AUDIT AND ADVISORY SERVICES

Report on Activities
Fiscal Year 2013
and
Annual Plan for Fiscal Year 2014
October 4, 2013

Respectfully reported,

Wanda Lynn Riley
Chief Audit Executive
Report on Activities
Fiscal Year 2013
and
Annual Plan for Fiscal Year 2014

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EXECUTIVE SUMMARY

STATE OF CONTROL ENVIRONMENT

One phrase describes the climate at the University of California, Berkeley throughout Fiscal Year 2013: tremendous change. Even under the best circumstances risk is inherent during periods of rapid change. Like many of our higher education peers, and as highlighted by Standard and Poors, we are navigating a multitude of changes and related risks:

- Realignment of multiple significant operational processes and personnel;
- Revenue constraints from state appropriations, tuition, federal research funding, requiring renewed focus on philanthropic and entrepreneurial pursuits;
- Growing deferred maintenance needs in capital and technological infrastructure;
- Pressure to preserve tuition affordability and education accessibility;
- Expansion in online education and international activities;
- Experimentation with alternative educational and revenue models;
- Increasing need for risk management and entrepreneurial thinking;
- Turnover in senior leadership;
- Potential for federal research funding cuts and Pell Grant changes; and
- Liabilities from pensions and other post-employment benefits.

Based on the assurance and advisory projects completed during the fiscal year ended June 30, 2013, as well as control implications arising from investigative activities, and representations made by University management, the internal control structures over the governance, risk management, financial, operating, and compliance activities of the University of California, Berkeley provide reasonable assurance that:

- Resources are adequately protected;
- Financial, managerial, and operating information is accurate, reliable, and timely;
- Employees’ actions are in compliance with policies, procedures, standards, and applicable laws and regulations;
- Resources are acquired economically and used efficiently; and
- Programs, plans, and objectives are achieved.

In performing assurance, advisory, and investigative work during the fiscal year, we did not identify any deficiencies we considered to represent a material control weakness. The University of California has adopted the Internal Control Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as the basis for assessing internal controls. The scope of our work was not limited in any way by management or others, nor were
there any instances where we considered our independence or objectivity impaired.

These statements are made with the understanding that no system of control provides absolute assurance that controls function effectively, nor are they meant to imply that fraud and other irregularities do not exist or are certain to be detected. The statements are also made with the understanding that decisions as to the level of risk that is tolerable and should be accepted by the organization are ultimately up to and made by management. These statements are intended solely for the information and use of University management, the senior vice president for Ethics, Compliance and Audit Services, and the University of California Board of Regents and are not intended to be and should not be used by anyone other than these specified parties. However, in the course of our work performed during Fiscal Year 2013, we did not identify any areas where management decided to accept a level of risk that we viewed as unacceptable.
Results of Assurance and Advisory Activities

Pursuant to the FY2013 Service Plan approved by the campus Committee on Audit, Internal Control and Financial Accountability and The Board of Regents of the University of California, Audit and Advisory Services (A&AS) completed the following audits:

Audit Reports Issued

- Major Construction – California Memorial Stadium
- Student Financial Aid – Middle Class Action Plan
- Executive Travel and Entertainment
- Optometry Clinic – Medicare and Medi-Cal Billing

Draft Reports with Management Action Plans Pending Finalization

- Contracts and Grants Accounting (formerly, Extramural Fund Accounting)
- Delegation of Authority
- Key Financial Controls
- Research Enterprise Services
- Support and Affiliated Organizations
- Youth on Campus
- IT Architecture
- Identity and Access Management

Draft Reports Pending Management Action Plans

- Bear Buy
- Privacy

In addition to serving on campus committees, collaborating with campus leaders on risk assessments, system implementations, review and documentation of internal controls, policy reviews, and other professional consultations, A&AS completed the following advisory projects:

- California Social Work Education Center
- Annual Report on Executive Compensation
- Contract Review for Intercollegiate Athletics
- Online Education Reference Guide Template

The Office of Ethics, Risk and Compliance Services expanded the role of the campus investigations coordinator to include direct investigation of alleged improper governmental acts. Along with other factors this resulted in fewer investigations led by A&AS. A&AS conducted the following investigations:
Viewing the body of assurance and advisory work over the course of the Fiscal Year 2013 as a whole, a few thematic deficiencies in the system of internal control emerged. Management has taken or plans to take action to strengthen the underlying governance, risk management, and control with respect to these areas:

**Change management** – As new administrative systems and processes were implemented, opportunities for improvement were noted in the following areas: alignment between accountability, authority, and access; availability of management reporting tools; communication, handoffs and interface between units in major process flows; vulnerability of initiatives to turnover and vacancies in key positions; and the maturity of controls in the new environments at launch. In addressing deficiencies, some campus units employed consultants to assist in managing change; internal task forces have been established to consider unanticipated outcomes; access to enterprise systems is under review; and the Cal Answers team is continuously working to improve and add management reports.

**Inconsistent quality in disaggregated manual key controls** – As a highly decentralized organization individual units and sometimes individuals are tasked with interpreting policies and implementing procedures to achieve business and control objectives. Competing priorities, vacancies, reductions, or staff changes, lack of awareness of risks or objectives, and limited oversight, guidance, and monitoring were noted as the underlying causes for the variances. In January 2013 to strengthen controls and increase efficiency, Campus Shared Services (CSS) opened its doors to provide support for information technology solutions to campus units. In March, the first cohort migrated to CSS for business, finance, human resources, academic personnel, and research administration support. Cohorts will continue to transition to CSS through 2014. In addition, the campus revisited the policy on policies: requiring periodic review of policies, streamlining the review process, and elevating the approval of campus policies to senior leadership through the Compliance, Accountability, Risk and Ethics committee. The Controller’s Office is relaunching its financial controls initiative with the hiring of a dedicated accountant and plans to review and update end-to-end documentation for key financial processes.

**Management reporting** – Tools to support decision-making, performance management, and compliance monitoring (e.g., budget, timekeeping, cost sharing, eProcurement, key financial controls) are limited and not consistently aligned with or customizable to meet a manager’s need. The campus has a number of system solutions in development to support managers at all levels of the organization in decision-
making. CalPlanning and CalAnswers are available with new reports and report enhancements added regularly.

**Fiscal management of enterprise activities** – The success of enterprise activities may benefit from enhanced controls around: contract management; pricing of goods and services; identification of unrelated business income activities; projection of revenue and expenses; offline recording of receivables; and use of business case analysis as a decision-making tool. The Operational Excellence Program Office, recognizing constraints on traditional revenue streams, launched a revenue generation initiative in October 2012. This initiative provides a framework and infrastructure for: exploring opportunities, generating and strengthening ideas, designing offerings and assessing the market, creating a plan for testing and refining approach, building and delivering the product or service, and monitoring performance. The Business Contracts Office and the Controller’s Office are working together to increase awareness around unrelated business activities and monitor activity for indicators of the same. The new Global Engagement Office opened in December 2012 to facilitate and coordinate campus international initiatives.

**Contract management** – Unit managers are often challenged in their responsibility for assuring that, with contracts for outsourced activities such as IT support, maintenance, and concessions, as well as contracts where the University is the service provider, each party meets its obligations to the other. The terms of the agreement are not consistently monitored and enforced. Additionally, the criteria for a subaward versus a vendor contract are not consistently applied. Individual units that manage multiple and/or significant contracts have or have plans to strengthen contract management controls. As units transition into Campus Shared Services, CSS is providing business contract support.

The following table summarizes trends in common control deficiencies over the past three fiscal years.

<table>
<thead>
<tr>
<th>FY2010</th>
<th>FY2011</th>
<th>FY2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Campus level monitoring of key business activities</td>
<td>Business activity monitoring</td>
<td>Contract management</td>
</tr>
<tr>
<td>Information security at the department level</td>
<td>Validation of variable revenues generated by third parties</td>
<td>Access management</td>
</tr>
<tr>
<td>Risk assessments related to key activities and decisions</td>
<td>Risk assessment related key activities and decisions</td>
<td>Documentation of operational procedures and transaction support</td>
</tr>
<tr>
<td>Training towards core competencies</td>
<td>Electronic tools to support decision making</td>
<td>Delegation of authority</td>
</tr>
<tr>
<td>Documentation of operational procedures</td>
<td>Documentation of operational procedures and periodic review of underlying policies</td>
<td>Training towards core competencies</td>
</tr>
</tbody>
</table>
Significant Changes Impacting Governance, Risk Management, and Controls

Reaching further to strengthen the system of internal controls over the course of Fiscal Year 2013, University management, among other things, took the following measures:

- Through the continued efforts around Operational Excellence:
  - Adopted the “We Are Berkeley” Operating Principles to help us achieve campus goals and make UC Berkeley a place where we can all do our best work.
  - Welcomed the first of five cohorts into Campus Shared Services in a phased approach by providing business and financial, human resource and academic personnel, information technology, as well as research administration support.
  - Launched the Revenue Generation Initiative.
  - Re-engineered the campus budget system to better align resources to strategies including the launch of CalPlanning, a financial planning and analysis tool.
  - Made the CalAnswers system available to users to integrate data-collection systems, consolidate reporting tools, and enhance analytical support to improve the quality of operational planning and decision-making campus-wide.
  - Opened Cal Student Central as a one-stop service center for enrollment management activities.
- Established the Berkeley Resource Center for Online Education.
- Commenced operations of the Global Engagement Office to facilitate and coordinate UC Berkeley’s global engagement, from individual research projects to institutional collaborations.
- Implemented composite fringe benefits rates to simplify budget and planning at the unit level.
- Migrated exempt employees to CalTime for time and leave reporting.
- Replaced aging CalAgenda and CalMail systems with bCal and bMail.
- Adopted a strategic plan to address continuity planning and emergency management.
- Launched a program to improve laboratory safety, including policy development, training, laboratory inspections, and corrective action monitoring.

Other significant occurrences during Fiscal Year 2013 included:

- UC Berkeley welcomed a new chancellor.
- Key leadership positions were filled across the campus: College of Chemistry dean, Division of Biological Sciences dean, associate vice chancellor and chief information officer, and chief of police.
• Key future vacancies announced: executive vice chancellor and provost, vice chancellor for facility services, School of Law dean, associate vice chancellor and chief financial officer, associate vice chancellor and dean of students.
• Under federal budget sequestration, available research funding is expected to slow.
• There are a host of new and replacement systems with development underway: student information system, contract and grants PeopleSoft module, Unifier, Maximo, CalTime, and more.
Highlights from Audit and Advisory Services’ Year in Review

Audit and Advisory Services delivered a robust program of work to assist University management in effectively and efficiently achieving goals and objectives, while contributing to the evaluation and mitigation of various risks. We were successful in achieving our risk-driven plan of service by:

- completing 100% of our approved plan,
- increasing advisory services by 35% over FY2012,
- delivering nearly 10,000 hours of service with a productivity rate of 86%,
- investing 486 hours in professional development, and
- shepherding 32 risk-mitigating, outcomes-oriented management action plans to successful completion.

We exceeded our goal with an overall average score of 4.44 for client satisfaction surveys (on a scale of 1 to 5).

Quality Assurance Review – Baker Tilly conducted an independent validation of the University of California’s internal audit program quality assessment self-assessment. The independent validation team opined that the audit function “generally conforms” with the Institute of Internal Auditors’ Standards and Code of Ethics. “Generally conforms” is the top rating and means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards. UC Berkeley’s audit function was one of three campuses selected for a detailed examination.

Professional Certifications – In pursuit of continued professional growth, two auditors achieved the designation of Certified Internal Auditor and one the Certification Risk Management Assurance from the Institute of Internal Auditors.

Increased Authorized Auditor Staff Level – Chancellor Birgeneau approved restoration of pre-FY2008 auditor staffing level bringing A&AS to nine authorized auditor positions.

Risk Perception Survey – As a part of our annual risk assessment efforts, A&AS facilitated an online enterprise-wide risk perception survey engaging over 400 campus administrators with a 30% response rate.

Bridging the Gap - The purpose of Bridging the Gap is to bring UC Berkeley faculty and staff together with University thought leaders and subject-matter experts to discuss emerging and hot button issues, to foster an open exchange as well as to inform decision-makers. FY2013 hosted the campus in a dialogue on the following topics:

- Ask the Auditor,
- May I Speak Frankly? The Attorney-Client and Work-Product Privileges,
• Achieving Success Through Managing Risk: Lessons from the Successful (and Disastrous) 1911 Discovery of the South Pole,
• The Truth or Consequences of Managing the Berkeley Brand,
• Institutional Data as an Organizational Asset — Understanding the University Through Cal Answers,
• Operational Excellence: What We Have Accomplished and What is Ahead,
• Berkeley Staff Opportunities and Career Paths,
• Shared Services,
• Social Media in the University, and
• “Making the Connection: Together We Can” Roundtable, and Research Roundtable.

**The Bridge Newsletter** – Continued to co-produce “The Bridge” newsletter with the Office of Ethics, Risks and Compliance Services.

**Pajama Drive Community Project** – With the help of our Bridging the Gap family, A&AS raised over 100 pairs of new pajamas for teenage Bay Area foster children through the Foster a Dream organization.
Overview of Audit and Advisory Services

Audit and Advisory Services assists all management levels by providing independent reviews and appraisals of the University’s activities and components. Auditors present analyses, evaluations, and recommendations based on in-depth study of an operation, risk, activity, or emerging issue. In making an evaluation, auditors focus on:

- Reviewing and appraising the soundness, adequacy, and application of governance, risk management, accounting, financial, operating, and administrative controls, as well as promoting a risk-based balance of cost and benefit in establishing an effective system of control.
- Determining the adequacy of policies to achieve the organizational objectives.
- Ascertaining the extent of compliance with established policies, procedures, plans, standards, contracts, ethical values, laws, and regulations.
- Determining the extent to which University assets are accounted for and safeguarded from losses of all kinds.
- Ascertaining the accuracy, timeliness, and reliability of management information generated as the basis for internal and external decision-making.
- Evaluating the economy and efficiency in utilizing available resources.
- Consulting with management and reviewing operations to evaluate whether results are consistent with objectives; whether the operations are carried out as planned; and whether quality and continuous improvement are fostered.

Internal auditors have neither direct responsibility for, nor authority over, any of the activities they study. Therefore, the audit and advisory review and appraisal process does not relieve other individuals of the responsibilities assigned to them.

Audit and Advisory Services is authorized to have full, free, and unrestricted access to information including records, computer files, property, and personnel of the University in accordance with the authority granted by the University of California Board of Regents’ approval of the Internal Audit Management Charter and applicable federal and state statutes. Except where limited by law, the work of Audit and Advisory Services is unrestricted. Audit and Advisory Services is free to review and evaluate all policies, procedures, and practices of any University activity, program, or function.

Audit and Advisory Services, in conjunction with senior campus management, develops an annual plan of audits and consultative projects based on a risk assessment and ranking methodology adopted across the UC system and augmented to address local circumstances. The plan is reviewed and approved by the campus audit committee and the Chancellor (chairperson) prior to submission to the senior vice president for Ethics, Compliance, and Audit Services and ultimately the Regents.

For the fiscal year, Audit and Advisory Services was comprised of 10 authorized FTE – chief audit executive, associate director, one IT principal auditor, three principal auditors, two senior auditors, one staff auditor, and one executive assistant. As of September 30, 2013, the A&AS team is as follows:
The UC Berkeley Committee on Audit, Internal Control and Financial Accountability was established in 1988 to serve in an advisory capacity to the Chancellor. The committee was charged to: review and recommend to the Chancellor approval of the campus audit plan; review audit results, status of management corrective action, areas of concern, and progress against the annual audit plan; and evaluate the adequacy of resources for Audit and Advisory Services. Additionally the committee is apprised of internal control, financial accountability, external audit, and investigative activities. The committee is chaired by the Chancellor. Appointed members include the vice chancellors of administration and finance, research, student affairs, equity and inclusion, university relations and facilities services; the executive vice chancellor and provost; the campus chief counsel; the associate vice chancellor and chief financial officer; the associate chancellor and chief ethics, risk, and compliance officer; the associate vice chancellor and chief information officer, and the associate vice chancellor and controller. The senior vice president for Ethics, Compliance and Audit Services and the campus chief audit executive serve as ex officio members. The committee meets jointly with the Committee on Compliance, Accountability, Risk and Ethics.
Stewardship of Audit and Advisory Services
Investment

Audit and Advisory Services’ strategic intent is to operate in a manner that adds value within the University, is risk-based, focuses on stakeholders’ priorities, and adapts to the internal and external changing landscape. As such the annual service plan is dynamic and considered quarterly by the Committee on Audit, Internal Controls, and Financial Accountability.

As with all University organizations, resources are finite and must be applied judiciously to ensure the maximum return on investment and benefit possible toward achieving UC Berkeley's mission of teaching, research, and public services as well the underlying goals and objectives. The following are summaries of how A&AS employed resources during FY2013.

<table>
<thead>
<tr>
<th>COMPLETION OF FY2013 AUDIT PLAN</th>
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<tbody>
<tr>
<td>Audits Planned</td>
</tr>
<tr>
<td>Supplemental Audits Added</td>
</tr>
<tr>
<td>Planned Audits Dropped</td>
</tr>
<tr>
<td>Total Audits in Plan as Amended</td>
</tr>
<tr>
<td>Audits Completed Draft Issued</td>
</tr>
<tr>
<td>Percent Completed</td>
</tr>
</tbody>
</table>

To meet the needs of management by increasing the awareness of risks early, optimizing opportunities, and mitigating the risk of adverse outcomes, we expanded our efforts focused on advisory activities by 35% over FY2012. Thus, we capitalized on the expertise and experience of A&AS as risk assessors and mitigation strategists, while maintaining our investment in assurance activities at 48% of our total effort.

<table>
<thead>
<tr>
<th>Actual Hours by Service Area</th>
</tr>
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<tbody>
<tr>
<td>Investigations</td>
</tr>
<tr>
<td>FY2010</td>
</tr>
<tr>
<td>FY2011</td>
</tr>
<tr>
<td>FY2012</td>
</tr>
<tr>
<td>FY2013</td>
</tr>
</tbody>
</table>
In developing the annual service plan, risk is evaluated at the individual topic level and at the enterprise level. The plan is reviewed for coverage of functional areas as well, as defined by the system-wide risk universe. The distribution of coverage fluctuates from year to year and is monitored to assure the sufficiency of coverage over time.

During FY2013, A&AS monitored the progress in completing agreed upon management action plans addressing observations reported in our internal audit, advisory service, and investigation reports. Timely correction of control deficiencies demonstrates management’s commitment to operating in accordance with sound business practices. Management is actively pursuing risk mitigating and control enhancing action plans, with particular focus on higher risk issues.
## Status of Management Action Plans from Prior Audits

<table>
<thead>
<tr>
<th>VC Area</th>
<th>Count of Open Management Items</th>
<th>By Risk Level</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As of 07/01/12</td>
<td>Added</td>
</tr>
<tr>
<td>Administration and Finance</td>
<td>29</td>
<td>15</td>
</tr>
<tr>
<td>Executive Vice Chancellor and Provost</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Office of the Chancellor</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Information Systems and Technology</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Research</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Student Affairs</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>University Relations</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Facilities Services</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Equity and Inclusion</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>36</td>
<td>28</td>
</tr>
</tbody>
</table>

As of September 30, 2013, there are four open management action plans addressing high risk control deficiencies. They are:

- **Observation:** The Office of Environment, Health and Safety (EH&S) has a process for logging and following up on findings from the annual inspections. However, in general, remediation actions are closed based solely on the laboratory's assertion that the condition was corrected and the timeliness of remediation is not actively managed. In cases of highly hazardous findings, EH&S may be more directly involved to ensure sufficient and timely corrective action; however, there is not a formal protocol to risk-rank individual or aggregate findings to ensure that this degree of involvement occurs in all high risk cases where additional oversight is warranted. As well, unlike under the radiation and biosafety programs, there are generally no consequences to laboratories or shops that do not sufficiently address chemical safety and hazard-related findings or who have recurrent issues.

- **Management Action Plan:** The campus approved an escalation policy for non-compliant safety activities which includes the authority to close laboratories for unsafe conditions. The campus also approved funding to hire additional inspection staff to enhance the laboratory safety inspection program, including verifications that prior inspection findings are addressed. The enhanced program is expected to begin by February 1, 2014, delayed from July 1, 2013.
• **Observation:** The completion of required health and safety training is inconsistently monitored at the laboratory, department, or campus level. Based on our review of training records for 18 laboratory members across three departments, only two members had completed the basic laboratory safety training that is required for all people working in the laboratory environment. As well, there were gaps noted in the completion of required training related to the Illness and Injury Prevention Program, the local building emergency plan, hazardous material spill response, and hazardous waste disposal procedures.

  **Management Action Plan:** Funding for the additional staffing required to develop and launch the mandatory safety training needs assessment tool, which will allow for the identification and monitoring of individual employee safety training requirements, has been approved. In the interim, EH&S continues to provide information via their website and via communications with Principal Investigators and lab safety contacts regarding required trainings for laboratory personnel. In addition, completion of basic laboratory safety training by campus laboratory personnel is currently being monitored by EH&S. The training needs assessment tool is expected to be operational by December 1, 2014 delayed from September 1, 2013.

• **Observation:** The campus has not conducted an entity-level business impact analysis for key enterprise level functions, processes, and applications in over ten years. The campus Business Resumption Plan from 2001 contains limited elements of a business impact analysis for IT and human resources, but does not cover other critical functions, processes, and applications.

  **Management Action Plan:** The campus is participating in a system-wide working group regarding campus-level business impact analyses for emergencies and disasters. Since the business impact analysis is a foundational step to developing other elements of a coordinated emergency management and response program, expected completion dates of subsequent action items that are contingent on the completion of the foundational business impact analysis will also be affected.

• **Observation:** The campus does not have an entity-level continuity plan. It is unclear how the risk of ensuring the recovery and restoration of infrastructure has been accounted for in campus continuity planning.

  **Management Action Plan:** The Office of Emergency Management is moving forward on developing a campus-wide continuity plan that will focus on maintaining, resuming, and recovering the campus activities following a disruption. Given that a business impact analysis (BIA) is an essential foundational item to the development of a comprehensive continuity plan, the finalization
of the continuity plan is contingent on the BIA completion. The expected completion date for the campus-wide continuity plan is July 1, 2014.
Service Plan for FY2014

Audit Engagements

- Timekeeping & Leave Accrual
- Shared Services - Business and Financial Services
- Shared Services - Human Resources
- Shared Services - Research Administration
- Cal Student Central
- Human Resources - Compensation and Classification
- Sponsored Projects - Facility and Administrative Cost Pools
- Sponsored Projects - Effort Reporting
- Sponsored Projects - Cost Transfers
- Campus Police Department
- Information Technology Governance
- Cal Planning and Budgeting
- Self-supporting Academic Programs
- Endowed Chairs and Professorships
- Information Technology - Second Tier Applications
- NCAA Compliance
- Governance – Policy Development, Promulgation, and Maintenance
- Information Security - Mobile/Portable Devices
- Fixed Asset Inventory - Special Collections
- Composite Fringe Benefit Rates

Advisory Engagements

- Richmond Bay Campus
- Annual Review of Executive Compensation
- Bear Buy - Cost Savings
- Contracts and Grants System Implementation
- Internal Control Documentation Review
- Student Information Systems Implementation
- Online Education
- Fraud Risk Management
- Self Insurance
- Optometry Executive Leadership Transition