

The Regents of the University of California

**COMMITTEE ON AUDIT**

November 15, 2001

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

Members present: Regents Connerly, Davies, S. Johnson, Lee, Marcus, Morrison, Parsky, Sayles, and Seymour

In attendance: Regents T. Davis, Hopkinson, O. Johnson, Kozberg, Lansing, Lozano, Montoya, and Preuss, Regents-designate Ligot-Gordon and Terrazas, Faculty Representative Binion, Secretary Trivette, General Counsel Holst, Provost King, Senior Vice President Mullinix, University Auditor Reed, Chancellors Bishop, Cicerone, Dynes, Greenwood, and Tomlinson-Keasey, and Recording Secretary Nietfeld

The meeting convened at 11:20 a.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 May 16, 2001 were approved.

2. **ANNUAL REPORT ON INTERNAL AUDIT ACTIVITIES, 2000-2001**

In accordance with the Schedule of Reports, the **Annual Report on Internal Audit Activities, 2000-2001**, was submitted for discussion.

[The report was mailed to all Regents in advance of the meeting, and a copy is on file in the Office of the Secretary.]

University Auditor Reed commented briefly on the annual report. He noted that the report has three objectives, which are to demonstrate the breadth and depth of audit activities addressing business risks in the University during the fiscal year, the accountability for audit resources, and progress in continually improving the internal audit program.

Highlights of the Annual Report

A noteworthy fact is that advisory services hours exceeded investigation hours for the first time this year, which is indicative of a fundamentally healthier situation, with auditors engaged to a greater extent in consulting and other advisory activities that can help to prevent irregularities rather than in investigating such irregularities. At nearly 28,000 advisory services hours versus approximately 18,000 investigation hours, the excess was substantial, continuing a positive trend. Advisory services were first reported as a separate

category of audit activities in 1995-96, at which time investigation hours were in excess of two times advisory services hours.

Across the spectrum of the University's functional areas, 309 audit reports were issued, 135 investigations were performed, and 136 discreet advisory services projects were completed. In addition, 10,000 hours of advisory services were performed that were not associated with a discreet project or single functional area, such as internal control training. Highlights of these activities include:

- Seventy-nine percent completion of the audit plan, with the remainder in progress at year end. Any result in excess of 70 percent is considered to be indicative of acceptable performance.
- Nearly 64,000 hours of work in campus, clinical enterprise, Department of Energy national laboratory, and Office of the President activities beyond financial management areas, addressing the unique risks in these environments such as research, regulatory compliance, managed care, academic or scientific programs, technology development, and security.
- Efforts continued to bring the UCSF cashiering investigation to closure, culminating in a \$3.8 million recovery from the insurer against the \$4.5 million calculated loss. Given the destruction of records by the former employee before her departure, the ability to recover this amount was a positive outcome. \$300,000 of the difference in the amount represents the policy deductible.
- Investigation hours decreased as a result of a reduction in both the number of investigations and the average hours spent per investigation. The latter is generally indicative of a lesser degree of magnitude, severity, or sensitivity.
- Use of resources at 85 percent met the plan and productivity performance indicator.
- The investment in training remained at a strong level, continuing the focus of building key competencies, especially in health sciences and information technology.

The benchmark analysis in the annual report supports the conclusion that internal audit staffing by location is adequate, although certain locations are stretched more thinly than are others. In total, the number of auditor positions authorized remained unchanged at 120, and the average number of positions filled (104 FTEs) increased by one, which again fell short of the plan. On the positive side, recruitment efforts have been more fruitful in recent months, and the headcount at year-end of 110 is an all-time high. Turnover continued at nearly 20 percent, although there was some improved tendency to leave internal audit for other opportunities within the University.

Also in the area of personnel, the annual report notes that a number of professional staff are active in leadership positions at the local and national levels of professional organizations, including the Institute of Internal Auditors, the Association of College and University Auditors, the California State Society of CPAs, and the DOE Contractor Internal Audit Managers steering committee.

Efforts to strengthen the internal audit program through accomplishments of the strategic plan include the following:

- An improved risk assessment and planning process to recognize core business activities and ensure periodic audit coverage with consistent audit coverage expectations.
- A strengthened information technology (IT) audit program through recruitment of a systemwide IT Director, establishment of minimum IT audit program expectations, and targeted training.
- Establishment of standards for the performance of advisory services consistent with Institute of Internal Auditors standards.
- New training programs designed and conducted which are intended to broaden the general skills and analytical abilities of auditors.
- A revised Quality Assurance Review Program that has been implemented during three campus reviews. One campus or laboratory is reviewed each quarter for an approximate three-year cycle.
- A follow-on review of the systemwide internal audit program performed by the 1998 external review team.

In summer 2001, the audit directors began creating a new strategic plan with fresh initiatives to address the following objectives:

- **Collaboration:** Improve knowledge sharing, teamwork, and leverage.
- **Communication:** Improve communications with key customers – Regents, management, audit committees, audit customers, and the University community as a whole.
- **Competency:** Assure that high-level expertise from internal or external resources is brought to bear across the spectrum of audit services and areas.
- **Catalyst:** Ensure that internal audit fulfills its potential to promote positive change rather than simply observes static conditions.

Certain benchmark data are provided in the annual report based on the results of a study conducted by KPMG in 2001 of seven multi-campus systems in higher education that participated on a voluntary basis. These benchmark data indicate in part that:

- UC's ratios of auditors to employees and expenditures are in line with industry norms, implying staffing sufficiency.
- Productivity indicators and time distribution benchmarks show UC internal audit to be within the expected ranges.
- An opportunity exists to improve customer service through reduced cycle time from the start of an audit to report issuance.
- UC's program structure and reporting relationships are appropriate to the institution and better than many in assuring a blend of local and systemwide responsibilities and access to the governing board.

#### Conclusions

Based on the nearly 600 audits, investigations, and advisory services projects performed during the year, the annual report expresses the following conclusions to be generally true with no reportable exceptions:

- Management at all levels of the University is cognizant of its responsibilities for internal controls and takes seriously the need for controls (including compliance with laws and regulations) and accountability for their effectiveness.
- There is respect for the objectives of the internal audit program, and a high level of cooperation is generally received.
- Managers actively participate in the identification of risks and prioritization of audit activities.
- Managers collaboratively work with the internal auditors to address issues raised during audits and investigations.
- To a growing extent, managers seek out internal audit advice and participation in consideration of matters with internal control implications.
- Matters of importance are reported to management and to The Regents.

The above conclusions do not imply that the University's controls are perfect or that there are not matters of significance identified in audit activities, that fraud and other irregularities do not exist or will not continue to occur, or that there are no unresolved business risks

facing the University. However, internal audit is not aware of any such matters that should be reported to The Regents at this time because of their significance or lack of management attention.

3. **ANNUAL REPORT OF EXTERNAL AUDITORS FOR THE YEAR ENDED JUNE 30, 2001**

In accordance with the Schedule of Reports, the **Annual Report of External Auditors for the Year Ended June 30, 2001** was submitted.

[The report was mailed to all Regents in advance of the meeting, and a copy is on file in the Office of the Secretary.]

It was recalled that the objective of The Regents' external auditors in performing the basic University audit is to render an opinion on the financial statements of the University of California. In addition, the auditors report their observations and make recommendations with regard to accounting procedures and controls. The report to The Regents on the audit for the year ended June 30, 2001 was prepared by PricewaterhouseCoopers LLP, external auditors of The Regents. The internal control report to The Regents, or Management Letter, contains the auditors' observations and recommendations.

The meeting adjourned at 11:27 a.m.

Attest:

Secretary