

To the UC Berkeley Community,

The climate at UC Berkeley throughout fiscal year 2016 was marked by the significant departure of key leaders, the announcement of new strategic initiatives, the continued strain of a \$150 million structural deficit, budget cuts which have led to shrinking staff support and a testing of the shared governance model, all amid sustained high volume and high velocity change on multiple fronts. Under the best circumstances, risk is inherent during periods of rapid change. The general outlook for the future is positive in the long-term and mixed in the near-term.

Based on the assurance and advisory projects completed during the fiscal year ended June 30, 2016, as well as control implications arising from investigative activities and representations made by management, the internal control structures over the governance, risk management, financial, operating, and compliance activities of the University of California, Berkeley appear to 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 our work during the fiscal year, we did not identify any deficiencies we considered to represent material control weaknesses. Further, we did not identify any areas where management decided to accept a level of risk that we viewed as unacceptable. 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 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. Also, these statements are not 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 tolerable risk accepted by the organization are ultimately determined by management. These statements are intended solely for the information and use of university management, the senior vice president and chief compliance and audit officer, and the Board of Regents of the University of California and are not intended to be and should not be used by anyone other than these specified parties.

We are accountable to each other.

Respectfully,

Wanda Lynn Riley
Chief Audit Executive

FY 2017 A&AS Service Plan	
Planned Engagements	Impacted Strategic Initiatives
Sponsored Projects—Award Close-out	Administrative realignment
Sponsored Projects—Indirect Cost Recovery	Administrative realignment
Sponsored Projects—Sub-awards	Administrative realignment
International Agreements	Global engagement
Campus Shared Services	Administrative realignment
Restricted Gifts	Transforming philanthropic culture and enterprise
Facilities Services	Administrative realignment
Capitalized Assets — Equipment and Software	Administrative realignment
Disability Governance	Building an inclusive community
Common Good Expenses versus Recharged Expenses	Financial reform
Supply Chain Management	Administrative realignment
Intercollegiate Athletics—Expenses	Sustainability in the Athletics budget
IT Disaster Recovery	Administrative realignment
Human Resources—Information Management	Administrative realignment
Cybersecurity (ECAS)	Administrative realignment
Internal Communication	Administrative realignment
Executive Compensation	Administrative realignment
Fair Wage/Fair Work Compliance (system)	Administrative realignment
Executive Travel (system)	Administrative realignment
Strategic Sourcing (system)	Administrative realignment
Financial Fraud and Misconduct Risk Management — Procure to Pay Process (advisory)	Administrative realignment
Operational Excellence—Leveraging Lessons Learned (advisory)	Administrative realignment

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Report on Activities and Outcomes
Fiscal Year 2016
and
Annual Service Plan
Fiscal Year 2017

December 1, 2016

As a trusted partner, we provide independent, objective, and risk based information, assurance, and insight at the right time to the right people to foster effective decisions.



Highlights from FY2016 for UC Berkeley



Photograph by Steve McConnell

- **Top ranked public university** by U.S. News and World Report 18th straight year
- **Senior leadership turnover**, four of nine senior leaders stepping down, three newly appointed and considerable turnover in the next tier of administrative management
- **\$150 million structural deficit** with plans to reduce to \$110 million in FY2017 through debt refinancing, budget cuts, staff reduction, and revenue generation
- Record fundraising results with more than 65,300 donors, nearly 100,000 **gifts totaling \$479 million**
- **Operational Excellence Program** launched in 2009 to reduce administrative costs, ensure efficient and effective services, and support continuous improvement sunset
- **New strategic initiatives** focused on deficit reduction including administrative realignment, strengthened campus fundraising, and sustainable Intercollegiate Athletics budget
- **Public-private partnerships** and donor-built models to finance new construction in part due to limits on debt capacity
- Revisited the **Campus Shared Services** service delivery and funding model
- Announced intention to form a **new global alliance** to collaborate on research and graduate-level programs with the University of Cambridge and the National University of Singapore
- **New executive governance structures** Chancellor's Cabinet and Executive Vice Chancellor and Provost Operations Group
- Multiple modules of the **new student information system** were implemented
- **Berkeley Global Campus, Richmond Bay** plans suspended indefinitely

Top UC Berkeley Risk Themes

Results of the FY2016 Enterprise Risk Assessment



Leadership – executive level exodus, no succession plan, lack of confidence, uncertain direction, operational disruption

Financial forecast – no debt capacity, alternative revenue generating, financing, and cost savings strategies, tuition dependency

Change management – Strategic initiatives, application implementation projects, new affiliations, new regulation, global engagement, objective assessments, continuity, performance monitoring, accountability

Infrastructure – utilities, capital renewal, enterprise information systems, research administration and compliance support, documented end-to-end process flows and internal controls for key business activities

Campus climate – staff morale, internal communication, performance management, institutional knowledge, strategic planning, compensation, performance measurement, human resource practices

Information and technology – data and records management, obsolescence, security, disaster recovery, project management, privacy

Audit and Advisory Services' Year in Review

We focus on service, innovation, accountability, collaboration, and simplification.

Service Plan Projects Completed 95%

Audits 12

Consultations 6*

Average Projects per Auditor 4

* Three of the six projects supported investiga-



Direct Service 10,060 hours 87%

Audit 7,525 hours 65%

Audits

- Supporting International Research
- Business Partnerships
- International Procurement
- Space Sciences Laboratory
- Student Fees
- International Visitors
- Commercialization of Intellectual Property
- Research Data Management
- Control Systems

Executive Compensation

- HIPAA Compliance
- Construction
- Consultations**
- Lawrence Hall of Science—FOSS
- ERSO—Capitalized Assets
- Recreational Sports—Time Reporting
- Lawrence Hall of Science
- Effort Reporting
- Student Information System

Consultation 1,916 hours 17%

Key Implemented Management Action Plans Responsive to Audit Observations

- ◆ Commenced an end-to-end process review for research administration to enhance the service experience for principle investigators and assure that operational and compliance risk are mitigated.
- ◆ Monitor expired, expiring and long vacant endowed chairs through the vice provost for faculty to promote effective use of restricted gifts.
- ◆ Revised the template for ground leases to consider risk related to donor-built facilities.

Risk Accepted by Management in Lieu of Agreed Upon Action Plan

Observation: At the time of the audit in FY2014, the funding model for campus shared services focused on practicality and simplicity over precision, with a flat assessment based on analysis of units current workload. Periodic review, at least every other year, was recommended.

Management Action Planned: An assessment of the CSS funding model was planned for early 2015 to include a recommendation for an ongoing funding model.

Risk Assumption: Senior management accepted the risk of the financial pressure the current CSS deficit placed on campus resources. Planned to review in FY2017. Academic units were extended a fee holiday pending review.

Common Observed Control Deficiencies

FY2014	FY2015	FY2016
Broad access to post journal entries to the general ledger with deficiencies in post transaction reviews	Broad access to post journal entries to the general ledger with deficiencies in post transaction reviews	Definition of roles, responsibilities, and key controls in cross-functional administrative processes and with external business partners
Change management	End-to-end internal control/procedural documentation for key business processes	Due diligence in vetting new partners and partnerships to include financial modeling, full costing, implications of terms and conditions, key risks and rewards, impact on other relationships, and division of responsibilities
Campus-level monitoring of key business objectives, activities, and outcomes	Financial modeling for decision support	Leveraging information and technology to address control gaps, increase effectiveness and efficiency of key administrative activities, enhance data and records management, monitor exceptional activity, and synchronize common information across systems
Disaster recovery plans for key information systems	Shared governance for centralized administrative activities	Contract management, including the ongoing relationships with external business partners, the accomplishment of campus objectives, internal and external compliance with terms and conditions
Inconsistent quality in disaggregated manual key controls	Succession planning	Succession planning at all levels given changes in senior management and the impact on campus strategy, position control for staff, and planned staff reduction