# University of California

Quality Assessment Review Report

September 2023

BDO

# Table of Contents

Quality Assessment Review – University of California

# Executive Summary
## Overall Assessment Summary

**Objectives and Approach**

BDO was engaged to conduct an external quality assessment review of the University of California's internal audit function in collaboration with peer audit executives from Stanford University and Oregon State University. The objective of this review was to complete an independent assessment against the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (*Standards*) and identify opportunities to further enhance their value to the organization. Our activities included:

➢ Reviewing internal audit documentation

➢ Conducting stakeholder interviews

➢ Leverging leading practices

➢ Calibrating results and reporting

**Background**

The University of California Office of the President (UCOP) maintains a system internal audit office that works closely with the internal audit functions at each of its ten campuses, six academic medical centers, and three affiliated national laboratories to provide the Regents, President, campus Chancellors, and Laboratory Director with independent and objective assurance and consulting services designed to add value and improve operations.

**Summary**

Since the last external quality review in 2018, Internal Audit (IA) has, in the words of their stakeholders, "upped their game" and "performs audits in a way that makes us better". This perception was shared in several interviews and was further supported by our assessment of IA's performance against the *Standards*. Stakeholders regard IA as a professional and collaborative partner. The most significant opportunities for IA center around strengthening IA's dual reporting lines through updates to performance and resourcing review processes for each internal audit function within the system.

**IIA Standards Conformance Assessment**

Based on our quality assessment review, we determined that the internal audit function at the University of California (UC) "**Generally Conforms**" with the *Standards* for the Professional Practice of Internal Auditing.

**Key Strengths**
➢ System-wide audit services are valued
➢ Advisory services enhance the perception of the function
➢ Strong link between risk assessment and internal audit plan
➢ Leveraging third party support for expanded capacity and expertise

**Key Opportunities**
➢ Reinforce IA's commitment to independence and improve conformance with the *Standards* by updating the Audit Committee Charter
➢ Strengthen independent reporting line of internal audit directors through updates to the performance management process
➢ Leverage quality assessment and review agreed-upon metrics to advise the Chancellors as to the resourcing of internal audit functions
➢ Enrich engagement with Chancellors

We would like to thank the teams at the University of California for working with us to help make this an efficient and successful engagement.

Very truly yours
BDO USA, PC

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# Background

The mission of UC Internal Audit (IA) is to provide the Regents, President, campus Chancellors, and Laboratory Director with independent and objective assurance and consulting services designed to add value and improve operations. BDO conducted an independent validation of the self-assessment review (QAR) of the IA department with the support of audit executives from Stanford University and Oregon State University. The principal objectives of the QAR were to:

➢ Assess the IA activity's conformance with the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing (*Standards*).
➢ Evaluate the IA activity's effectiveness in carrying out its mission (as outlined in its charter and expressed in the expectations of the Audit Committee and management).
➢ Identify opportunities to enhance IA management and processes, as well as its value to the UC System.

BDO's External Quality Assessment Review methodology helps to ensure consistency in approach, execution, and quality in meeting the objectives of the QAR. This approach consists of the four components detailed below. See **Appendix A** for more detail on our methodology.

| **1** Perception Assessment | **2** Audit Management Assessment | **3** Performance Review | **4** Leading Practice Calibration |

# Conclusions of the Independent Review Team

Based on the external quality assessment review we performed, it is our overall opinion that the internal audit function "**Generally Conforms**" with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and the Code of Ethics. In addition, our review noted strengths as well as opportunities for enhancing the internal audit function and processes that affect IA's effectiveness, as further detailed on the following pages.

The IIA's Quality Assessment Manual suggests a scale of three ratings, "generally conforms," "partially conforms," and "does not conform." "Generally Conforms" is the top rating and means that an IA activity has a charter, policies, and processes that are judged to be in conformance with the *Standards*. "Partially conforms" means deficiencies in practice are noted that are judged to deviate from the *Standards*, but these deficiencies did not preclude the IA activity from performing its responsibilities in an acceptable manner. "Does not conform" means deficiencies are judged to be so significant as to seriously impair or preclude the IA activity from performing adequately in all or in significant areas of its responsibilities.
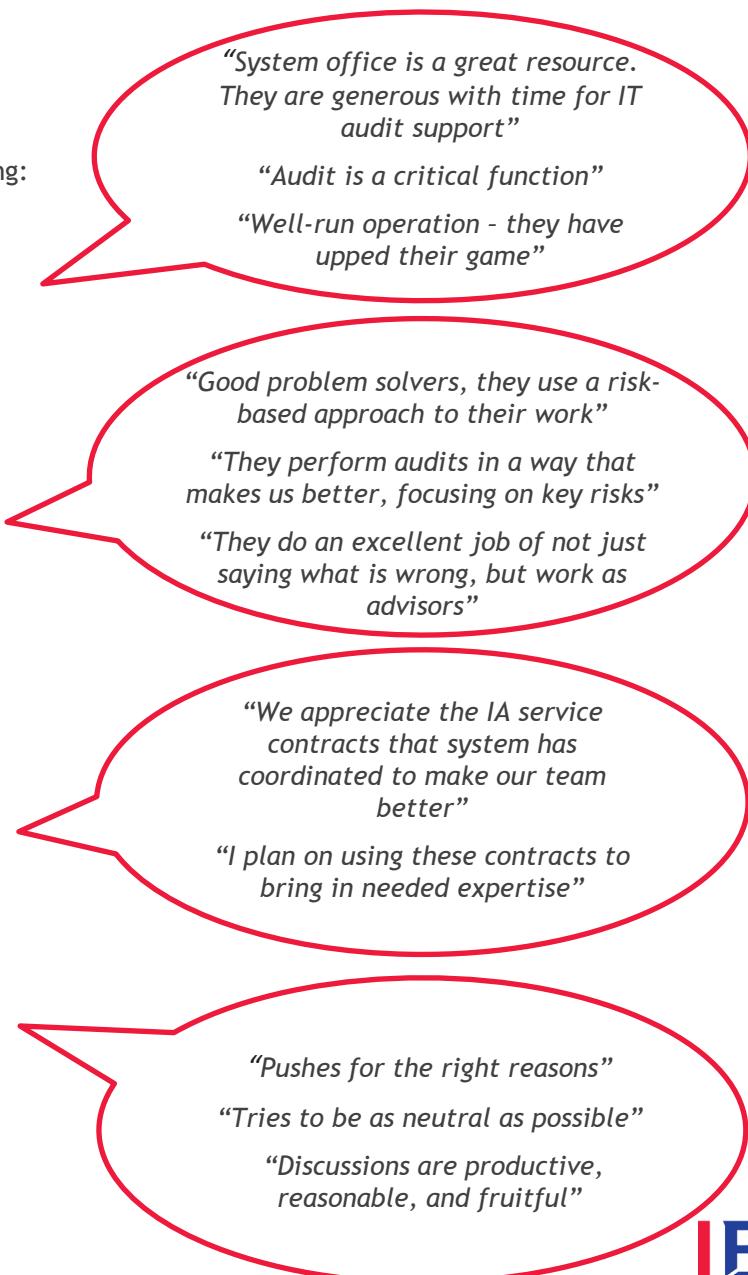
**See Appendix D** for the evaluation against the *Standards*.

# Strengths
## Value to the Organization

During our review we identified many strengths, including the following:

- **Valued system-wide audit services:** Cybersecurity audit resources are valued by both stakeholders within individual internal audit departments and with their campus stakeholders. They also find these resources to be accessible.

- **Advisory services enhance the perception of the function:** Stakeholders increasingly view IA as a resource to leadership as a result of the branding as both audit and advisory services. There is awareness around advisory services, and it has enhanced engagement with the IA function.

- **Strong link between risk assessment and internal audit plan:** Stakeholders understand and observed the connection between their discussions around risk and the internal audit plans. They also appreciated the integrated risk assessments.

- **Leveraging third party support for expanded capacity and expertise:** Campuses value the system-wide service agreements that they can leverage for specialized services.

- **Neutral/Objective tone in communications:** Ethics, Compliance and Audit Services (ECAS) leadership has prioritized its position as an independent and objective resource.

- **System-wide view of risk:** Reporting at the system-level provides a good summary of cross-cutting risk themes.

*"System office is a great resource. They are generous with time for IT audit support"*

*"Audit is a critical function"*

*"Well-run operation – they have upped their game"*

*"Good problem solvers, they use a risk-based approach to their work"*

*"They perform audits in a way that makes us better, focusing on key risks"*

*"They do an excellent job of not just saying what is wrong, but work as advisors"*

*"We appreciate the IA service contracts that system has coordinated to make our team better"*

*"I plan on using these contracts to bring in needed expertise"*

*"Pushes for the right reasons"*

*"Tries to be as neutral as possible"*

*"Discussions are productive, reasonable, and fruitful"*

*Stakeholder Feedback*

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# Opportunities for Enhancement
## Performance Relative to the *Standards*

The review team agrees with Audit Services' October 2023 self-assessment report, including the assessment of individual Standards and self-identified opportunities for enhancement. We identified two additional opportunities to enhance conformance with the *Standards*.

| IIA Standard | Opportunities |
|---|---|
| **Attribute Standard 1110:**<br><br>**Independence and Objectivity** | To further enhance conformance with the *Standards* and support the independence of the function:<br>• Update the Audit Committee Charter to include in its consent responsibilities, (1) approving the annual budget and resource plan for ECAS separate from the Regents' approval of UCOP's annual budget, (2) approving decisions regarding appointment and removal of the Chief Compliance and Audit Officer (CCAO), and (3) approving remuneration of CCAO.<br>• Strengthen independent reporting line for the internal audit directors (IADs) by aligning the performance evaluation process for IADs under each Chancellor and CCAO, leveraging inputs from the system-wide quality assessment results to support the evaluation. |
| **Performance Standard 2030:**<br><br>**Resource Management** | A perception was shared in several stakeholder interviews that certain campus internal audit functions were well-resourced, and others were not well-resourced. ECAS should leverage their internal quality assessment and review agreed upon metrics to advise the Chancellors as to the resourcing of the function.<br><br>The resourcing of each internal audit function can be a topic that is discussed as part of IADs performance discussion with their dual reports (Chancellors and the CCAO). |

These results were communicated and agreed to by ECAS. The complete evaluation against the Standards is presented in **Appendix D**.

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# Opportunities for Enhancement
## Performance Relative to Leading Practices

Other opportunities for enhancement are based on our discussions with stakeholders as well as our review of IA documentation, leading practice opportunities, and IIA *Standards* guidance. The following observations represent improvement opportunities. They are offered as suggestions for the continued growth and success of Internal Audit, along with the advancement of its value proposition.

- **Enrich engagement with chancellors:** ECAS should continue to communicate to the Chancellors that they are available to discuss their audit activities to help tailor their services and deliver value to their stakeholders. They should also explore opportunities to expand their engagement with the Chancellors. This could include periodically participating in monthly Council of Chancellors meetings with a focus on not only presenting information but also gathering input from the Chancellor group. These discussions may help inform the system-wide audit activities to better reflect local operations on each campus and inform the audit approach.

- **Enhance system-wide quality assurance:** In the self-assessment report (detailed further in **Appendix F**), ECAS identified the opportunity and has received budget to expand system-wide quality assessment capabilities to better evaluate and improve performance over time. In addition to identified plans, ECAS should considering leveraging the quality process to develop and communicate additional guidance on leading practices in areas such as drafting and vetting management corrective actions (MCAs) and the expected validation required in closing out those MCAs.

- **Further define internal audit, compliance, and investigations:** ECAS should continue to further define and communicate the different roles and responsibilities of each of the three functions across the system, and explain the similarities, interactions, and collaborations among the functions. This delineation will help stakeholders better understand the value that each function provides and how the functions may collaborate. It will also help to address perceptions around potential conflicts for auditing compliance.

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# Appendix A
## Methodology

BDO's External Quality Assessment Review methodology helps to ensure consistency in approach, execution and quality. It focuses on developing an understanding of the organization and the internal audit function to provide tailored solutions and insights.

### 1   PERCEPTION ASSESSMENT

### PHASE 1: PERCEPTION ASSESSMENT

Phase I consists of a high-level assessment of the Internal Audit Department focusing on internal and external perceptions of the quality and effectiveness of the audit function and addresses the IIA's Attribute Standards of:

- Purpose, Authority and Responsibility
- Independence and Objectivity
- Proficiency and Due Professional Care
- Quality Assurance and Improvement Program

### ACTIVITIES

- Use questionnaires and interviews of key Internal Audit Department stakeholders to develop a profile of their expectations of the Internal Audit Department
- Examine the Internal Audit Department's Charter and Mission Statement
- Evaluate the alignment and perception of internal audit objectives with the expectations and perceptions of stakeholders

### 2   AUDIT MANAGEMENT ASSESSMENT

### PHASE 2: MANAGEMENT ASSESSMENT

Phase II focuses on the management of the Internal Audit Department. Through a review of the organizational structure and the audit planning process, we will provide management with a focused assessment of the ability of the department to perform its overall mission. This phase tests compliance with certain IIA's Performance Standards, specifically:

- Managing the Internal Audit Activity
- Nature of Work
- Engagement Planning

### ACTIVITIES

- Review IA's organizational placement and structure
- Evaluate IA's process for identifying the audit universe
- Assess the adequacy of IA's staffing levels, alignment of responsibilities, skillset, and allocation of workload
- Review and evaluate IA's administrative policies on scheduling, planning, documenting, audit testing, and reporting

# Appendix A
## Methodology

| 3 | PERFORMANCE REVIEW |
|---|---|

### PHASE 3: PERFORMANCE REVIEW

Phase III provides a detailed assessment of the "audit" as BDO reviews a sample of completed audit workpapers. Phase III provides an assessment of the Internal Audit Department's compliance with the remainder of the IIA's Performance Standards, namely:

- Performing the Engagement
- Communicating Results
- Monitoring Progress
- Code of Ethics

### ACTIVITIES

- Perform a detailed review of the Internal Audit Department's Audit process including:
  - Plan
  - Analysis
  - Testing
  - Workpaper Development
  - Documentation
  - Reporting
- Review a sample of the Internal Audit Department's reports
- Obtain auditee feedback on the Internal Audit Department's performance (See **Appendix B** for a list of interviews conducted)

| 4 | LEADING PRACTICE CALIBRATION |
|---|---|

### PHASE 4: LEADING PRACTICE CALIBRATION

Once results from Phases I, II and III have been documented, BDO provides recommendations that are calibrated to help elevate the Internal Audit Department to not only meet the IIA *Standards*, but to exceed them within the context of the needs of their organization by:

- Evaluating your Internal Audit Department against BDO's model of "Leading Practices".
- Considering the strategy of the organization and the needs of stakeholders
- Providing recommendations on how to increase the Internal Audit Department's efficiency and effectiveness.
- Presenting advice on how to internally market the Internal Audit Department's accomplishments.

### ACTIVITIES

- Provide recommendations on how to increase the Internal Audit Department's efficiency and effectiveness
- Present advice on how to internally market the Internal Audit Department's accomplishments

# Appendix B
## Interviews Conducted

### Board of Regents

| Name | Title |
| --- | --- |
| Gareth Elliott | Vice Chair, Board of Regents |
| Richard Leib | Chair, Board of Regents |
| Jay Sures | Chair, Board of Regents' Committee on Compliance and Audit |

### University of California – Office of the President

| Name | Title |
| --- | --- |
| Nathan Brostrom | Executive Vice President – Chief Financial Officer |
| Alexander Bustamante | Senior Vice President and Chief Compliance and Audit Officer |
| Kevin Confetti | Associate Vice President and Chief Risk Officer |
| Michael Drake | President |
| Carrie Frandsen | Director, Systemwide Enterprise Risk Management |
| Matthew Hicks | Systemwide Deputy Audit Officer |
| Gregory Loge | Systemwide Cybersecurity Audit Director |
| Rachael Nava | Executive Vice President – Chief Operating Officer |
| Charlie Robinson | General Counsel and Senior Vice President – Legal Affairs |
| Van Williams | Vice President of Information Technology Services and Chief Information Officer |

# Appendix B (Continued)
## Interviews Conducted

### University of California – Berkeley

| Name | Title |
|------|-------|
| Carol Christ | Chancellor |
| Dan Feitelberg | Interim Vice Chancellor of Finance and Chief Financial Officer |
| Marc Fisher | Vice Chancellor Administration |
| Khira Griscavage | Associate Chancellor and Chief of Staff and Chief Ethics, Risk, and Compliance Officer |
| Jennifer Jones | Associate Director, Audit & Advisory Services |
| Jaime Jue | Director, Audit & Advisory Services |
| Steve Sutton | Vice Chancellor for Student Affairs |

### University of California - Davis

| Name | Title |
|------|-------|
| Nicolas Borton | Chief Information Security Officer, Davis Medical Center |
| Mary Croughan | Provost and Executive Vice Chancellor |
| Ryan Dickson | Director, Audit & Management Advisory Services |
| Gary May | Chancellor |
| Cheryl Washington | Chief Information Security Officer |

# Appendix B (Continued)
## Interviews Conducted

### University of California – Los Angeles

| Name | Title |
|------|-------|
| Allison Baird-James | Vice Chancellor and Chief Financial Officer |
| Michael Beck | Administrative Vice Chancellor |
| Gene Block | Chancellor |
| Yolanda Gorman | Senior Advisor to the Chancellor and Chief of Staff |
| Mark Krause | Associate Vice Chancellor, Chief Compliance and Audit Officer |
| John Mazziotta | Vice Chancellor and Chief Executive Officer of UCLA Health |
| Roger Wakimoto | Vice Chancellor for Research & Creative Activities |

### University of California - Merced

| Name | Title |
|------|-------|
| Nick Dugan | Vice Chancellor and Chief Information Officer |
| Chou Her | Assistant Vice Chancellor of Public Safety and Chief of Police |
| Eduardo Perez Ruiz | Senior Internal Auditor |
| Juan Sánchez Muñoz | Chancellor |
| Kurt Schneir | Interim Vice Chancellor and Chief Financial Officer |
| Randy Schwantes | Director, Internal Audit and Advisory Services |

# Appendix B (Continued)
## Interviews Conducted

### University of California – San Francisco

| Name | Title |
| --- | --- |
| Brian Alldredge | Vice Provost for Academic Affairs |
| Joe Bengfort | Senior Vice President, Information Technology and Chief Information Officer of UCSF Health |
| Erin Gore | Senior Vice Chancellor of Finance and Administration |
| Suresh Gunasekaran | President and Chief Executive Officer of UCSF Health |
| Sam Hawgood | Chancellor |
| Farida Lada | Chief Campus Compliance Officer |
| Catherine Lucey | Executive Vice Chancellor and Provost |
| Irene McGlynn | Director, Audit and Advisory Services |
| Brian Smith | Chief Ethics and Compliance Officer and Senior Associate Vice Chancellor – Research Infrastructure & Operations |

### University of California – Santa Barbara

| Name | Title |
| --- | --- |
| Ashley Anderson | Director, Audit and Advisory Services |
| Josh Bright | Associate Vice Chancellor for Information Technology and Chief Information Officer |
| Chuck Haines | Vice Chancellor and Chief Financial Officer |
| Gary MacPherson | Vice Chancellor Administration |
| Antonio Manas Melendez | Associate Director, Audit and Advisory Services |
| David Marshall | Executive Vice Chancellor |
| Henry Yang | Chancellor |

# Appendix B (Continued)
## Interviews Conducted

University of California – Santa Cruz

| Name | Title |
|------|-------|
| Jim Dougherty | Director, Audit & Management Advisory Services |
| Anna Finn | Associate Chancellor and Chief of Staff |
| Cynthia Larive | Chancellor |
| John MacMillan | Vice Chancellor for Research |

See **Appendix C** for additional feedback from these interviews.

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# Appendix C
## Interview Feedback

This graphic illustrates the positive words that stakeholders used to describe Internal Audit during the quality assessment interviews. The words presented in a larger font size were mentioned more frequently.

# Appendix D – Evaluation Summary

The following is a detailed view of the Compliance Scorecard illustrating ratings against the IIA Standards.

| Quality Assessment Evaluation Summary—Overall Evaluation | Generally Conforms | Partially Conforms | Does Not Conform |
|---|---|---|---|
| OVERALL EVALUATION | ✔ | | |

| | Quality Assessment Evaluation—Major/Supporting *Standards* | GC | PC | DNC |
|---|---|---|---|---|
| **1000** | **Purpose, Authority, and Responsibility** | ✔ | | |
| | 1010 Recognition of the Definition of Internal Auditing, the Code of Ethics, and the *Standards* in the Internal Audit Charter | ✔ | | |
| **1100** | **Independence and Objectivity** | ✔ | | |
| | 1110 Organizational Independence | ✔ | | |
| | 1111 Direct Interaction with the Board | ✔ | | |
| | 1112 Chief Audit Executive Roles Beyond Internal Auditing | ✔ | | |
| | 1120 Individual Objectivity | ✔ | | |
| | 1130 Impairment to Independence or Objectivity | ✔ | | |
| **1200** | **Proficiency and Due Professional Care** | ✔ | | |
| | 1210 Proficiency | ✔ | | |
| | 1220 Due Professional Care | ✔ | | |
| | 1230 Continuing Professional Development | ✔ | | |
| **1300** | **Quality Assurance and Improvement Program** | ✔ | | |
| | 1310 Requirements of the Quality Assurance and Improvement Program | ✔ | | |
| | 1311 Internal Assessments | ✔ | | |
| | 1312 External Assessments | ✔ | | |
| | 1320 Reporting on the Quality Assurance and Improvement Program | ✔ | | |
| | 1321 Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing" | ✔ | | |
| | 1322 Disclosure of Nonconformance | ✔ | | |

# Appendix D – Evaluation Summary (Continued)

The following is a detailed view of the Compliance Scorecard illustrating ratings against the IIA Standards.

| Quality Assessment Evaluation Summary—Overall Evaluation | Generally Conforms | Partially Conforms | Does Not Conform |
|---|---|---|---|
| OVERALL EVALUATION | ✔ | | |

| | Quality Assessment Evaluation—Major/Supporting *Standards* | GC | PC | DNC |
|---|---|---|---|---|
| 2000 | **Managing the Internal Audit Activity** | ✔ | | |
| | 2010 Planning | ✔ | | |
| | 2020 Communication and Approval | ✔ | | |
| | 2030 Resource Management | ✔ | | |
| | 2040 Policies and Procedures | ✔ | | |
| | 2050 Coordination | ✔ | | |
| | 2060 Reporting to Senior Management and the Board | ✔ | | |
| | 2070 External Service Provider and Organizational Responsibility for Internal Auditing | ✔ | | |
| 2100 | **Nature of Work** | ✔ | | |
| | 2110 Governance | ✔ | | |
| | 2120 Risk Management | ✔ | | |
| | 2130 Control | ✔ | | |
| 2200 | **Engagement Planning** | ✔ | | |
| | 2201 Planning Considerations | ✔ | | |
| | 2210 Engagement Objectives | ✔ | | |
| | 2220 Engagement Scope | ✔ | | |
| | 2230 Engagement Resource Allocation | ✔ | | |
| | 2240 Engagement Work Program | ✔ | | |

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# Appendix D – Evaluation Summary (Continued)

The following is a detailed view of the Compliance Scorecard illustrating ratings against the IIA Standards.

| Quality Assessment Evaluation Summary—Overall Evaluation | Generally Conforms | Partially Conforms | Does Not Conform |
|---|:---:|:---:|:---:|
| OVERALL EVALUATION | ✔ | | |

| | Quality Assessment Evaluation—Major/Supporting *Standards* | GC | PC | DNC |
|---|---|:---:|:---:|:---:|
| **2300** | **Performing the Engagement** | ✔ | | |
| | 2310 Identifying Information | ✔ | | |
| | 2320 Analysis and Evaluation | ✔ | | |
| | 2330 Documenting Information | ✔ | | |
| | 2340 Engagement Supervision | ✔ | | |
| **2400** | **Communicating Results** | ✔ | | |
| | 2410 Criteria for Communicating | ✔ | | |
| | 2420 Quality of Communications | ✔ | | |
| | 2421 Errors and Omissions | ✔ | | |
| | 2430 Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing" | ✔ | | |
| | 2431 Engagement Disclosure of Nonconformance | ✔ | | |
| | 2440 Disseminating Results | ✔ | | |
| | 2450 Overall Opinions | ✔ | | |
| **2500** | **Monitoring Progress** | ✔ | | |
| **2600** | **Communicating the Acceptance of Risks** | ✔ | | |
| | **The IIA's Code of Ethics** | ✔ | | |

# Appendix E
## Assessment Team

### Michael Vierheller, CPA

Michael has more than 25 years of experience reviewing and managing Internal Audit Functions. He has led several reviews for reviewing and assessing Internal Audit departments including, performing risk assessments, executing external Quality Assessment Reviews (QARs), conducting business process analyses and executing internal audit plans. Michael also brings Internal Audit management experience through his experience in developing compliance review in accordance with the Sarbanes-Oxley Act, performing user acceptance testing on new system implementations, and assisting with the design, development and execution of regulatory compliance programs.

### John Kiss, CPA, CFE

John Kiss is a Director with the Risk Advisory Services practice at BDO. He has 18 years of professional service experience serving research institutions, academic medical centers, and not-for-profit organizations. John also works with clients to provide internal audit, financial and operational risk management, fraud investigation, organizational governance, and other assurance services. John has participated in the Quality Assessment Review process for many leading research institutions, while also assisting a university in preparing its own Self-Assessment according to the Standards. He routinely develops and leads trainings and presentations focused on internal audit, risk management, and compliance specifically targeted to higher education and not-for-profit institutions. John holds a Bachelor of Science in Information Systems Management and a Masters in Accountancy from Wake Forest University. He is a Certified Public Accountant and Certified Fraud Examiner. John's clients have included The University of Texas System, the University of California System, the Iowa Regents Institutions, University of Michigan, George Washington University, Georgetown University, Howard University, Marquette University, Princeton University, Stanford University, Virginia Tech, and the University of Washington.

### Jackie Pascoe, CPA

Jackie is an Experienced Manager in BDO's Risk Advisory Services practice. She has over seven years of experience in internal audit and risk advisory services, primarily serving clients in higher education and not-for-profit organizations. Her experience includes supporting colleges and universities from an outsourced or co-sourced internal audit capacity, focused on addressing operational, regulatory, financial, and reputational risks. Jackie received her Bachelor of Science in Accountancy and Master of Science in Accountancy, with a concentration in internal audit, from Bradley University and is a licensed Certified Public Accountant (CPA). She is a member of the American Institute of Certified Public Accountants (AICPA), an officer for the Institute of Internal Auditors (IIA) D.C. Chapter, and a current member of the Association for College and University Auditors (ACUA). Her higher education clients have included the Catholic University of America, Cuyahoga Community College, Duke University, Georgetown University, George Mason University, George Washington University, Howard University, Liberty University, the University of California System, the University of Oregon, the University of Texas System, the University of Virginia, and the University of Washington.

# Appendix E (Continued)
## Assessment Team

### Patricia Snopkowski, CPA, CIA, CCEP, CITP

Patti Snopkowski is the Chief Executive of Audit, Risk and Compliance for Oregon State University. Patti's audit experience includes serving as chief audit executive for the Oregon University System, as well as audit positions with the Pennsylvania Auditor General's Office, SAFECO Corporation, the University of Washington, and Cornell University. She is a member of various accounting, auditing, and higher education organizations including the Institute of Internal Auditors (IIA), Association of College and University Auditors (ACUA), and the National Association of College and University Business Officers (NACUBO) serving as a presenter, in various committees and leadership roles, and as a contributing author. Patti is a recipient of ACUA's Outstanding Professional Contributions Award recognizing her contributions to the profession of internal auditing in higher education. Patti received her Bachelor of Science in Accountancy from Pennsylvania State University and her Master of Business Administration from Colorado State University. She has also been licensed as a Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Compliance & Ethics Professional (CCEP), and Certified Information Technology Professional (CITP).

### Henry Gusman, CPA, CGMA

Henry Gusman is the Chief Audit Executive at Stanford University and is responsible for Internal Audit at Stanford University, Stanford Health Care, Stanford Children's Health, School of Medicine, SLAC and Stanford Management Company. Prior to joining Stanford, Henry held increasingly responsible positions at URS Corporation in San Francisco, including Chief Audit Executive and Vice President of Sarbanes-Oxley Compliance. During his time at URS, Henry oversaw department growth from two to 30 audit professionals in six national and international locations. Prior to joining URS Corporation, Henry held audit positions at Lockheed Corporation, Adams, Grant & Smith, Certified Public Accountants, and the Internal Revenue Service. Henry is a CPA and has over 30 years of audit experience. He is a current member of various professional organizations including the American Institute of Certified Public Accountants (AICPA), California Society of Certified Public Accountants (CalCPA) and Institute of Internal Auditors (IIA). Additionally, he has served on many non-profit Boards. Currently, he is the Audit Committee Chair and Treasurer for the United Cerebral Palsy of the Bay Area.

# Appendix F - Self-Assessment Report

UNIVERSITY OF CALIFORNIA
ETHICS, COMPLIANCE AND AUDIT SERVICES
INTERNAL AUDIT SERVICES

UC AUDIT SERVICES SYSTEMWIDE INTERNAL ASSESSMENT
October 2023

## Executive Summary

### Introduction

The Office of Ethics, Compliance and Audit Services has completed a systemwide internal self-assessment of the internal audit (IA) activity. The review was conducted during the period of November 2022 to August 2023, with an emphasis on current practices. The principal objective of the review was to assess the internal audit's conformance to The Institute of Internal Auditor's (IIA) International Standards for the Professional Practice of Internal Auditing (Standards), and the IIA Code of Ethics, as well as the University of California Internal Audit Manual.

While the IIA Standards require continuous internal review of the internal audit departments, the Standards also require that every internal audit department must also be reviewed once every five years by a qualified independent reviewer. The University of California selected to fulfill this requirement by performing a self-assessment with independent validation – which is one of the approaches approved by the IIA.

The self-assessment with validation method was a more cost-effective approach and included the engagement of campus audit departments. The independent validation was performed by a team comprised of audit executives from Stanford University and the University of Oregon System and led by the firm BDO. This external review team reviewed and evaluated our campus and system-wide self-assessments, performed limited testing, and interviewed a sample of UC auditors and internal audit stakeholders. The review team will prepare a separate report that will include an opinion on our conformance to the Standards and will identify opportunities for improvement.

The IIA's Quality Assessment Manual suggests a scale of three ratings, "Generally Conforms," "Partially Conforms," and "Does Not Conform." "Generally Conforms" is the top rating and means that an IA activity has a charter, policies, and processes that are judged to be in conformance with the Standards. "Partially Conforms" means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude IA from performing its responsibilities in an acceptable manner. "Does Not Conform" means deficiencies in practice are judged to be so significant as to seriously impair or preclude the IA activity from performing adequately in all or in significant areas of its responsibilities.

### Scope and Methodology

As part of the internal assessment, the Office of Ethics, Compliance and Audit Services (ECAS) initiated an internal assessment process (IAP) with each campus and Lawrence Berkeley National Laboratory. This IAP was a comprehensive self-assessment in which each location reviewed information about their respective practices and policies, including risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes, a review of a representative sample of work papers and reports, and interviews with audit staff and campus audit clients and leadership.

The campus and laboratory IAP results were reviewed, consolidated and supplemented with an overall systemwide self-assessment. This assessment also included a review of campus audit practices, with an emphasis of identifying value added activities. Refer to Attachment A for the systemwide summary assessment of conformance to each of the IIA Standards based on the results of our IAP.

**Overall Conclusion**

Based on our self-assessment, it is our overall opinion that our University of California systemwide internal audit program <u>Generally Conforms</u> to the IIA *Standards* and Code of Ethics. The internal assessment identified opportunities for further improvement, details of which are provided below and in the appendix.

## Positive Observations and Notable Achievements

As a result of our campus and system-wide self–assessments, we have concluded that our systemwide internal audit environment is well-structured and progressive, IIA *Standards* are understood, and internal audit management provides useful audit tools and implements appropriate best practices. Some successful best practices and/or notable achievements identified during the review include the following:

- We completed numerous impactful systemwide audits in the highest risk areas impacting the system as a whole. These audits resulted in significant improvements to governance, risk management and internal controls in the following areas:
  - Foreign influence
  - Undergraduate admissions
  - Cybersecurity
    - Threat detection and identification
    - Incident response
    - Vulnerability assessment and penetration testing
    - Information security policy compliance
    - UC Health cyber resiliency
  - Police complaint handling and use of force reports
  - Contracting out
  - Fair Wage/Fair Work
  - Outside Professional Activities
  - Executive compensation reporting

- To build on the success seen with the Cybersecurity Audit Team as a center of excellence, ECAS recently received budget approval for additional systemwide resources in in the following areas:

  - Quality Assurance: Additional personnel to implement a systemwide internal audit quality assurance program, including ongoing workpaper inspection, process enhancements, guidance, and targeted training.

- o Specialized Auditors: Additional personnel to deliver subject matter expertise in specialized areas including healthcare, construction, research compliance and IT system implementation.

- ECAS developed a proposed systemwide risk-based approach for identifying licensees for royalty audits through data-driven monitoring based on uniform criteria and additional required provisions in license agreements.

- The Internal Audit Charter was amended to:
  - o Reinforce internal audit's risk-based approach to its activities
  - o Clarify internal audit's unrestricted access to information to reflect access to information needed to perform ongoing risk assessment activities as well as access to information systems and databases
  - o Reflect that internal audit conducts its activity on behalf of the Board of Regents

- We provided high quality and low-cost professional training for internal audit staff, including training directed toward obtaining professional certifications:
  - o Our 2019 and 2021 Compliance and Audit Symposiums provided educational and training sessions in the areas of critical thinking, leadership development and hands-on technical exercises addressing internal audit skill sets.
  - o Our ongoing training program also includes a monthly webinar program in which campuses present information on a number of audit and related topics and best practices. Each month a different UC location audit department presents a session that either addresses emerging risk areas or relates to topics on our UC audit plan. This program has been well received by internal audit staff and is a valuable component of our internal training program.
  - o We revised and expanded the curriculum for the new auditor training for new UC auditors. These in-person trainings sessions provide our new auditor staff with information about the UC system and the UC audit program. They also provide these new staff members the opportunity to meet and listen to a number of senior leaders from the Office of the President.
  - o We also delivered various other in-person training sessions for UC auditors in priority subject matter areas including:
    - Cybersecurity
    - Healthcare auditing
    - Research compliance

- An RFP was conducted to identify multiple new providers for systemwide internal audit services, including co-sourced internal audit services for UCOP. The RFP committee included membership from systemwide internal audit and campus internal audit departments. As a result of this RFP process, four new firms were selected as systemwide internal audit services providers. Use of co-sourced internal audit services allows for greater flexibility in staffing and scheduling internal audit

projects and provides the ability to deploy auditors with specialized skills where needed.

- As part of our increased follow-up activity and in collaboration with management, we have reduced our count of open management corrective actions (MCAs) from 568 at the end of FY 2016-17 to 334 at the end of FY 2021-22. Further, we implemented enhancements the MCA escalation process which resulted in a significant drop in MCAs over 300 days old – from 114 in August 2018 to 35 in June 2023.

- We continued to provide opportunities for staff development and enrichment through the support of professional certifications. ECAS regularly sponsors drives for certifications including CIA, CISA and CFE. Currently, 81% of our professional staff have at least one certification.

- We have advanced the maturity of our internal audit data analytics and data visualization capabilities through coordinated information sharing, specialized training and the use of consultants for "over the shoulder" advice on the application of data analytics techniques in audit projects.

- ECAS sponsored an annual mentorship program that provides mentors and mentees with a valuable learning and professional growth experience. This program pairs members of our professional staff with a mentor at another campus who has significant experience and leadership responsibility within our UC audit community. Through a series of monthly meetings or calls, the mentor and mentee identify areas that contribute to professional and personal enrichment and satisfaction for both parties.

- Internal Audit served as the external coordinator for several high-profile audits conducted by governmental agencies including the California State Auditor. The external audit coordinator serves as the central point of contact for the auditors of the external agency, facilitates information requests, informs management of potential audit issues as they arise, and coordinates management responses to audit reports. Internal Audit has also assisted management in performing documentation reviews and control testing in advance of external audit fieldwork to help management anticipate and respond to potential issues that may arise during the external audit. External audit coordination has provided a benefit to the University by driving audit efficiency and ensuring appropriate information is provided to agencies in a responsive and timely manner.

- Internal Audit management and staff from all locations participate on various systemwide, campus and external committees and work groups. Our systemwide committee involvement includes Lawrence Berkeley National Laboratory's Contract Assurance Council, the Laboratory Management Council, the Ethics and Audit Committee of the Los Alamos National Security and Lawrence Livermore National Security LLC, UCPath Steering Committee, and the Presidential Artificial Intelligence Council. Additionally, Internal Audit personnel actively participate on various committees supporting management initiatives throughout the University

system, including committees that address Ethics and Risk, IT Governance, Privacy, data analytics, HIPAA compliance, and new systems development projects.

## Opportunities for Improvement

Although our audit work and processes complied with the IIA Standards, we did identify several minor opportunities for improvement in which some additional training or communication reminders would be beneficial to our auditors to increase awareness and reinforce our Internal Audit Manual Requirements. Additionally, each UC campus and laboratory issued local reports summarizing their individual results, including local opportunities for improvement aimed at increasing efficiencies.

We have identified the following system-wide strategic improvement areas that will further strengthen our internal audit business practices and adherence to the IIA *Standards:*

1. **Update the Systemwide Internal Audit Strategic Plan**

   Develop and share a formal document that outlines ECAS' vision and strategic priorities for systemwide internal audit. Where appropriate, incorporate opportunities for improvement identified in the Internal Improvement Process (IAP) and Quality Assessment Review (QAR). Consider the reinstitution of prior strategic initiatives that were well received but later discontinued.

2. **Continue Efforts to Implement a Systemwide Internal Audit Quality Assurance (QA) Function**

   ECAS has received budgetary approval to hire two personnel to implement a systemwide internal audit QA function. Those positions were posted in August 2023. Implementation of a systemwide QA function will help ensure that our internal audit work complies with relevant standards, addresses the university's top risks, and provides value to our stakeholders. The QA team will perform ongoing inspection of internal audit workpapers, facilitate improvement in the risk assessment process, provide feedback to UC internal audit offices on areas for improvement, and develop training plans to address identified needs. ECAS will update the IAP process to reflect this new structure, which should reduce the burden on the locations for IAP efforts. As part of this initiative, ECAS will improve and formalize the follow-up process for QAR and IAP recommendations.

3. **Continue Efforts to Develop Systemwide Internal Audit Subject Matter Expertise (SME) Resources**

   Build on the success of the Cybersecurity Audit Team (CAT) to develop centralized SME resources in areas of need, such as construction, healthcare, research, IT system implementations, royalty/technology transfer and data analytics. ECAS has received budgetary approval to hire two SME auditors. Like the CAT, these SME resources would support local internal audit offices with subject matter expertise,

perform specialized internal audit projects, and provide specialized training to UC auditors to help ensure UC is delivering the appropriate subject matter expertise in audit and advisory work in specialized risk areas.

4. **Improve Administration of Systemwide Audit Projects**

Location IAP self-assessments identified pain points and opportunities for improvement in the administration of systemwide audit projects. Potential areas for improvement include:
- Communication
- Timely development and finalization of audit scope and audit program
- Accuracy of project effort estimates (hours budget)

ECAS will solicit UC internal audit personnel to participate in a "focus group" to identify specific areas for improvement and recommendations to improve the administration of systemwide audit projects.

5. **Enhance Systemwide Internal Audit Risk Assessment Methodology and Processes**

Identify, evaluate, and implement opportunities to strengthen systemwide internal audit risk assessment methodology and processes, including the internal audit risk universe and risk factors, the use of tools and technology, techniques to identify risks ("risk sensing") and information sharing. Consider benchmarking UC's risk assessment practices against other leading internal audit functions as part of this analysis.

6. **Explore Opportunities to Further Integrate Technology into Internal Audit Processes**

Explore opportunities to enhance internal audit process and methodologies through the use of technology, including expanding the data analytics/data visualization program and implementing the use of artificial intelligence and machine learning. Potential benefits of more effective use of technology in the audit process include streamlining processes, greater audit coverage and impact, reduction of effort allocated to routine tasks, and improved reporting.

**Appendix: University of California Internal Audit Systemwide IIA Standards Conformance Evaluation Summary**

| | | ("X" Evaluator's Decision) | | |
|---|---|:---:|:---:|:---:|
| | | GC | PC | DNC |
| **ATTRIBUTE STANDARDS** | | | | |
| **1000** | **Purpose, Authority, and Responsibility** | X | | |
| 1010 | Recognition of the Definition of Internal Auditing, the Code of Ethics, and the *Standards* in the Internal Audit Charter | X | | |
| **1100** | **Independence and Objectivity** | X | | |
| 1110 | Organizational Independence | X | | |
| 1111 | Direct Interaction with the Board | X | | |
| 1112 | Chief Audit Executive Roles Beyond Internal Auditing | X | | |
| 1120 | Individual Objectivity | X | | |
| 1130 | Impairments to Independence or Objectivity | X | | |
| **1200** | **Proficiency and Due Professional Care** | X | | |
| 1210 | Proficiency | X | | |
| 1220 | Due Professional Care | X | | |
| 1230 | Continuing Professional Development | X | | |
| **1300** | **Quality Assurance and Improvement Program** | X | | |
| 1310 | Requirements of the Quality Assurance and Improvement | X | | |
| 1311 | Internal Assessments | X | | |
| 1312 | External Assessments | X | | |
| 1320 | Reporting on the Quality Assurance and Improvement Program | X | | |
| 1321 | Use of "Conforms with the *International Standards for the Professional Practice of Internal Auditing*" | X | | |
| 1322 | Disclosure of Nonconformance | X | | |
| **PERFORMANCE STANDARDS** | | | | |
| **2000** | **Managing the Internal Audit Activity** | X | | |
| 2010 | Planning | X | | |
| 2020 | Communication and Approval | X | | |
| 2030 | Resource Management | X | | |
| 2040 | Policies and Procedures | X | | |
| 2050 | Coordination | X | | |
| 2060 | Reporting to Senior Management and the Board | X | | |

| | | ("X" Evaluator's Decision) | | |
|---|---|---|---|---|
| | | GC | PC | DNC |
| 2070 | External Service Provider and Organizational Responsibility for Internal Auditing | X | | |
| **2100** | **Nature of Work** | X | | |
| 2110 | Governance | X | | |
| 2120 | Risk Management | X | | |
| 2130 | Control | X | | |
| **2200** | **Engagement Planning** | X | | |
| 2201 | Planning Considerations | X | | |
| 2210 | Engagement Objectives | X | | |
| 2220 | Engagement Scope | X | | |
| 2230 | Engagement Resource Allocation | X | | |
| 2240 | Engagement Work Program | X | | |
| **2300** | **Performing the Engagement** | X | | |
| 2310 | Identifying Information | X | | |
| 2320 | Analysis and Evaluation | X | | |
| 2330 | Documenting Information | X | | |
| 2340 | Engagement Supervision | X | | |
| **2400** | **Communicating Results** | X | | |
| 2410 | Criteria for Communicating | X | | |
| 2420 | Quality of Communications | X | | |
| 2421 | Errors and Omissions | X | | |
| 2430 | Use of "Conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*" | X | | |
| 2431 | Engagement Disclosure of Nonconformance | X | | |
| 2440 | Disseminating Results | X | | |
| 2450 | Overall Opinions | X | | |
| **2500** | **Monitoring Progress** | X | | |
| **2600** | **Communicating the Acceptance of Risks** | X | | |
| **The IIA Code of Ethics** | | X | | |
| **Key** <br> **GC = Generally Conforms** <br> **PC = Partially Conforms** <br> **DNC = Does Not Conform** | | | | |