



# AUDIT & ADVISORY SERVICES

## **Report on Activities Fiscal Year 2010 and Annual Plan for Fiscal Year 2011**

September 30, 2010

Respectfully reported,

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Wanda Lynn Riley  
Director

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## **I. MISSION STATEMENT – SCOPE OF WORK**

The mission of University of California Internal Audit is to assess and monitor the university community in the discharge of their oversight, management, and operating responsibilities in relation to governance processes, the systems of internal controls, and compliance with laws, regulations and University policies including those related to ethical conduct by providing relevant, timely, independent, and objective assurance, advisory and investigative services using a systematic, disciplined approach to evaluate risk and improve the effectiveness of control and governance processes.

### **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 Internal Audit is unrestricted. Internal Audit 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 of Ethics, Compliance, and Audit Services and ultimately the Regents.

## II. EXECUTIVE SUMMARY – STATE OF CONTROL ENVIRONMENT

Based on the assurance and advisory projects completed during fiscal year ended June 30, 2010, as well as control implications arising from investigative activities (as summarized in Appendices A, B, and C), 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.
- 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.

There are opportunities for UC Berkeley to enhance the control environment and implement more effective systemic, administrative, and monitoring controls over some campus activities. Viewing the body of assurance and advisory work over the course of fiscal year as a whole, a few common internal control deficiencies emerge: documentation of operational procedures, training towards core competencies, information security at the department level, risk assessments related to key activities or decisions, campus level monitoring of key business activities, and communication of guidance targeted to meet the needs of the intended audience. To address these control deficiencies, management agreed to or implemented risk mitigating action plans such as: implementing the data security review program; commissioning the Experiential Learning Staff Advisory Group to develop guidelines and tools; monitoring of sole sourced procurement transactions; the application of recharge rate; the protection of restricted and sensitive data; assessment and restructuring of the IT organization through Operational Excellence; documentation of operational procedures for application and infrastructure development projects; ASUC auxiliary contracting; senior management group policy compliance; providing additional guidance to departments for decentralized activities through online and in-person training, communication bulletins, stakeholder meetings, and web based tools and resources; and, formalized assessments of risks across the enterprise.

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 2010, we did not identify any areas where management decided to accept a level of risk which we viewed as unacceptable.

To strengthen the system of internal controls over the course of fiscal year 2010, University management, among other things, took the following measures:

- In the Fall, under the Chancellor's leadership the campus launched Operational Excellence with the goal of obtaining long-term financial stability in response to the uncertain state budget forecast. The three phased project (diagnostic, detailed solution design, and implementation) strives to achieve administrative cost savings while preserving the core mission of teaching and research. The Operational Excellence program is comprised of seven initiatives including, procurement, information technology, student services, energy management, financial management, high performance culture, and organizational simplification. Targeted saving is \$75 to \$150 million.
- The Berkeley Financial System reimplementation project was commissioned to bring the application online with a focus on using delivered functionality to meet campus requirements and minimizing modifications allowing Oracle PeopleSoft to support our financial systems. The following modules were included in the effort General Ledger, Accounts Payable, Purchasing, Bolted-on BIBS, eProcurement (new), and eSettlement (new). The current mainframe is scheduled for retirement in December 2011.
- Research Enterprise Services (RES) began July 1, 2008 supporting nine campus research units with human resources, purchasing, and grant administration services. Programmatic needs (such as development of educational or scientific initiatives and programs) continued to be supported by staff in each specific unit. Effective December 1, 2009, 46 research units were restructured, consolidating the aforementioned administrative support into RES eliminating approximately 20 of 60 staff positions. This transition was a result of the dire budget circumstances.
- An enterprise-wide compliance risk assessment was completed which resulted in the campus establishing initiatives to address cost transfers, sub-award monitoring, data security, compliance awareness, compliance training, and campus compliance infrastructure.
- The Controller's Office implemented a web-based portal to facilitate meeting reporting requirements for awards funded under the American Recovery and Reinvestment Act of 2009.
- Several campus policies were established, revised, or under consideration this year covering: insurance programs for information technology systems; late submissions to sponsored projects; annual funds solicitations, controlled substances, video security applications, facilities reoccupancy after a disaster, campus online activities for social security abatement, workplace violence prevention, and absence from work.

Other significant occurrences during fiscal year 2010 included:

- Key leadership positions were filled across the campus: chief privacy and security officer, deans of education and environmental design, director of academic personnel, executive vice chancellor and provost's chief of staff, and student affairs' chief of staff.

- Key vacancies in leadership filled through acting or interim appointments vice chancellor of administration, director of business services, and assistant vice chancellor for administration.
- Due to the state budget crisis, the campus control units continued implementing plans from FY2009 for as much as a 20% percent reduction of centrally funded base budgets. The discussion of budget cuts contributed to a growing concern over the adequacy of campus infrastructure and resources to accomplish our mission, goals, and obligations. Departments were impacted by 11 to 21 days (4-10%) of furlough for employees, a voluntary separation program, early retirements, and layoffs.

### **III. SUMMARY OBSERVATIONS – AUDIT PROGRAM**

The FY2010 audit plan for the UC Berkeley program was comprised of a variety of assurance, advisory and investigative services with audit topics identified through a risk based process. Through the audit plan we strived to achieve an appropriate balance of breadth of coverage as well as depth. Five primary areas make up the audit plan for the year:

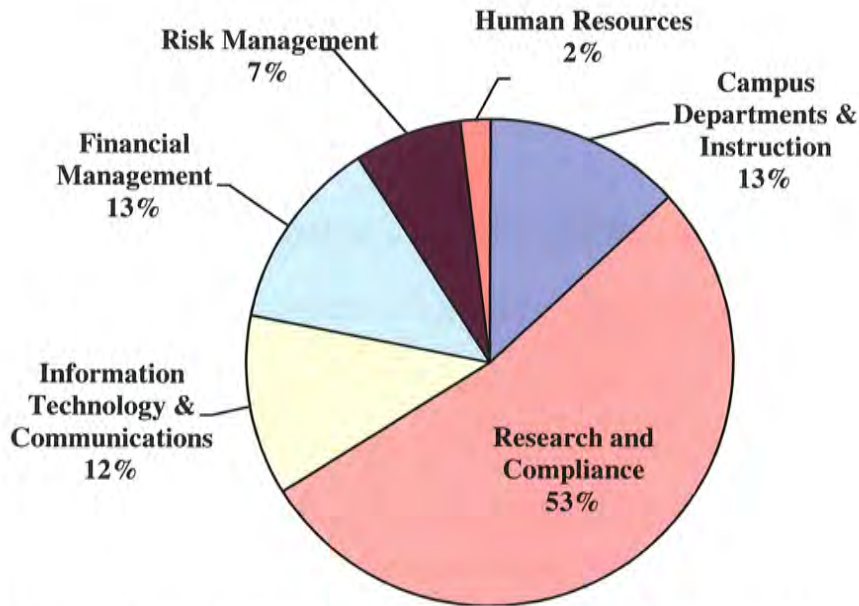
1. Risk Based Audits
2. Information Technology Audits
3. Departmental Administrative Audits (business practices audits)
4. Client/Stakeholder requested/required audits and advisory service projects
5. Investigative Audits

The plan for the current year was developed using a weighted average of 6.26 FTEs for a total of 9,977 net available hours. Staff turnover resulted in a weighted average of 5.75 FTEs for a total of 9,534 net available hours. During the year, the distribution of net available auditor hours conformed to targeted standards of 85% for direct hours and 15% for indirect hours; our actual distribution was 88% and 12% respectively. Advisory Services were below plan at 892 hours (9.35%) due to significant prior year audit activity in the first quarter coupled with one less auditor than planned for the year and a focus on completing plan. Investigative work was in line with plan. Assurance activities accounted for 56% of the total effort. We expended greater than planned effort in audit follow-up. Six audit projects were dropped or deferred by the campus audit committee due to changing risk priorities and the impact of furloughs on the department.

Advisory services consisted primarily of individual consultations covering a variety of topics. The remainder was spent supporting the campus compliance program; followed by committee participation and presentations. For the fiscal year ended June 30, 2010, Audit and Advisory Services (A&AS) completed 100% of its amended audit plan inclusive of planned/unplanned audits. Audit effort was expended as noted in the following graphs for FY2010 and FY2009.

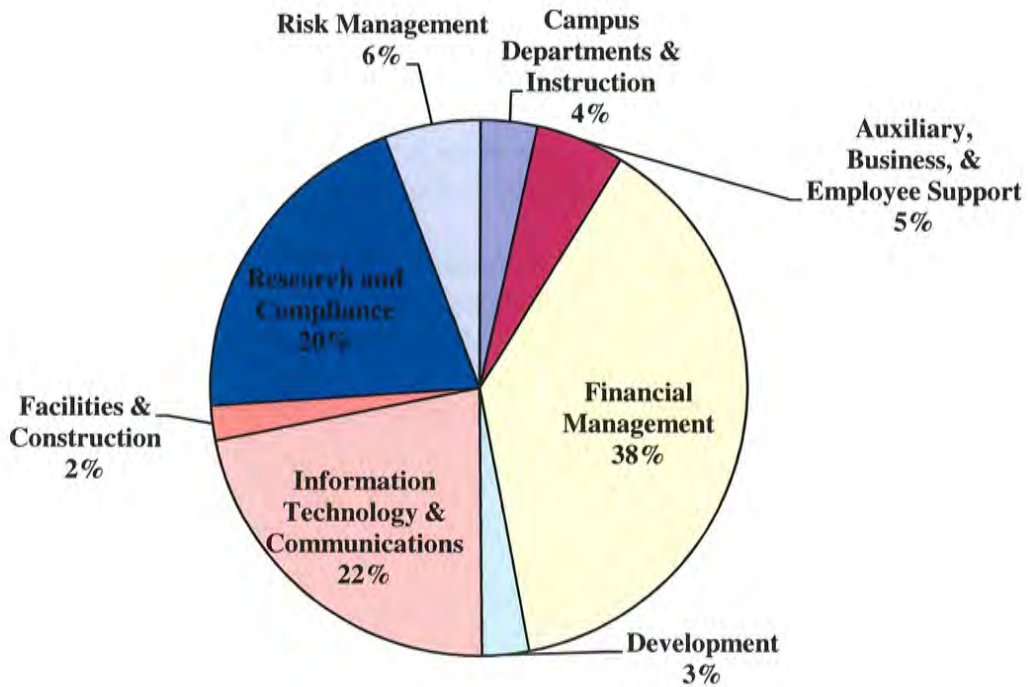
## DISTRIBUTION OF AUDIT HOURS BY FUNCTIONAL AREAS

**FY2010<sup>1</sup>**



<sup>1</sup> During FY2010, hours were not expended in the areas of Budget and Planning, Facilities and Construction, Development, or Auxiliary, Business, and Employee Support directly. However, coverage was obtained indirectly through campus-wide process audits.

**FY2009<sup>2</sup>**



<sup>2</sup> During FY2009, hours were not spent in the areas of Budget and Planning or Human Resources. However, coverage was obtained indirectly through campus-wide process audits.

See Table 1 below for cumulative audit project plans amended and completed.

Table 1

**2009 -2010 COMPLETION OF AUDIT PLAN**

Planned Audits	22
Other Audits	2
Dropped and Deferred Audits	6
Total Planned Audits as Amended	18
Total Completed Audits (Draft Issued)	18
Percent Completed	100%

Following is Chart 1 showing actual hours by service area from FY2007 – FY2010. Table 2 provides a detailed analysis of the audit plan and variance to actual available hours.

Chart 1

**ACTUAL HOURS BY SERVICE AREA  
AUDITS, ADVISORY SERVICES, INVESTIGATIONS  
FISCAL YEARS 2007 – 2010**

**Resources by Service**

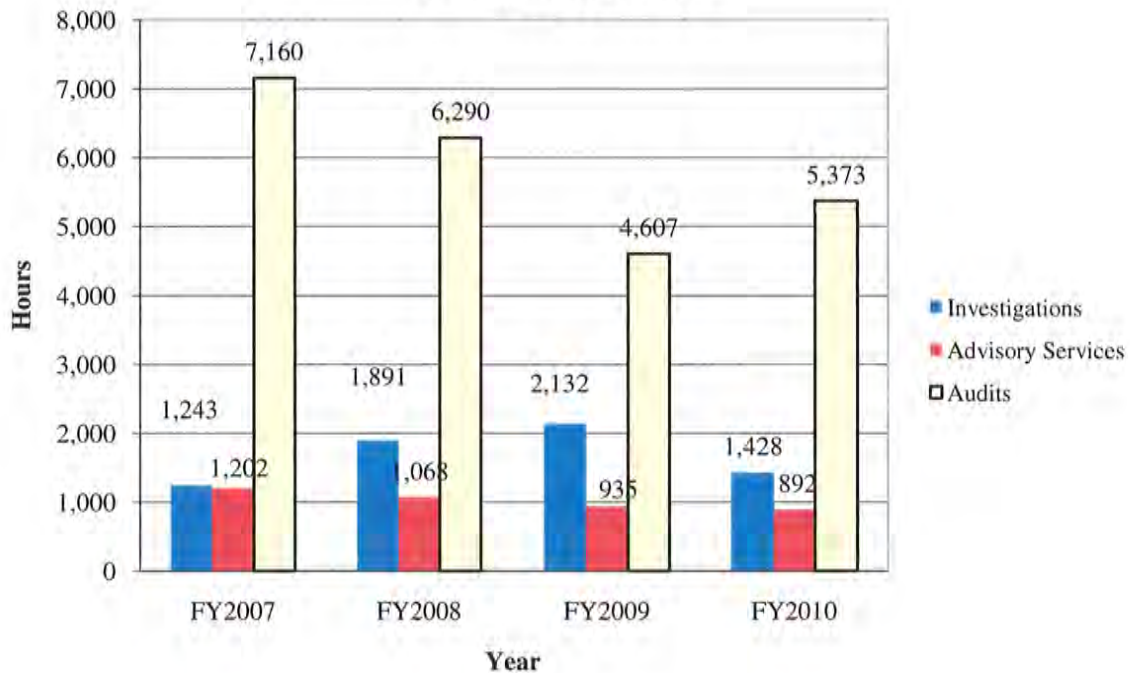




Table 2

**AUDIT PLAN TO ACTUAL HOURS**

**FISCAL YEAR 2010**

	<b>Plan</b>	<b>Actual</b>	<b>Variance</b>
Available Hours Based on Weighted 6.26 FTEs	13,062.0	11,999.0	1,063.0
Administrative and Other	0.0	0.0	0.0
Contract Labor/Interns	225.0	130.0	95.0
Gross Available Hours	13,287.0	12,129.0	1,158.0
Less: Non-Controllable Hours	3,310.0	2,595.5	714.5
Total Net Available Hours	9,977.0	9,533.5	443.5
<b>INDIRECT HOURS</b>			
Administration	1,000.0	825.5	174.5
Professional Development	480.0	213.0	267.0
Other	60.0	62.0	(2.0)
Total Indirect Hours	1,540.0	1,100.5	439.5
<b>DIRECT HOURS</b>			
<b>Audit Program</b>			
Planned Carried Forward Audits	250.0	743.5	(493.5)
Planned New Audits	3,036.0	3616.5	(580.5)
Supplemental Audits	1,000.0	520.5	479.5
Unplanned Carryforward Audits	0.0	11.0	(11.0)
Audit Follow-up	480.0	481.0	(1.0)
Total Audit Program Hours	4,766.0	5,372.5	(606.5)
<b>Advisory Services</b>			
Consultations/Spec. Projects	1,000.0	563.0	437.0
External Audit Coordination	33.0	58.5	(25.5)
Internal Control & Accountability	120.0	115.5	4.5
IPA, COI & Other	8.0	0.0	8.0
Compliance Support	250.0	148.5	101.5
Systems Dev., Reengineering Teams, etc.	40.0	6.0	34.0
Total Advisory Services Hours	1,451.0	891.5	559.5
<b>Investigations Hours</b>	1,700	1,427.5	272.5
<b>Audit Support Activities</b>	520.0	741.5	(221.5)
<b>Total Direct Hours</b>	8,437.0	8,433.0	4.0
<b>Total Net Available Hours</b>	9,977.0	9,533.5	443.5

See Appendices A and B for a listing of audits and advisory services completed during FY2010.

#### IV. INVESTIGATIONS

Investigations are coordinated and managed by a campus-wide Investigation Workgroup chaired by the locally designated official for whistleblowing activities. A sub-group triages, assigns and tracks all allegations of misuses and improper governmental activities in accordance with the University Whistleblower policy. The source of investigations conducted by Audit and Advisory Services in fiscal year 2010 ranged from hotline complaints to internal whistleblower (employee) complaints to management discovery. The allegations included conflict of interest, improper use of University resources, timecard fraud, theft, and falsification of University records.

Table 3 shows an increase in the number of new investigations in comparison to the prior year with fewer hours expended as allegations and related scheme were generally less complex to evaluate. In response to some low risk and low impact allegations, once a determination was made that the ongoing risk was mitigated and evidence secured, the full assessment was deferred and completed as resources permitted between planned audits of high risk areas.

Table 3

#### INVESTIGATIONS AS A PERCENTAGE OF TOTAL RESOURCES

UC Berkeley Resources Dedicated to Investigations	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010
Percent of Total Effort	17.12%	22.32%	14.97%
Effort in Hours	1,891	2,132	1,427.5
Number of New Investigations	10	6	8

The next table displays investigations according to the type of allegation received. All of the allegations were reported by UC Berkeley managers, employees, or anonymously.

Table 4

#### NUMBER OF NEW ALLEGATIONS BY CATEGORY Fiscal Year 2010

UC Berkeley Allegation Category – Number of Allegations	Fiscal Year 2010	Percent of Total
Conflict of Interest	2	25%
Fraud	1	12.5%
Vendor/Third Party Fraud	1	12.5%
Theft/Embezzlement	1	12.5%
Payroll/Time Charge Abuse	2	25%
Improper Use of UC Resources	1	12.5%
Total	8	100%

See Appendix C for a listing of investigations completed.

## V. MANAGEMENT CORRECTIVE ACTION

During FY2010, A&AS monitored the progress in completing agreed upon management corrective actions (MCA's) addressing management control deficiencies 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.

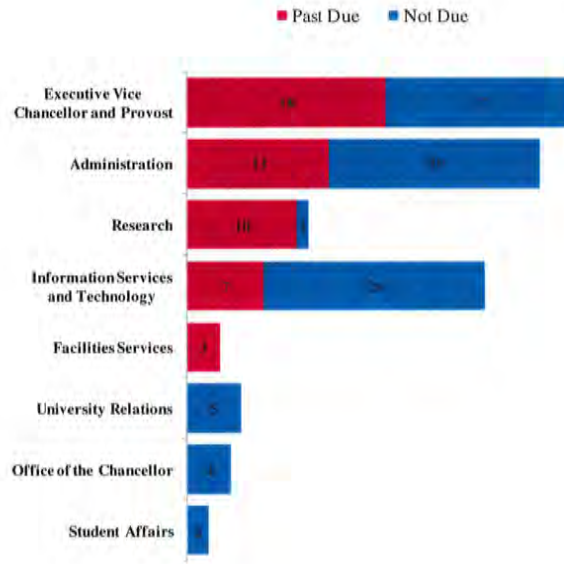
Table 5

### Open Management Corrective Actions by Vice Chancellor Area

	<b>MCA's Open on 7/1/2009</b>	<b>MCA's Added</b>	<b>MCA's Closed</b>	<b>MCA's Open on 6/30/2010</b>
Executive Vice Chancellor and Provost	41	38	44	35
Administration	31	26	25	32
Information Services and Technology	4	29	6	27
Research	19	3	11	11
University Relations	0	5	0	5
Office of the Chancellor	0	4	0	4
Facilities Services	12	0	9	3
Student Affairs	13	2	13	2
Equity and Inclusion	3	0	3	0
<b>Total</b>	<b>123</b>	<b>103</b>	<b>111</b>	<b>119</b>

## Chart 2

**Breakdown by Status of Management's Original Completion Date  
as of June 30, 2010**



## Chart 3

**Number of Past Due Items with Approved Future Revised Completion Dates  
as of June 30, 2010**

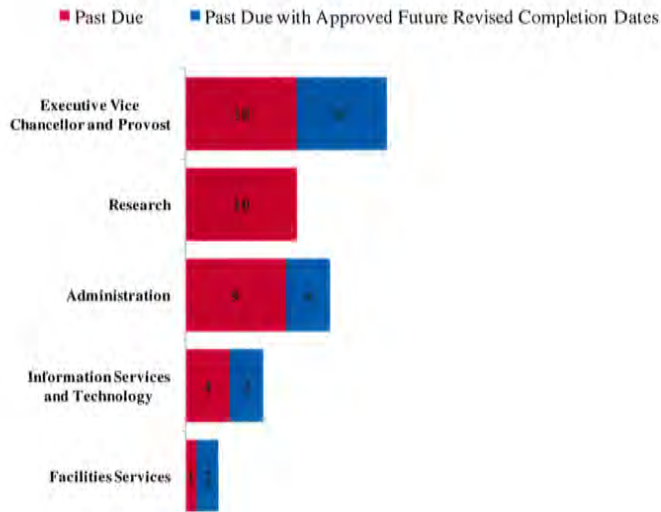


Chart 4

**Breakdown by Risk Ranking and Status  
as of June 30, 2010**

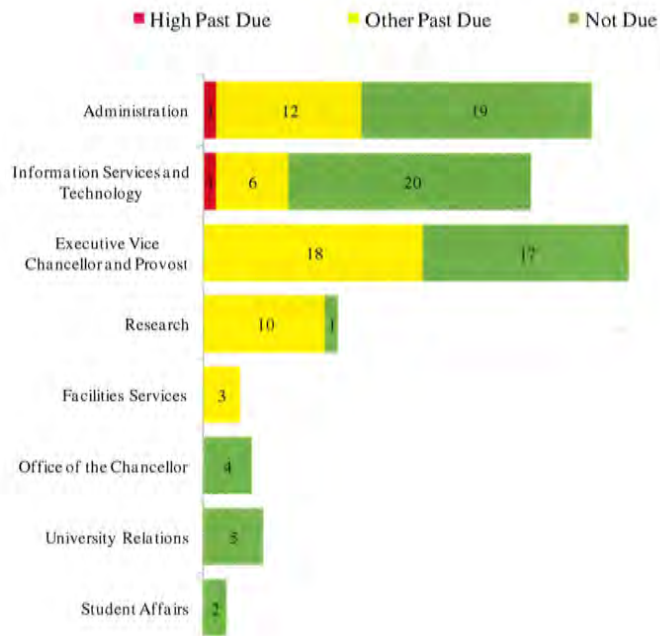
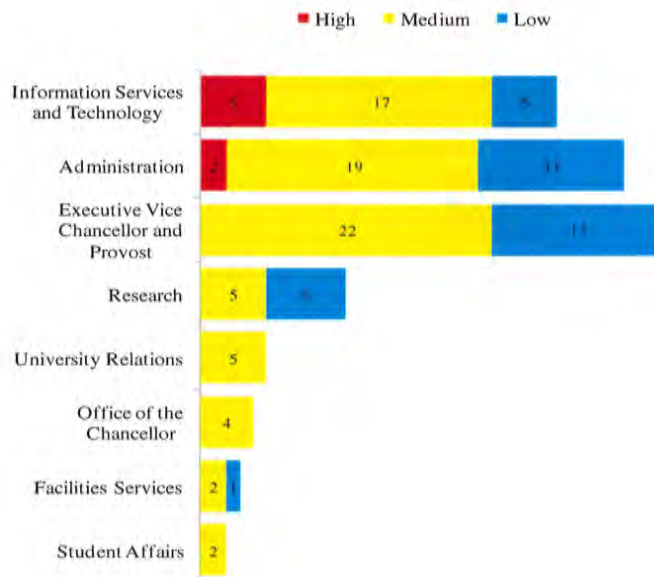


Chart 5

**Breakdown by Risk Ranking  
as of June 30, 2010**



Not only is management’s commitment to timely corrective action important, but issues in functional areas are often indicators of areas with increased inherent risk. Some MCA’s are important enough that they are considered critical to the control environment. While all MCA’s are tracked to their agreed corrective action completion date, prompt attention to “high risk” MCA’s is critical to the University meeting its fiduciary responsibilities and being proactive in addressing significant gaps in respective systems of internal control. Chart 6 presents an aging report of all open MCA’s followed by a table displaying a current year comparison of: Open, Past Due, High Risk and Past Due High Risk MCA’s at June 30, 2010.

Table 6 below presents a summary of MCA activity for the year ending June 30, 2010.

Table 6

**MCA ACTIVITY SUMMARY FOR YEAR ENDING JUNE 30, 2010**

<b>Open:</b>	MCA’s as of July 1, 2009	123
<b>Additions:</b>	MCA’s Issued	103
<b>Less:</b>	MCA’s Closed	<111>
<b>Total:</b>	MCA’s as of June 30, 2010	119

Chart 6

**Aging Report - Open Management Corrective Actions (MCA)**

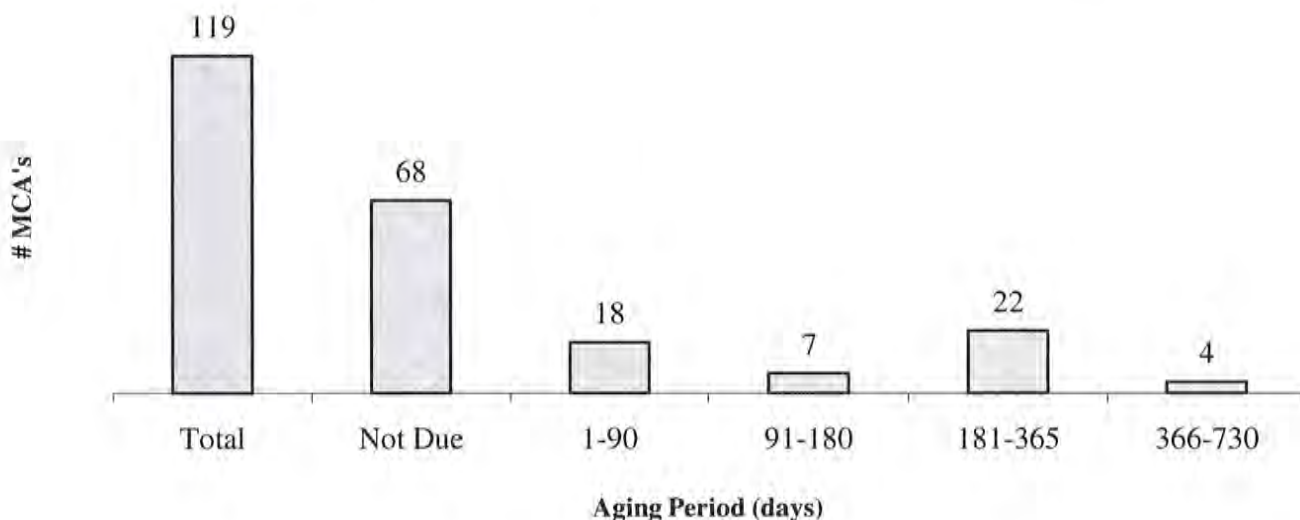


Table 7

**OPEN, PAST DUE, HIGH RISK, AND PAST DUE HIGH RISK MCA'S**

<b>MCA's</b>	<b>9/30/09</b>	<b>12/31/09</b>	<b>3/31/10</b>	<b>6/30/10</b>
Open	124	85	80	119
Past Due	50	57	42	51
High Risk	8	8	8	7
Past Due – High Risk	0	2	2	2

Summary of High Risk MCA's:

<b>Project</b>	Information Technology Security: IT Security Risk Assessments
<b>Observation</b>	The campus can improve internal controls by creating a campus-wide process for identifying, assessing, and managing IT security risks. Compared to internal control standards and best practices for assessing and managing IT risk, the presence of an IT risk management framework or process describing how to identify, assess, and manage IT security risk, including providing the necessary tools, is absent. Observations in 13 of the 16 (81%) IT security projects within the last two years included unprepared, incomplete, or irregularly performed IT security risk assessments. A process for assessing and managing risk improves the consistency, efficiency, and effectiveness of the process. Furthermore, it prevents the use of an inappropriate approach to risk assessments; untimely evaluations of IT security risks and threats; reduces the odds of unidentified risks, the ineffective use of resources, and the likelihood of breaches; and improves the efficiency and effectiveness of managing IT risks.
<b>Timeline</b>	April 1, 2010 (Revised implementation date June 1, 2011)
<b>Original Management Action Plan</b>	The OCIO:SPP will create and implement a more comprehensive framework/process for performing IT security risk assessments throughout the campus. The OCIO and IST-IS will consult with the CISPC, the IDC, Audit and Advisory Services, other campus stakeholders, other University of California campuses or other universities, and other expert resources (e.g., PCI compliance resources) in order to create and implement the risk assessment framework/process. The risk assessment will probably take the form of a survey for the entire campus, as well as/or in-person interviews, data processing tests, and/or facility visits in selected areas.
<b>Status</b>	A data security review program is underway which works with units that have notice triggering data to conduct a detailed security review. A comprehensive risk assessment framework for information security is not available. The campus hired a chief information security officer effective July 2010.

<b>Project</b>	Cost Transfers: Post Audit Reviews
<b>Observation</b>	In a prior audit (2006), we noted that EFA was performing monthly post audit reviews of cost transfers. The campus "Policy and Procedure for Cost Transfers" document also describes the post audit review process. EFA has not performed any of these reviews for over seven months, the tenure of the current Director. Prior to her appointment, the position was vacant for five months.
<b>Accountable Person in Department</b>	Lori Cripps
<b>Timeline</b>	April 30, 2010
<b>Original Management</b>	If the Cost Transfer Project justifies the need to perform post audit reviews, EFA will need to request additional resources to supplement current staffing levels.

<b>Action Plan</b>	The request for additional funding will be made as part of the Controller's 2010-2011 Budget Request to the Vice Chancellor for Administration by April 30, 2010. When additional resources are made available, EFA will commit to implementing the appropriate components of the new compliance program.
<b>Status</b>	The results of the cost transfer project supported the need to perform post audit reviews. The request for additional funding for individual(s) to perform post audit reviews of cost transfers was made as part of the Controller's 2010-2011 Budget Request to the Vice Chancellor for Administration. The request was not funded due to other priorities. Effective July 1 2010, payroll cost transfers in excess of 120 days of the month close of the original transaction are blocked by the payroll system. Additionally, EFA will continue its interim measure of semi-annual sampling cost transfers to assess the adequacy of related supporting documentation focused on departments with large volumes of transfers processed after 120 days.

<b>Project</b>	Information Technology Security: Data Classification Scheme
<b>Observation</b>	The results of our previous IT security projects and a comparison of the campus internal controls with internal control standards and frameworks indicates that the campus can improve internal controls by establishing a process to improve the completion of EIR inventories. Observations in 14 of the 16 (88%) IT security projects within the last two years indicated inventories of EIR were incomplete or have not been prepared. Furthermore, the campus does not have a data classification scheme. A data classification scheme is a mechanism for prioritizing, categorizing, and defining the level of protection required for data. By addressing these internal control gaps the campus reduces the likelihood of incidents, non-compliance with regulatory requirements (i.e., concerning personally identifiable information), and can improve the efficiency and effectiveness of managing IT risks.
<b>Accountable Person in Department</b>	Ann Geyer
<b>Timeline</b>	June 30, 2010 (Revised implementation date June 1, 2011)
<b>Original Management Action Plan</b>	<p>Pending approval and release of funds by the Chancellor, a proposed campuswide Data Security Review initiative will enable the appointment of an Interim Security Officer (ISO) for the campus in the near term. The ISO will lead a Data Security Review Team to complete currently-identified top criticality EIR risk remediation projects. During that ISO's term of appointment, the recruitment and hiring of a career Campus Privacy and Security Officer will go forward, taking approximately six months. After a permanent CPSO is appointed, s/he will then implement comprehensive security requirements as outlined in UC BFB IS-2 and IS-3.</p> <p>During the terms of appointment of both the ISO and then the CPSO, the OCIO:SPP, in coordination with the CISPC, will prepare and issue a comprehensive data classification scheme under the framework of UC's IS Bulletins, specifying minimum hardware and software security configuration requirements for various risk levels. Once prepared, implementation will occur on a phased basis, as specific recommendations for succeeding less crucial types of information are added to the MSSEI. A provisional period where the campus can comment on the data classification schemes will be provided for each successive level. Implementation of specific requirements or recommendations for all appropriate types of data will be completed by June 30, 2010.</p>
<b>Status</b>	IDC has been assigned the task to develop a data classification scheme. The campus CIO serves as the technical partner of IDC. Once the scheme is available, SPP would take over responsibility for incorporating it into security policy and procedures. SPP is contemplating developing an interim classification scheme to be used with the risk assessment tool that is under development.



<b>Project</b>	Information Technology Security: Monitor and Evaluate Internal Controls/Compliance
<b>Observation</b>	The results of our previous projects focused on IT security and a comparison of campus internal controls with internal control standards and frameworks indicated that the campus can improve internal controls by implementing a monitoring process to evaluate internal controls and compliance with IT security policy and regulatory requirements, and to identify areas of improvement. Centralized (i.e., the Security, Privacy, and Policy [SP&P] group) and decentralized (i.e., individual divisions/departments) monitoring is not occurring.
<b>Accountable Person in Department</b>	Ann Geyer
<b>Timeline</b>	August 31, 2010
<b>Original Management Action Plan</b>	Initial efforts will concentrate on “highly confidential data”, as currently listed in the new Berkeley Campus Minimum Security Standards for Electronic Information (MSSEI). The CIO's OCIO:SPP, in consultation with other stakeholders such as the CISPC, will design a central monitoring process for compliance with the highly confidential data elements in the MSSEI. OCIO:SPP will approach this by developing an IT security control self-assessment survey covering policy provisions and technical matters that departments will complete. The OCIO:SPP, in consultation with other stakeholders, will evaluate the results of the IT security control self-assessment surveys on a sample basis and work with departments to implement corrective measures where there are compliance issues or control issues.

<b>Project</b>	Information Technology Security: Control and Coordinate Policy Implementation
<b>Observation</b>	The campus can improve internal controls by establishing a process for coordinating and controlling the implementation of IT security policy campus-wide. Comparing the campus process for implementing the security policy with ISO security standards indicated a need for the campus to augment the basic responsibilities by defining and establishing a process for considering the implementation of IT Security policy in more detail, prior to such policy being established. Such consideration would need to include the implementation approach, deliverables, time, cost, effort, sustainability, feasibility, and other dependencies associated with new IT security policy. The campus needs to monitor centrally the implementation of policy to ensure effective implementation across the campus.
<b>Accountable Person in Department</b>	Ann Geyer
<b>Timeline</b>	November 30, 2010
<b>Original Management Action Plan</b>	The OCIO:SPP and the IDC will establish and document the process for implementing IT security policy across the campus. This process will include performing a cost/benefit analysis when reviewing and evaluating IT security policy to identify opportunities for improvement and developing implementation plans to communicate with those responsible on how to implement policy. This process will also include consultation with stakeholders such as the CISPC and the Campus Technology Council as needed.

<b>Project</b>	Information Technology Security: Inventory Process
<b>Observation</b>	The results of our previous IT security projects and a comparison of the campus internal controls with internal control standards and frameworks indicates that the campus can improve internal controls by establishing a process to improve the completion of EIR inventories. Observations in 14 of the 16 (88%) IT security projects within the last two years indicated inventories of EIR were incomplete or have not been prepared. Furthermore, the campus does not have a data classification scheme. A data classification scheme is a mechanism for

	prioritizing, categorizing, and defining the level of protection required for data. By addressing these internal control gaps the campus reduces the likelihood of incidents, non-compliance with regulatory requirements (i.e., concerning personally identifiable information), and can improve the efficiency and effectiveness of managing IT risks.
<b>Accountable Person in Department</b>	Ann Geyer
<b>Timeline</b>	April 1, 2011
<b>Original Management Action Plan</b>	The OCIO:SPP will design and document a process for performing inventories of EIR (including data and the technical environments used to process it) in consultation with other stakeholders such as CISPC and System and Network Security, including the use of tools such as Nmap. A list of departments authorized to have particular types of highly confidential data will be created and departments will be informed that if they are not authorized they must purge those types of data from their devices. The OCIO:SPP will communicate with those responsible (e.g., Administrative Officials) on how to implement this process, will inform departments on where they can find additional information or support (if needed), and will advise departments that are incapable of complying to have a capable department (such as Information Services and Technology) provide this service. The process for conducting the inventories will be documented and published to the campus, including what disciplinary actions may be taken in the event a department or individual is found out of compliance with this requirement to perform inventories as documented. The design, documentation, and publication to the campus of this inventory process will be completed by April 1, 2011.

## VI. LOCAL PROGRAM INITIATIVES

A&AS supports and participates in the advancement of the system-wide Ethics, Compliance, and Audit Services initiatives. At the campus level, A&AS's standing goals were as follows:

- Complete or have underway all projects on the audit plan at the fiscal year-end;
- Meet or exceed the system-wide target for direct hours on a quarterly basis;
- Meet or exceed an overall average score of 3.0 for client satisfaction surveys (on a scale of 1 to 4)
- Collaborate with the campus controller on controls initiatives; and
- Collaborate with the locally designated official on investigating allegations of improper governmental acts.

All goals were achieved. Other accomplishments for FY2010 included:

- Reported the results of the campus comprehensive assessment of compliance risks.
- Presented for the Financial Management Certificate Program.
- Enhancing an enterprise-wide risk perception survey to be conducted in FY2011.
- Managing resources to support auditor professional development. One auditor successfully completed the certified information system auditor examination. One auditor is pursuing the certified internal auditor designation.
- Procured and implemented IDEA, an automated analytical tool to increase audit efficiency and coverage.
- Filled the principal auditor vacancy.
- Enhanced departmental web page.
- Increased awareness of our services via one-on-one meeting, group presentations, and facilitation of the compliance risk assessment.

- Served on the following campus-wide committees: Committee on Audit Internal Control and Financial Accountability; Committee on Compliance, Accountability, Risk, and Ethics (CARE); Investigation Work Group, Policy Advisory Group; Red Flags Work Group; Control Unit Managers Group; and Campus Information Security and Privacy Committee.

Goals and initiatives for fiscal year 2011 include:

- Fill the vacant associate director and staff auditor positions.
- Develop a local strategic plan to include performance benchmarks.
- Enhance web page as an information portal for the campus and departmental auditors.
- Host a quarterly forum on governance, risks, and controls.
- Participate in the system-wide quality assurance review of campus audit departments.
- Update local audit manual to reflect current changes (i.e., the use of TeamMate and IDEA).
- Review and update as necessary departmental continuity plan.
- Expand the use of IDEA to facilitate data mining projects, support statistical sampling, and data extraction needs in support of the audit program.
- Increase awareness of our services, and increase risk and internal control awareness on campus.
- Secure auditor training in areas identified as high risk by the campus community and included on the annual audit plan approved by the campus audit committee and the Regents (i.e., ethics, research compliance, information systems, and investigative techniques).
- Develop and distribute a quarterly newsletter in collaboration with Risk Management.

## **VII. STAFFING/RESOURCES**

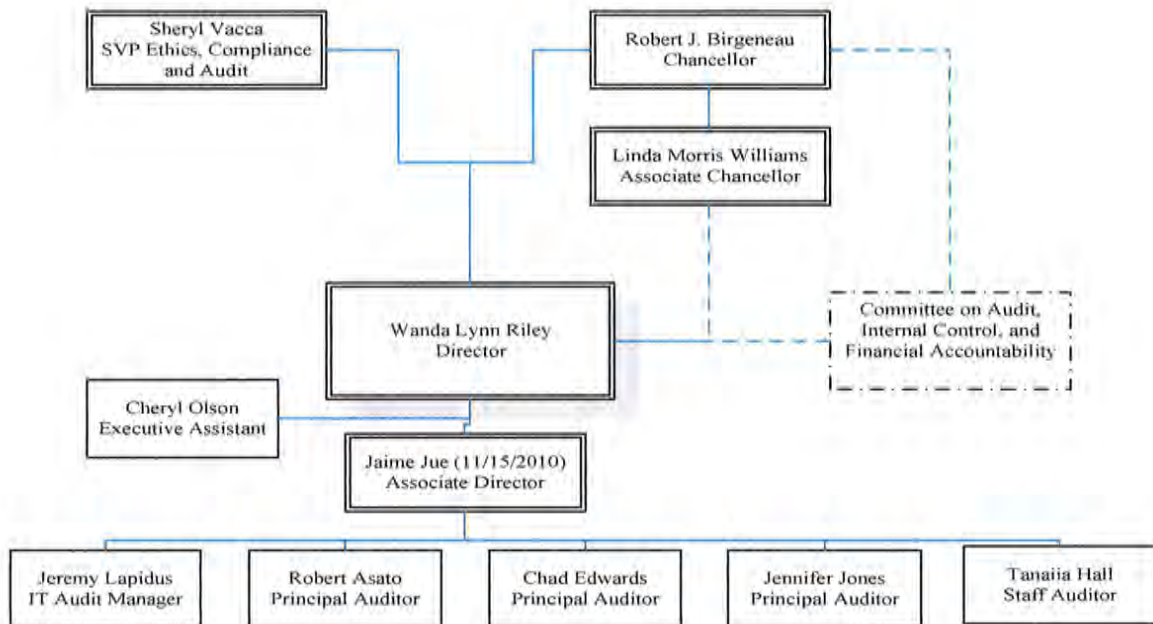
At the beginning of the fiscal year, Audit and Advisory Services was comprised of 7.75 authorized FTE – director, associate director (.75 FTE), IT audit manager, 3 principal auditors (one vacant), staff auditor, and executive assistant. This was a permanent budget reduction of .75 FTE from the prior fiscal year. Furloughs impacted the department with a loss of .5 FTE. The vacated principal auditor position was filled September 2, 2009. Effective December 1, 2009, the staff auditor transferred to University of California, Los Angeles. Effective February 28, 2010, the associate director separated from the University. The chancellor agreed to increase the associate director position to 1 FTE. A&AS ended the year with 8 authorized FTE. A&AS was poised to welcome Tanaiia Hall, staff auditor, September 8, 2010 and Jaime Jue, associate director, November 15, 2010.

The current staff of Audit and Advisory Services is as follows.

# University of California, Berkeley

## Audit and Advisory Services

September 8, 2010

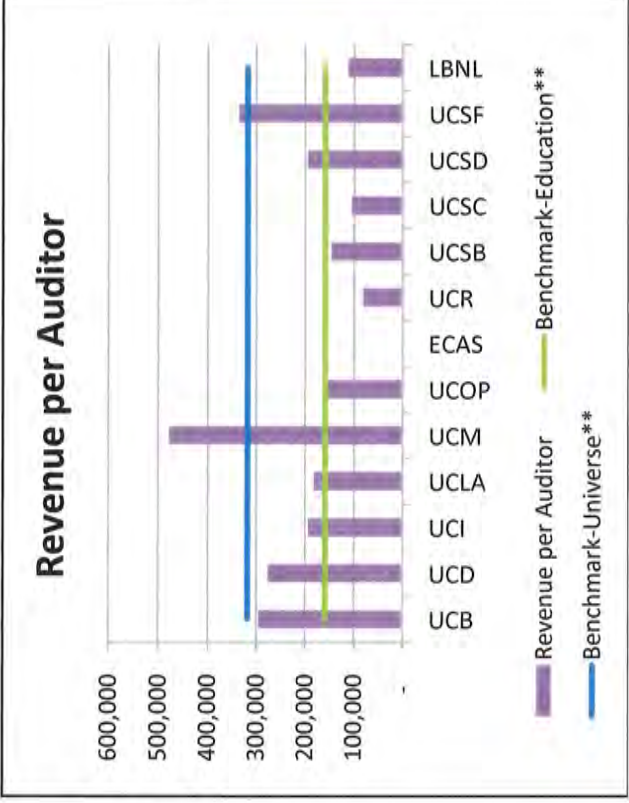
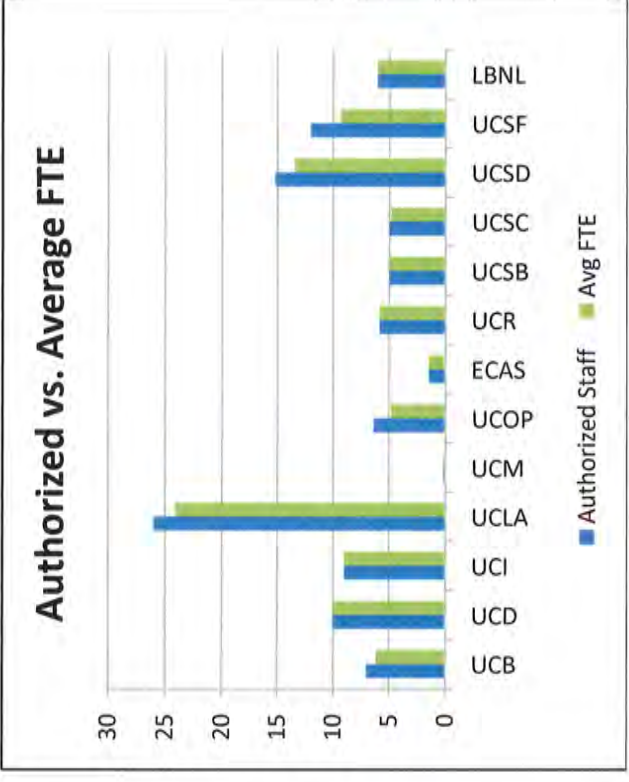


Many factors contributed to the growing complexity of carrying out and supporting our mission of teaching, research, and public service: reduced staff sizes; employee furloughs; decentralized procurement and reimbursement procedures; greater reliance on department administrators to interpret and manage ever changing regulatory compliance issues; the need to access information by multiple units and responsibility to protect restricted information; amplified public interest and scrutiny of UC's management practices and limited tolerance for perceived missteps; increased potential for fraud; competition to recruit and retain high quality faculty, students, and staff; declining state appropriations while maintaining a growth trajectory; and aging physical plant. Certain efficiencies were gained in audit process and methodologies, including the use of IDEA, a computer assisted audit technique. However, the risks facing the University are greater and require more timely attention.

The campus investment in assurance and advisory services declined over the past ten years as a percentage of operating expenses and net assets with a correlating increase in operating expenses per auditor \$143 million in FY2001 to a projected \$258 million in FY2010. This represents an 81% increase as a result of campus growth and shrinkage of the audit staff. For the past several years, A&AS requested a budget increase in operating funds and an additional auditor to meet the growing demands for assurance and advisory services but was unsuccessful due to competing campus priorities and the budget forecast. In the past two fiscal years, A&AS lost roughly 20% of its audit staff positions. Berkeley lags behind sister UC campuses and higher education industry norms for internal audit staffing as indicated in the next table and charts.

**University of California Audit Staff Fulltime Equivalent Campus Metrics**

	UCB	UCD	UCI	UCLA	UCM	UCOP	ECAS	UCR	UCSB	UCSC	UCSD	UCSF	LBNL	Total
Authorized Staff	7	10	9	26	0.2	6.37	1.5	5.85	5	5	15.2	12	6	109.12
Average FTE	6.12	10.00	9.00	24.11	0.20	4.80	1.50	5.85	5.00	4.80	13.45	9.37	6.00	100.20
Revenue* 2009	1,808,926	2,760,238	1,741,149	4,378,347	95,573	784,495	N/A	474,693	728,451	501,722	2,615,958	3,152,058	667,983	19,709,593



\* In thousands of dollars; UCD,UCLA, UCI, UCSD and UCSF include medical centers.

\*\* Source: The Institute of Internal Auditors' 2009 Global Audit Information Network Annual Benchmarking Study

## **VIII. COMMITTEE ON AUDIT, INTERNAL CONTROL AND FINANCIAL ACCOUNTABILITY ACTIVITIES**

The UC Berkeley audit committee 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, research, student affairs, university relations and facilities services; the executive vice chancellor and provost; the campus chief counsel; the associate chancellor (locally designated official); 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 audit director serve as ex officio members.

The committee met four times during fiscal year 2010: September 29, 2009, January 14, 2010, April 21, 2010, and June 10, 2010. Significant activities of the committee included discussion of risks facing the campus, approval of the annual audit plan for FY2011, tracking of high risk management corrective actions, investigations of improper governmental activity allegations, and external audit results. PricewaterhouseCoopers' Partner Joan Murphy attended meetings to discuss the financial statement audit plans and results.

**Appendix A: Internal Audits Issued – Fiscal Year 2010**

<b>Report No.</b>	<b>Report Date</b>	<b>Name of Report</b>	<b>High-Level Audit Objective(s)</b>	<b>Observations and Management Responsive Action Plan</b>	<b>Status</b>	<b>Potential Fiscal Impact/ Other Impact</b>
539	July 31, 2009	IT Unit Survey - College of Chemistry	Determine (at limited-scope survey level) whether IT environmental controls and IT-related administrative controls within the department are adequate to ensure the continuing availability, integrity, and security of those electronic information resources that are necessary for the conduct of the department's business, consistent with the University's mission and in compliance with applicable IT policy.	Web applications were not scanned for vulnerabilities, contained restricted data, and only encrypted information during transmission in one direction. The College of Chemistry plans to scan their web applications for vulnerabilities and mitigate risk concerning the transmission of information. Strengthen monitoring of faculty and research group IT resources for compliance with information security policies. The College of Chemistry will either extend computer support to faculty and research groups or use a monitoring tool to identify unpatched software, security configurations, and vulnerabilities.	Scanning of web applications for vulnerabilities was implemented. Web applications use and are hosted on electronic information resources controlled by Information Services and Technology (IST), which is being upgraded. Confirmation that the upgrade resolved encryption issue anticipated by September 1, 2010. The College of Chemistry plans to implement a monitoring tool by December 31, 2010.	Unmitigated vulnerabilities may lead to compromised confidentiality, integrity, availability, and reliability sensitive information.
538	September 18, 2009	Information Technology Security	Evaluate internal controls to assure the confidentiality, availability, and integrity of the campus's electronic information and equipment used to process and store information.	Centralized monitoring of internal controls to assure compliance with IT security policy, regulatory requirements, and to identify areas for improvement did not occur. The Security, Privacy, and Policy Office (SPP) plans to design a central monitoring process for compliance with highly confidential data elements in the Berkeley Campus Minimum Security Standards for Electronic Information policy (MSSEI). The campus can improve internal controls by establishing a	SPP plans to implement centralized monitoring of compliance with the elements of the MSSEI governing highly confidential data by August 31, 2010.	Campus departments may be out of compliance with IT security policy, systems may contain vulnerabilities, or restricted data may be susceptible to theft, which could result in compliance issues with laws, and regulations concerning privacy or identity theft, affect the availability or reliability of systems, and damage the campus' reputation.
					The SPP and the IDC plan to establish and document a process	The results of our IT unit surveys indicate that campus

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations and Management Responsive Action Plan	Status	Potential Fiscal Impact/ Other Impact
				<p>process for coordinating and controlling the implementation of IT security policy campus-wide. The SPP and the Institutional Data Council (IDC) will establish and document a process for implementing IT security across the campus.</p> <p>The campus lacks a process for inventorying electronic information resources and a data classification scheme. The SPP plans to prepare and issue a comprehensive data classification scheme under the framework of UC's IS Bulletins, specifying the minimum hardware and software security configuration requirements for various risk levels and plans to lead a data security review team to currently identified top critical electronic information resource risk remediation projects.</p>	<p>for implementing IT security across the campus by November 30, 2010.</p> <p>IDC has been assigned the task to develop a data classification scheme. The campus CIO serves as the technical partner of IDC. Once the scheme is available, SPP would take over responsibility for incorporating it into security policy and procedures. SPP is contemplating developing an interim classification scheme to be used with the risk assessment tool that is under development.</p>	<p>policy for IT security is not consistently implemented for various reasons. These conditions affect the confidentiality, integrity, and reliability of information and the systems that process or store them.</p> <p>The results of our IT unit surveys indicate that units are not inventorying their electronic information resources and decision making and protection methods across the campus are inconsistent. In some cases poor management of IT security risks affects the confidentiality, integrity, and availability of electronic information resources.</p>
550	September 30, 2009	Health Care Vendor Relations Policy	Determine if the Health Care Vendor Relations Policy was implemented on campus.	<p>The Health Care Vendor Relations Policy was not implemented on campus due to ineffective communication of the policy. University Health Services, Intercollegiate Athletics, and the Optometry Clinic immediately began to implement the policy.</p>	Implemented.	Conflicts of interests may exist in the procurement of health related goods and services which may violate policy, law, and may result in less competitive pricing.
553	November 25, 2009	Recharge Activities	Assess central campus oversight of and departmental compliance with the policies and procedures governing recharge activities, specifically the definition, establishment, and	<p>Some recharge units posted charges to the general ledger untimely. Statements or invoices were not consistently distributed or inclusive of the requisite information. Recharge rates</p>	<p>Recharge training materials were amended to reiterate acceptable departmental billing practices; a billing policy compliance question was added to the recharge self-certification form; and a sample</p>	<p>Recharges may not be posted in the correct period, may not be supportable, or may not be in compliance with policy, thereby affecting a unit's ability to accurately</p>



Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations and Management Responsive Action Plan	Status	Potential Fiscal Impact/ Other Impact
			decommissioning of recharge centers and the development, review, and approval of recharge rates. Additionally, billing practices of recharge units were reviewed to ensure that they were consistent with approved rates.	charged were not always consistent with approved rates. Units where these conditions were found readily agreed to improve their billing practices through minor process changes or revisions to their statement formats. Centrally, management plans to re-emphasize recharge policies and procedures through training to the campus community, provide more guidance on the format of billing statements, and require recharge units to certify compliance with billing policy.	invoice was posted on the recharge information site.	represent their income/expenses. Failure to post charges timely to federal contracts and grants may result in disallowed costs.
556	January 27, 2010	Stimulus (ARRA) Fund Reporting Compliance	Assess compliance with reporting requirements related to the receipt of American Recovery and Reinvestment Act (ARRA) funds.	No observation of non-compliance with ARRA reporting requirements noted.	Not applicable	
540	January 29, 2010	Experiential Learning	Examine the practices implemented on campus to mitigate risks to experiential learning activities.	No campus unit is responsible for administering or providing guidance on experiential learning program guidelines and related policies to campus units. Regarding credit-bearing experiential learning activities, Experiential Learning Staff Advisory Group (ELSAG) will (1) identify a pragmatic set of actions that can be implemented in the near term with a minimum investment of campus resources and (2) recommend the most appropriate strategies for communicating and broadly disseminating those practices to relevant units. Regarding <u>non-credit-bearing</u>	On June 1, 2010, ELSAG presented its recommendations related to communicating and managing off-site credit-bearing experiential learning activities. Guidance and other resources expected to be available via the Teaching, Learning, Academic Planning & Facilities website by Fall 2010. The Cal Corps Public Service Center is a member of the ELSAG and decided to utilize the forthcoming MOUs for noncredit-bearing experiential learning activities upon finalization. Cal Corps staff have all been trained on the new policies and procedures developed by ELSAG and will	Experiential learning often involves students engaged in off-campus activities, such as field trips, internships, field placements, etc., with decisions made and risk accepted at the individual faculty or department level, which may be inconsistent with the campus risk tolerance. These risks include: physical or emotional harm to the student; physical or emotional harm to the clients of campus partners; reputational risk to the University and/or partner; and damage to University, student, or partner property.

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations and Management Responsive Action Plan	Status	Potential Fiscal Impact/ Other Impact
552	February 12, 2010	Sole Sourcing	Evaluate the effectiveness and efficiency of management's processes and controls designed to ensure that justifications for purchases for which competitive bids or proposals are not solicited ("sole source" purchases) conform to the requirements outlined in Business and Finance Bulletin (BFB) BUS-43- Materiel Management, and BUS-34- Securing the Services of Independent Consultants, and campus policy.	<p>experiential learning activities, Cal Corps will outline the risk management process that it uses on its website so students, community partners, and faculty are better informed about the entire process.</p> <p>Sole source purchases represent an exception to policy. Justification for sole source purchases was not consistently explained or documented to adequately support the exception. Guidance in this area is limited and written at a high-level, addressing only a few key determinants, given the reliance on departmental buyers' judgment in determining whether the basis for the sole source purchase is legitimate and is adequately documented.</p> <p>Management plans to develop and disseminate additional guidelines.</p>	<p>implement them for all our activities regardless if the activity is credit or non-credit bearing.</p> <p>Expanded guidelines are expected to be available to campus October 2010.</p>	<p>By not adequately documenting justifications for sole source decisions, the campus has exposure to findings from federal and state auditors that purchases do not comply with policy or regulatory requirements. As well, without clear requirements for a minimum level of explanation or documentation in justifications, there is an increased risk that sole source purchases, which are not truly justified, and therefore, which may not be in the best interest of the campus financially or operationally, will be requested and approved.</p> <p>Without routine monitoring of sole source purchases, excessive or inappropriate sole source purchases and/or strategic sourcing opportunities may not be identified. The fiscal impact was not quantifiable within the scope of our review.</p>
				<p>Sole source transactions are by definition an exception to policy and present compliance, operational and financial risks to the University; however, management does not currently track or monitor sole source purchase activity. Management plans to implement monitoring procedures.</p>	<p>Sampling based monitoring procedures are slated to be implemented in October 2010.</p>	

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations and Management Responsive Action Plan	Status	Potential Fiscal Impact/ Other Impact
541	March 3, 2010	IT Planning and Organization	Gain assurance with respect to key control objectives in the area of information technology (IT) planning and organization, such as business-IT alignment, technological direction planning, and organizational placement of the IT function.	<p>There are several campus groups that bring both IT and business leaders together. Concern arose as to the degree to which these groups comprehensively covered and integrated all campus operational processes in relation to IT. Management committed to addressing this issue in the context of reviewing campus decision-making and governance as part of the Operational Excellence initiative.</p> <p>The existing IT process framework, as manifested in the Office of the CIO with its reporting groups, may not address all of the campus' IT-relevant activity groups. Management expected that significant organizational change in the IT area would be one outcome of the Operational Excellence initiative, and a subsequent outcome (not before the end of 2011), would be a formalized IT Strategic Plan. In view of these, management committed to a short-term goal of documenting the as-is process framework by August 2010, and later adjusting the framework to reflect the updated IT Strategic Plan by Spring of 2012.</p> <p>The evident distribution of the IT function throughout the organization raised concern about potentially sub-optimal use of resources and sub-optimal</p>	<p>As of the end of FY2010, work on this item was awaiting the start of work on the Operational Excellence Design Phase, which had just gotten started in May of 2010, in response to the Final Diagnostic Report's issuance in the previous month. The time frame for the various design initiatives had not been established.</p> <p>Interim documentation of the IT process framework is pending.</p>	<p>Excessive expenditure on IT due to spending for projects that might be functionally duplicative, or not cost-effective in terms of the degree to which they help achieve mission-related outcomes.</p> <p>As with business-IT alignment, an incomplete framework means that costly duplication of effort and functionality can occur.</p> <p>Impact is the same as in the cases of business-IT alignment and IT process framework. Problems with organizational placement</p>

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations and Management Responsive Action Plan	Status	Potential Fiscal Impact/ Other Impact
557	April 5, 2010	Senior Management Group Policy Compliance	<p>Assess campus compliance with selected aspects of the SMG policies, and to assess the adequacy of the following areas:</p> <ul style="list-style-type: none"> <li>- Communication of SMG policy requirements to members and staff who are responsible for SMG salary and personnel actions,</li> <li>- Policy compliance monitoring and reporting activities, and</li> <li>- Procedures and controls related to the input and tracking of SMG-related information in the relevant systems.</li> </ul>	<p>strategizing from an organization-wide perspective. Management expects that the IT reorganization model that is expected to be developed through the Operational Excellence initiative will define a new structure that will allow for increased understanding and oversight of the IT function across campus. The model is expected to be identified by July 2010, with significant progress in implementing it expected to occur by January 2011.</p> <p>The performance review of members of SMG was undertaken for FY2009 by both the Chancellor and the EVCP; however, the campus was not fully compliant with the <i>SMG Performance Review Process</i> policy such that reviews had not been completed for all covered SMG members according to the timeline or specific requirements established by the policy.</p> <p>Management planned to complete outstanding FY2009 performance reviews and complete annual reviews on a go forward basis.</p> <p>Formal procedures to monitor and report on SMG policy compliance were not implemented. Management will develop and issue a semi-annual SMG policy compliance report.</p>	<p>FY2009 SMG performance reviews were completed. The policy and related procedures were communicated to the SMG to assure future compliance.</p>	<p>would obstruct effort with regard to the previous two objectives, making their achievement less likely. This, in turn, would make <i>more</i> likely the excess cost impact of non-alignment and sub-optimal process framework.</p> <p>Untimely completion of performance reviews or performance reviews that do not consider all required assessment attributes may undermine the intent of the performance review process policy to ensure that SMG member performance is aligned with University goals and expectations.</p>
					<p>As of June 30, no management action plan was yet due.</p>	<p>Absent formal monitoring of policy compliance, instances of non-compliance may not be detected or corrected.</p>

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations and Management Responsive Action Plan	Status	Potential Fiscal Impact/ Other Impact
543	April 6, 2010	Private Gift Agreement Compliance	Assess controls related to stewardship of private gifts including development of individualized donor stewardship strategies and compliance with donor restrictions.	<p>Campus procedures and personnel accountabilities related to ensuring SMG policy compliance are not formalized or documented. Management will formalize and document procedures and accountabilities.</p> <p>Gift Management does not monitor gift funds to determine whether expenses are in accordance with the donor terms and/or restrictions.  Gift Management will:  1. Annually, survey the departments identified through a developed risk assessment to ensure that funds are spent in accordance with fund terms;  2. Widely communicate the implementation of its risk assessment to campus units via e-mail as well as additional targeted communications to gift fund administrators; and  3. Develop a questionnaire to determine the adequacy of a department's procedures for administering gift funds and distribute to all departments with gift funds and subsequent distribution will be to those identified as high- risk or on a rotating basis.</p>	As of June 30, no management action plan was yet due.	The lack of explicit and documented procedures and accountabilities increases the risk of policy non-compliance and impacts the efficient and effective transfer of responsibilities to new SMG coordinators or others involved in ensuring SMG policy compliance.
					Full implementation is targeted for June 30, 2011.	Possible violations and inappropriate use of donor gift funds resulting in future loss of donor support. Damaged University reputation potentially resulting in future loss of donor support.

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				Not all surveyed fund administrators were aware of gift stewardship training courses offered by Gift Management. Gift Management will implement mandatory training for gift fund administrators. Gift Management will also increase direct communication to gift fund administrators.	Full implementation is targeted for June 30, 2011.	Lack of gift stewardship training of departments to equip them with the tools and knowledge for managing private gifts.
548	June 30, 2010	BP Contract Management	Evaluate the system of controls employed to assure compliance with and mitigation of risks associated with Berkeley's current contract with BP creating the Energy Biosciences Institute.	EBI did not produce timely, accurate, and reliable monthly financial reports as required by BP due to challenges in receiving and incorporating necessary information from collaborating institutions as well as limited support from Research Enterprise Services (RES).	EBI and RES implemented a process to produce required reports timely. However, due to delays in posting invoices from collaborators by RES estimates were used in some to generate the reports.	
549	June 30, 2010	Biology Scholars Program DMS	To evaluate the adequacy of internal controls and compliance with policy for administrative and information technology processes.	BSP had not performed a risk assessment of strategic, operational, compliance, fraud, and information technology matters and monitoring of BSP's operations by the director was ineffective. BSP plans to consult with Controls, Accountability, and Risk Management to get their help with performing a risk assessment and plans to strengthen monitoring of the program's operations.	BSP plans to have a risk management plan implemented by September 30, 2010. The director has begun meeting regularly with his staff to monitor the programs operations and reviews financial reports to monitor the program's finances. By September 30, 2010, the director plans to keep meeting minutes and sign financial reports to evidence monitoring of the program.	In the absence of effective risk management and monitoring processes, BSP is at risk of improper governmental acts occurring again and other events, which could jeopardize the program's reputation, relationship with funding agencies, and ability to achieve compliance with contracts, grants, and policy, as well as, strategic and operational goals and objectives.
				Internal controls are not in place to ensure the security of restricted data and BSP shares restricted data electronically with one of their funding agencies	The director plans to implement the campus tool to detect restricted data and protect or remove the data accordingly, as well as, hold a meeting with	Data protected by law could be released to others who do not have an appropriate business purpose or have a malicious intent.

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations and Management Responsive Action Plan	Status	Potential Fiscal Impact/ Other Impact
554	June 30, 2010	Information Technology Project Management	Gain assurance that a program and project management framework for the management of all IT projects is established, and includes a master plan, assignment of resources, definition of deliverables, approval by users, a phased approach to delivery, quality assurance, a formal test plan, and testing and post-implementation review to ensure project risk management and value delivery to the campus.	<p>using an insecure mechanism. BSP plans to use the campus tool to detect restricted data and secure or remove the data. BSP also plans to meet with the Registrar's Office, Sponsored Projects Office, and the Chief Privacy and Security Officer to discuss the security vulnerability and remedial actions to be taken.</p> <p>BSP does not have a process in place for ensuring that electronic information resources comply with the campus' minimum-security standards. BSP plans to create standard images for its electronic information resources, in order to ensure compliance with campus' minimum-security standards. Furthermore, BSP plans to install encryption software on all removable storage devices.</p>	<p>campus officials to discuss the security vulnerability with the funding agency's web application. Remedial actions to be taken by October 31, 2010.</p> <p>BSP has installed antivirus, firewall, and intrusion detection software on its servers and all student workstations. BSP plans to install antivirus, firewall, and intrusion detection software on all workstations used by its employees, create the base images in compliance with minimum-security standards, and install encryption software on removable storage devices by September 30, 2010.</p>	<p>BSP owned electronic information resources could be vulnerable to attack resulting in damage to the program's reputation, legal, and financial implications, as well as, impact the availability, reliability, and integrity of these resources in so far as they are critical to the program's ability to achieve its strategic and operational goals and objectives.</p> <p>The conditions describe increases the likelihood that projects for the development of software will not be completed on time, on budget, of adequate quality, defect free, and in compliance with the business requirements and policy.</p>
				<p>Application Services (AS) does not have a standardized and documented process for the management and development of software projects; it is an individual decision influenced by the experience, knowledge and skill of the individual in internal controls and policy. AS plans to implement the Technology Program Office's (TPO) project management process, which is based on industry standards, create a life cycle group that will integrate best development</p>	<p>Training in the TPO's project management process and project management guidelines will be completed by January 1, 2011. The life cycle group will be staffed by July 1, 2011. A 5-year roadmap to improve project and quality management will be completed January 1, 2011. The guidelines for the development of software and a checklist of required documentation will be completed by October 1, 2010.</p>	

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations and Management Responsive Action Plan	Status	Potential Fiscal Impact/ Other Impact
				<p>practices and tools, and provide guidelines for the development of software and a checklist of required documents.</p> <p>Project Management and System Design (PMSD) process for infrastructure projects does not include a procedure for performing a risk assessment and in consultation with Controls and Accountability PMSD plans to perform a risk assessment.</p>	<p>PMSD plans to perform a risk assessment by October 1, 2010.</p>	<p>The likelihood and impact of events occurring that PMSD is not prepared to prevent or respond to is increased and may impact their ability to deliver projects on time, on budget, that are defect free, and meet the requirements of their clients.</p>
559	June 30, 2010	Sponsored Projects Close-out	<p>With regard to federally sponsored projects, determine whether existing policies, procedures, and practices provide reasonable assurance of meeting OMB Circular A-110's after-the-award requirements having to do with timely reporting, timely liquidation of obligations, collection of allowable cost reimbursements, refund of unobligated cash unless</p>	<p>PMSD and Platform, Storage, and Data Center (PSDC) have not completed or started documenting their processes for project management. PMSD and PSDC plan to document their processes.</p>	<p>PMSD plans to complete the documentation of their process by December 1, 2010 and PSDC will document their process by January 1, 2011.</p>	<p>The conditions described could result in:</p> <ul style="list-style-type: none"> <li>• inefficiencies,</li> <li>• misunderstanding of responsibility and accountability,</li> <li>• poor decision-making,</li> <li>• failure to respond to project issues timely,</li> <li>• a lack of control over project progress, and</li> <li>• a loss of focus on customer expectations and the business need.</li> </ul> <p>Departmental non-federal funds to which non-reimbursable amounts are ultimately transferred via the deficit clearing process could be moderately impacted.</p>



Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations and Management Responsive Action Plan	Status	Potential Fiscal Impact/ Other Impact
			authorized to retain, and accounting for real and personal property acquired or received	<p>is necessary. Management responded with a commitment to making such a determination and taking further action if necessary.</p> <p>There appears to be some inconsistency in providing required equipment reports, warranting further review by management regarding cause, with the possibility of process adjustments as a result. Management responded with a commitment to perform further review and to make such adjustments as may be determined to be necessary.</p> <p>Two information systems security issues were noted in one of the systems pertinent to the closeout process. One of these was addressed and resolved prior to issuing the audit report.</p>	<p>Management has initiated review of the equipment reporting process, which it expects to complete by October 15, 2010. Any adjustments determined to be necessary are expected to be implemented by January 15, 2011.</p>	<p>Not providing an equipment report could result in more administrative work later to identify and, possibly, return or transfer equipment.</p>
561	June 30, 2010	ASUC Auxiliary	Assess the departmental system of controls to assure sound business practices are in place and where applicable compliant with University policies and the management agreement between the University and the Associated Students of the University of California (ASUC).	<p>While the ASUC Auxiliary engaged in strategic activities such a strategy map and activity-based cost budgeting, the unit lacked a strategic plan including an analysis of organizational competencies, a market or customer assessment, measurable goals, and a financial analysis. The ASUC Auxiliary will issue strategic plan by January 31, 2011.</p> <p>Procedures are not documented to manage third party contracts (e.g. lease, consultant, and</p>	<p>Work on the other issue is in progress, with completion expected by the middle of October 2010.</p> <p>Management action is expected to be taken as noted.</p>	<p>Impact, which would be due to unauthorized internal access to information, could conceivably be high, but this was not conclusively determined. Likelihood appeared low.</p> <p>Without a strategic plan short-term decisions may result in adverse long-term ramifications by misalignment with the mission and goals of the ASUC Auxiliary.</p>
				<p>Procedures are not documented to manage third party contracts (e.g. lease, consultant, and</p>	<p>Management action is expected to be taken as noted.</p>	<p>The absence of effective contract management may give rise to vendor or ASUC</p>

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations and Management Responsive Action Plan	Status	Potential Fiscal Impact/ Other Impact
				<p>sponsorship agreements) ensuring all required deliverables and services are received and ASUC Auxiliary commitments fulfilled in accordance with the contract. ASUC Auxiliary will assure that all contracts and service agreements terms are documented in a spreadsheet on the ASUC Auxiliary shared site to facilitate contract management by October 31, 2010.</p> <p>A written process for the development of consultant agreements and sponsorship agreements by the ASUC Auxiliary prior to approval by the Business Contracts Office has not been established. The ASUC Auxiliary will have a procedural manual for consultant and sponsor vetting procedures by November 30, 2010.</p>		Auxiliary nonperformance of key contract terms.
555	June 16, 2010 Draft	Fraud Risk Management	Evaluate the potential for the occurrence of fraud and how the University manages fraud risk.			
558	June 23, 2010 Draft	Sponsored Projects –Cost Sharing	Assess the effectiveness of controls to assure that University costs used to meet cost sharing commitments to federally funded grants are allowable, allocable, reasonable, consistent, timely, justified, authorized, and documented in accordance with federal requirements.			
551	June 25, 2010 Draft	Sponsored Projects – Subaward	Evaluate the effectiveness of subrecipient monitoring controls to ensure that federal awards are			

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations and Management Responsive Action Plan	Status	Potential Fiscal Impact/ Other Impact
		Monitoring	used for authorized purposes in compliances with laws, regulations and provisions of the prime agreement.			

**Appendix B: Advisory Services and Consultations – Fiscal Year 2010**

<b>Date Issued</b>	<b>Report/Project Number</b>	<b>Title</b>
April 5, 2010	AS06	Annual Report of Executive Compensation
April 5, 2010	AS07	G-45/Chancellor's Expenses

**Appendix C: Investigation Completed – Fiscal Year 2010**

<b>Date Issued</b>	<b>Report Number</b>	<b>Title</b>
August 7, 2009	IN146	ASUC PSAs
August 18, 2009	IN141	Graduate School of Education
November 6, 2009	IN155	Summer Sessions
February 1, 2010	IN153	Physical Plant-Campus Services Lockshop
March 9, 2010	IN150	Biology Scholars Program
June 30, 2010	IN142	School of Public Health Conflict of Interest
June 30, 2010	IN158	Berkeley Art Museum

## **Appendix D: Narrative of Planned Audits for Fiscal Year 2010**

### **Planned Audits**

#### **Annual Report of Executive Compensation (system)**

Assess compliance with UC policies and instructions used in preparation of the Annual Report of Executive Compensation as well as controls implemented to assure the accuracy and completeness of data.

#### **Budget Monitoring Deficit Spending**

Evaluate controls which identify departmental deficits, administer plans to mitigate, and monitor progress to eliminate deficits. The Campus Deficit Resolution policy requires elimination of departmental deficits by fiscal close each year unless the unit in deficit has a written deficit reduction plan approved by the Vice Chancellor-Administration. In the current University budget crisis departments are more susceptible to deficits with limited options for viable plans to eliminate them in the near term.

#### **Business Contracts**

Assess controls to assure that business contracts for goods and services are executed in accordance with BFB BUS-43, Materiel Management, and other relevant policies to ensure that the awarding of the contract is competitive, fair, equitable and properly authorized. Also, evaluate the effectiveness of controls established to administer contracts' compliance with contractual obligations by both the University and contractors and ensure that there is adequate performance measurement criteria to enforce deliverables. Further, ensure all invoice charges are valid, reasonable, and accurate and according to contract terms and conditions.

#### **Central Campus Operations Department Codes Activity**

Analyze central campus operations funds to ascertain that transactions are recorded in accordance with the accounts' purpose, accounts are reconciled regularly, and balances are reflected accurately.

#### **Conflict of Interest/Conflict of Commitment (system)**

Evaluate compliance with UC and regulatory requirements related to conflict of interest and conflict of commitment. Evaluate the effectiveness of employed governance and risk management strategies to mitigate risks of conflicts between the employee's personal interest and the University's interest.

## **Disaster Recovery**

Assess the adequacy and effectiveness of internal controls with regard to IT-related disaster recovery, including business impact assessment, disaster recovery planning, crisis management plans including communications, disaster recovery testing, maintenance and updates.

## **Enrollment Management - Satellite Operations**

Assess the departmental system of control to assure sound business practices are in place to support operational effectiveness and efficiency including compliance with University policies as well as federal and state regulations governing admissions, student financial aid, registration, and transcripts in satellite operation such as the Haas School of Business and Boalt Law School.

## **Funds Functioning as Endowments**

Review governance practices to balance short-term needs and strategic goals underlying the conversion of funds functioning as endowments to current use funds in accordance with the Development Policy and Administration Manual as well as Accounting Manual E-525 Endowment and Similar Funds. For these funds, the principal has been set aside by administrative action to be invested in the manner of an endowment fund. Funds are established from monies generated within the University primarily from private gifts or bequests, if restrictions are not stipulated by the donor.

## **Graduate School of Education**

Assess the departmental system of control to assure sound business practices are in place to support operational effectiveness and efficiency including compliance with University policies as well as federal and state regulations. This review will focus on the administrative processes and key business risks related to such areas as payroll, purchasing, travel, entertainment, revenues, cash handling, contract management, financial reporting for student organizations, gift management, facilities management, human resources, asset management, budgeting, event coordination, risk management, etc.

## **Human Resources - Performance Management**

Evaluate performance management and incentive systems in place to assure accountability for high performance and appropriate employee development and support.

## **IS 3 Compliance (system)**

Verify compliance with UC BFB IS-3 “Electronic Information Security” which establishes guidelines for achieving appropriate protection of electronic information resources and identifies roles and responsibilities at all levels in the UC system. Electronic information resources are those resources used in support of the University activities that involve the electronic storage, processing or transmitting of data, as well as the data itself.

## **IT Architecture**

Assess the adequacy and effectiveness of internal controls with regard IT architecture, including technology planning, emerging technologies, local standards, architecture design and management (software, infrastructure, and security), vendor/product selection, and integration and consolidation.

## **Leased Real Property (Capital and Operating Leases)**

Review agreements and related transaction for leased real property to ascertain compliance with the University Accounting Manual Chapter L-217-11 - Accounting and Reporting for Leases and Installment Purchase Contracts, BFB G-38 - Tax Exemption and Refund Claims Filing for Property Leased by the University, delegations of authority, and appropriate classification as a lease, license or easement.

## **OMB A-21 Compliance**

Evaluate compliance with OMB Circular A-21 which establishes principles for determining costs applicable to grants, contracts, and other agreements with educational institutions. These principles are used in determining the allowable costs of work performed under sponsored agreements, including subgrants, cost-reimbursement subcontracts, and other awards made under the sponsored agreements. Generally, the principles are that costs must allowable, allocable, and reasonable as they relate to the sponsored project. The principles are also used as a guide in the pricing of fixed-price contracts and subcontracts where costs are used in determining the appropriate price.

## **Research Enterprise Services**

Assess the departmental system of control to assure sound business practices are in place to support operational effectiveness and efficiency including compliance with University policies as well as federal and state regulations. This review will focus on the administrative processes and key business risks related to such areas as payroll, purchasing, travel, entertainment, revenues, cash handling, contract management, financial reporting for student organizations, gift management, facilities management, human resources, asset management, budgeting, event coordination, risk management, etc.

## **School of Public Health**

Assess the departmental system of control to assure sound business practices are in place to support operational effectiveness and efficiency including compliance with University policies as well as federal and state regulations. This review will focus on the administrative processes and key business risks related to such areas as payroll, purchasing, travel, entertainment, revenues, cash handling, contract management, financial reporting for student organizations, gift management, facilities management, human resources, asset management, budgeting, event coordination, risk management, etc.



### **Senior Management Group Policy (system)**

Evaluate the implementation of and compliance with University Senior Management Group personnel policies which delineate the general employment relationship between Senior Management Group employees and the University. Positions designated as senior management provide leadership requiring the exercise of a high degree of independent judgment in the development of Universitywide or campuswide policy and program direction as well as accountability for long-term results.

## **Planned Advisory Services**

**Campus Safe Driver Program**

**Human Resources – Operational Excellence**

**IT Operations – Operational Excellence**