Bainton representing Chancellor Bishop, Executive Vice Chancellor Lillyman representing Chancellor Cicerone, University Auditor Reed, and Recording Secretary Bryan

The meeting convened at 9:50 a.m. with Committee Chair Sayles presiding.

ANNUAL REPORT ON INTERNAL AUDIT PLANS, 1999-2000

University Auditor Reed presented his report on audit plans for the coming year and an overview of the strategic plan for the continued strengthening of the internal audit program. He noted that the number of potential audit areas and topics within the University is vast and requires that a risk assessment methodology be used to determine which areas will receive audit attention. The risk assessment starts with an overview of major new events and issues or changes in circumstances that represent new exposures. Senior managers across the system provide information used to update the knowledge base about the University's activities, following which the relative audit risk is assessed in each department, program, organizational unit, activity, or function by applying a set of established factors. These factors are management control environment, business exposure, compliance requirements, public and political sensitivity, information and financial reporting, and organizational change and growth. For each business unit, these factors are scored, and the relative risk is tabulated. For 1999, a new procedure was used in which the factors were given different weights in each of the University's three lines of business: the campuses, the health sciences, and the national laboratories.

Mr. Reed identified next year's highest level risks to be construction activities, regulatory compliance, contracts and grants administration, year 2000 computer issues, use of new outreach monies, and environmental health and safety matters at the national laboratories. He reported that after completion and analysis of the individual risk assessments, each local audit director prepares a preliminary audit plan which is reviewed at several levels before being consolidated into the final audit plan. The 1999-2000 plan is predicated on having an average of 106.5 auditors in the system as full-time equivalents. Together with a small amount of time from interns and others, this produces approximately 225,000 gross hours available to the audit

program. This staffing level is the same as had been projected for the current year, but it represents ten more audit positions remaining filled throughout the year than have been maintained previously. The 225,000 gross hours are reduced to approximately 189,000 net available hours by official leave granted to employees. Professional development is budgeted at an average of 69 hours per professional.

Mr. Reed reported that over 90 percent of the planned 163,400 of direct audit hours is devoted to regular audits, advisory services, and investigations. The specific audits planned are driven by the risk assessment methodology. The regular audit program of 99,000 hours is at the same level as the current year. Nearly half of this time will be devoted to the ten highest risk areas at each location. The other half will be used to provide broad audit coverage and to establish an audit presence in other areas. The plan provides an appropriate balance among the three main audit activities and regular audits. Approximately 46 percent of the total time is spent at the campuses, 28 percent in the health sciences, 15 percent at the national laboratories, and 11 percent at the Office of the President.

Mr. Reed explained that the auditors spend the single largest portion of their time in financial management areas that are common to all portions of the institution. These areas include cash and bank accounts, payroll and benefits, purchasing and disbursements, general accounting operations, risk management, and travel and entertainment. The next two largest areas of time commitment are the health sciences and campus-specific operations. It is in these two areas that most of the audits of the University's research activities occur. Significant time is spent also in auxiliary and business services, which encompass myriad activities that are independent and/or generate significant cash revenue. These include housing and dining, parking, bookstores, athletics, libraries, and internal services such as printing, fleet management, and mail services. The next highest areas of concentration are related to business activities that possess more than usual audit risk at the moment: information technology and facilities.

Work continues on strengthening the audit program. Mr. Reed noted that a strategic plan is in place that reflects collective input about the future directions of the program. Goals for the plan include the following:

- Further enhance the collaboration, knowledge sharing, and teamwork within the program.
- Ensure that auditors with the appropriate skills are recruited and trained and that each of the 13 audit programs has available the skills needed to carry out a comprehensive program in its local environment.
- Ensure that audit professionals have an appropriate business orientation and not just a compliance mentality so that the audit efforts are focused not just on policy compliance issues but on providing assistance to managers to help them achieve their business objectives.
- Strengthen the quality and breadth of the University's information technology audit program.

- Promote the broadest use of the limited resources, in part by encouraging the use of advisory services to address risk mitigation strategies.
- Contribute to the revision of University policies and procedures for the conduct of investigations and the whistle blower policies so that the workforce is well-educated about them and an open environment is fostered.

Mr. Reed believed that these strategies are in tune with the direction of the internal auditing profession and will be supportive of the University's needs.

Regent Davies suggested the quarterly audit reports include a more narrow focus such as a case study to help illustrate how the auditors function when doing audits or investigations.

In answer to a question by Regent Lee, Mr. Reed stated that there are 115 authorized internal audit positions in the system. There are 12 people in the audit department within the Office of the President. Only the Director of Investigations spends his full time on systemwide activities. The other internal auditors are associated with audit departments at individual locations. Auditors working on campuses are responsible both to the campuses and to the University Auditor, who is responsible for the professional and technical aspects of the program. All investigation matters of significance are reported to him and to local management at the same time. Committee Chair Sayles noted that it is not uncommon to have the auditors report dually to the corporate center and the individual sites. He believed that the dual reporting system works well. Regent Lee asked how many of the basic audit hours are spent with external auditors. Mr. Reed explained that little time is spent with them. The external auditors review the plan and the audit product to determine how much reliance they can place on them. Their purpose and scope is to focus on the financial statements and not on processes and procedures.

Committee Chair Sayles expressed concern about the rate of employee turnover. Mr. Reed commented that the job market in this field is competitive. Most of those who leave internal audit jobs go to other University jobs, which he viewed as a positive thing. There has been stability among the management. Those who want a long-term career in auditing may take the opportunity to rise to management level, but there are many people who want to spend a few years in auditing to gain experience and then move into related fields. The turnover rate is slightly down.

Committee Chair Sayles asked about the skill level of the auditors and the need for professional training. Mr. Reed considered continuing professional training a primary goal. The profession recognizes the need to expand its skills from the traditional compliance mentality to a more business-oriented perspective. It is important to recruit and train with a view toward broader skills, including information technology skills. An increased percentage of time is being devoted to training activities and to heightening awareness of the ways in which those skills may be borrowed or bought from other departments or consultants.

President Atkinson noted that the campus auditors used to report to the Office of the President through the chancellors. The dual reporting relationship could be seen as vague, but the policies of the University are extremely clear, and there is no question that the campuses will report to the President's Office at the same time that they report to the chancellors on any significant issue. He believed that the reporting lines have worked very well. Mr. Reed concurred, noting that his relationships with the campuses give him a high level of confidence that matters are being disclosed in a timely manner.

Committee Chair Sayles commented that often the Audit Committee meets only to provide a scheduled report or to point out a problem. The day-to-day problem-solving of the internal auditors goes unnoted. He believed there has been a substantial improvement in the quality of the work that internal audit is doing.

The meeting adjourned at 10:15 a.m.

Attest:

Secretary