



Report on Activities and Outcomes — Fiscal Year 2017 and Annual Service Plan — Fiscal Year 2018

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.

To the UC Berkeley Community,

Fiscal year 2017 was a pivotal year of transition, most notably the appointment of a new chancellor, changes in other key leadership positions, implementation of a new student information system, reduction of the financial deficit by \$40 million, welcoming of the largest class of new students, free speech demonstrations, \$50 million infusion for deferred maintenance, reopening of Bowles Hall, and planning for FY2018 revenue generation and cost cutting measures to achieve a \$53 million deficit reduction. Under the best circumstances, risk is inherent during periods of significant change and financial strain. The general outlook for the future is cautiously optimistic with confidence in new leadership to address financial and organizational challenges, while maintaining global preeminence as a leading research institution.

Based on the assurance and advisory projects completed during the fiscal year ended June 30, 2017, 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 and Risk Executive

Campus Highlights from FY2017

FY2017 brought with it a plethora of success, opportunities, and challenges in our pursuit of excellence and access in education and research. Following are a few highlights from this year:

| Table of Content | |
|--|---|
| Campus Highlights..... | 2 |
| Audit and Advisory Services Year in Review.. | 3 |
| Enterprise Risk Assessment Results..... | 5 |
| FY2018 Service Plan..... | 6 |

- **Top ranked public university** by U.S. News and World Report 19th straight year
- **Rebuilding of the senior leadership team**, Carol Christ appointed chancellor, internal candidates announced as executive vice chancellor and provost, and vice chancellors of finance and equity and inclusion, new vice chancellor of administration will join the campus from within the UC, and searches pending for vice chancellors of student affairs and research; considerable turnover in the next tier of administrative management
- **Real Estate division** is being dissolved and functions reorganized under other vice chancellors
- **Reduction of financial deficit to \$110 million achieved** with plans to **reduce to \$57 million in FY2018** through revenue generation and cost management, year two of a four-year deficit elimination plan stipulated by the Office of the President
- **\$50 million loan for capital renewal** received from the Office of the President
- **New strategic initiatives** focused on deficit reduction including administrative realignment, strengthened campus fundraising, and sustainable Intercollegiate Athletics budget
- Expanded **public-private partnerships** and **donor-built** models to finance new construction in part due to limits on debt capacity, opening of the Legends Aquatic Center and Connie & Kevin Chou Hall
- **Research Administration Improvement initiative** underway to improve processes and develop an integrated service delivery model, including the first annual research administration services satisfaction survey
- **Reimagining IT** initiative launched a strategic planning process engaging IT professionals from across the campus
- **New student information system** implemented with a dedicated team to support ongoing operations
- **Bowles Hall, a public-private partnership to create a residential college** opened to 183 students
- New eight-day **Golden Bear Orientation** introduced all 9,500 incoming students to the campus
- **Division of Data Science** established to further solidify its position at the forefront of data science research and education

- **Quarterly Office of Research updates** established to report on major activities
- Increased **transparency in the budgeting process and reporting**
- Adopted an interim policy explicitly intended to support the right and ability of non-departmental users to host **Major Events** of their choosing on campus
- **Special Faculty Advisor to the Chancellor on Sexual Harassment/ Sexual Violence and Campus Title IX Coordinator** to serve as the campus lead for efforts in providing a safe working, learning, and living environment for students, faculty, and staff
- **Berkeley Global Campus, Richmond Bay** plans suspended indefinitely
- Various task forces were commissioned to study and/or develop a related plan around **campus housing needs, incentives for academic units** to raise funds, **public and common goods funding models, and enrollment management**



Audit and Advisory Services' Year in Review

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



Direct Service

9,486 Hours

89% of Effort



FY2017 Completed Projects

Audits

International Agreements
Sponsored Projects — Award Close-out
Sponsored Projects — Indirect Cost Recovery
Human Resources — Information Management
Information and Technology Disaster Recovery
Capitalized Fixed Assets — Equipment and Software
Supply Chain Management
Executive Travel (systemwide)

Executive Compensation (systemwide) — AREC
Executive Compensation (systemwide) — G45

Facilities Services

Intercollegiate Athletics — Expenses
Accessibility Governance
Internal Communication
Leave Management
Fair Wage/Fair Work (systemwide)
Restricted Gifts

Consultations

Osher Incentive Awards Program Scholarships
Chancellor's Transition Review

Accepted Management Action Plans

| | MAPs Open on 7/1/2016 | MAPs New | MAPs Completed Validated and Closed | MAPs Open on 6/30/2017 |
|--------------------------|-----------------------------|-------------|--|------------------------------|
| Administration & Finance | 12 | 17 | 12 | 17 |
| OCIO/IST | 4 | 0 | 2 | 2 |
| EVCP | 2 | 0 | 2 | 0 |
| Univ. Dev & Alumni Rel | 1 | 1 | 0 | 2 |
| Chancellor | 1 | 3 | 1 | 3 |
| Real Estate | 1 | 8 | 3 | 6 |
| Research | 0 | 8 | 1 | 7 |
| Equity & Inclusion | 0 | 0 | 0 | 0 |
| Student Affairs | 0 | 2 | 0 | 2 |
| Total | 21 | 39 | 21 | 39 |

Common Observed Control Deficiencies

| FY2015 | FY2016 | FY2017 |
|--|---|---|
| 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 | Forecasting and monitoring financial implications of business decisions |
| 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 | Establishing and sustaining controls to preserve and optimize operational and financial objectives after significant changes, including seamless system interfaces |
| 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 | Clarity and coordination around roles and responsibilities for cross-campus administrative processes |
| 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 | Lack of authoritative oversight for accessibility including coordination of disaggregated campus service delivery efforts given the complexity of accessibility responsibilities and requirements, the multitude of units delivering accessibility services, funding constraints, and the inherent nature of an aging physical plant located on the slope of a large hill |
| 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 | Effectively communicating with employees is hampered by a lack of a senior official with dedicated resources to lead the effort, guiding principles, communication tools, diversification of communication methods capable of reaching and meeting the needs of a diverse target audience |

Key Implemented Management Action Plans Responsive to Audit Observations

Audit 13-603 Key Financial Controls — Campus key financial controls were enhanced by elevating accountability from the department level to the divisional level better leveraging the organizational hierarchy. Regular meetings were established for divisional financial leaders by the chief financial officer. Quarterly financial reporting is available to divisional financial leaders for assessment with the expectation that financial forecasts will be adjusted as appropriate. There is a central infrastructure to ensure the quarterly reviews are completed.

Audit 14-620 Human Resources — Compensation and Classification — Campus Shared Services HR/APS implemented a standard compensation request template to facilitate verification that compensation requests are within the appropriate range and increases do not exceed 25% within a single year. Other policy exceptions are routed to central Human Resources for review and approval.

Audit 15-646 Donor-Built Facilities — A campus workgroup defined roles and responsibilities in a practice guide *Donor Development and Public Private Partnership Projects — Process and Roles and Responsibilities*. In conjunction with campus counsel, a template contract was adopted to ensure comprehensive consideration of issues.

Audit 15-656 Service (Recharge) Centers — Campus financial oversight for service (recharge) centers was transferred from Campus Shared Services to the Office of the Chief Financial Officer. A dedicated resource was hired to review and approve recharge rate requests. Current approved rates are posted to a public campus website empowering campus consumers with knowledge. Current policy remains out of date. A campus work group was charged to examine principles arounds common good and recharged expenses.

Audit 15-662 Alignment of Access, Administrative Roles and Responsibilities, Authority and Accountability for Research — The Research Administration (RA) improvement initiative was commissioned to provide effective support to faculty and principal investigators; ensure the university is using resources safely, ethically, and efficiently; and, to foster a high-performing culture and integrated network of processes and systems that lead to continuous improvement. The RA improvement initiative will achieve its goals through two primary efforts: the development of an integrated service delivery model and a series of process improvements targeting each phase (acquire, manage, close-out) of the RA end-to-end process. Process improvement for award set-up is now in implementation. Areas in process are proposal development and submission, subawards, and purchasing.

15-651 Human Resources — Employee and Labor Relations — Campus Shared Services employee relations cases are now entered into ServiceNow (at a high level only — confidential details are maintained outside of the system due to broadly granted ServiceNow access/view privileges) and reviewed on a regular basis to monitor activity and ensure that cases are handled timely.

16-677 — HIPAA Compliance — University Health Services developed and implemented a security assessment strategy including the performance of regular system environment checks, security reviews, and risk assessments to comply with HIPAA.

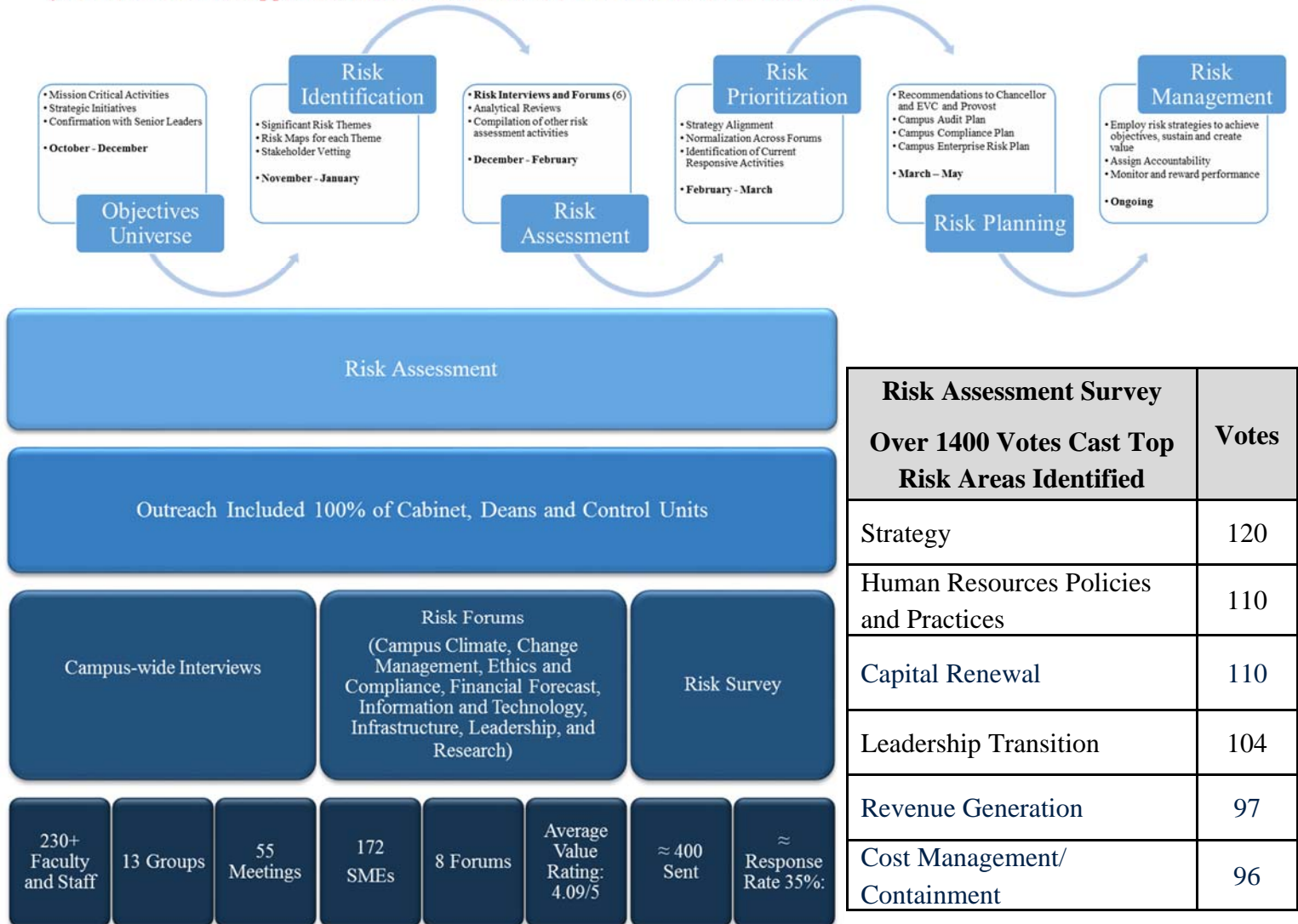
Risk Accepted by Management in Lieu of Agreed Upon Action Plan

Related to three approved management action plans, management accepted the underlying risks largely due to broader campus financial constraints. Management planned to develop a business case for further investment in web authoring tools to better leverage the use of social media technologies while mitigating related risks. Management planned to seek additional investment in the University Partnership Program to effectively manage contracts and partner relations post execution. Management planned to propose use of a central electronic repository for all campus contracts to facilitate more effective contract management.

Internal audit reports are available on the UC Office of the President website at https://auditreports.ucop.edu/?action=public_search.

UC Berkeley Enterprise Risk Intelligence Model

Vision: Leaders proactively use risk intelligence to strategically plot the future of the University, relying on trusted risk partners to identify, analyze, and escalate internal and external risks and opportunities. To this end, the risk partners collaborate with experts across the University, focus on insight with future predictive value, develop resources to facilitate decision support, and are accountable to each other and the University.



Summary of Significant Risks

Vision, Values, and Strategy

Governance

Leadership Team

Internal Communication

Understanding of Campus Climate

Workforce — Manager Development

Campus Climate — Free Speech and High Profile Events

Revenue Generation

Philanthropy

Budget — Cost Management

Deferred Maintenance

Student Housing

Information Stewardship and Management

Safeguarding the Technology Environment

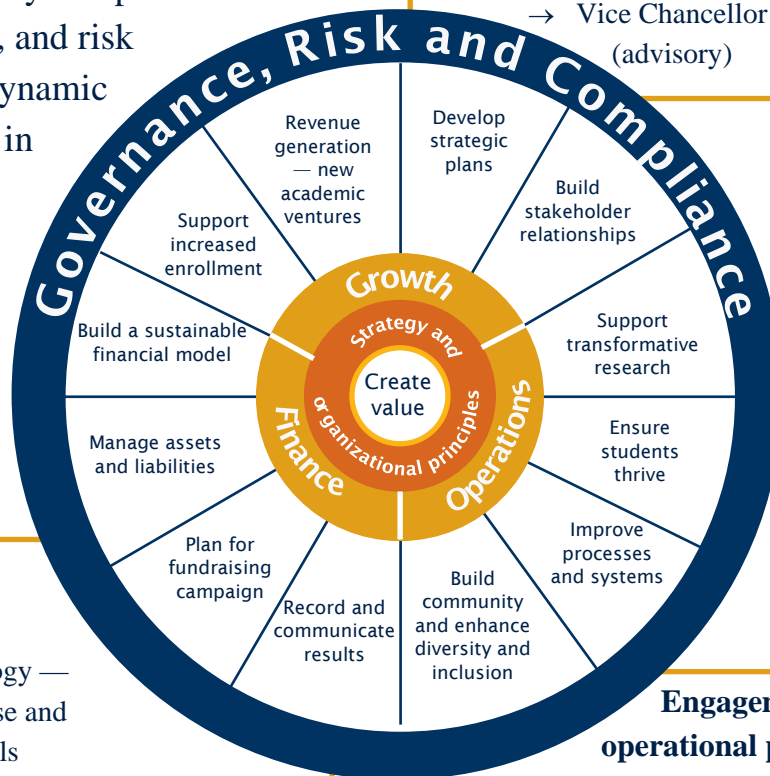
Research Administration Support

Shift in Federal Priorities

As of the writing of this report, executive management has activities addressing risks in each of these areas.

Fiscal Year 2018 Annual Service Plan

The annual service plan is a culmination of the campus enterprise risk assessment. The plan was approved by the Executive Vice Chancellor and Provost's Operations Group on June 6, 2017 and the UC Board of Regents on July 12, 2017. The plan is anchored by campus strategies, objectives, and risk factors. The plan is dynamic to adjust for changes in priorities, emerging risks, and the assurance obtained through other governance



Engagements focused on growth priorities:

- Affiliated Organizations
- Berkeley Resource Center for Online Education and New Academic Ventures
- Bowles Hall
- Vice Chancellor Transition Reviews (advisory)

Engagements focused on financial priorities:

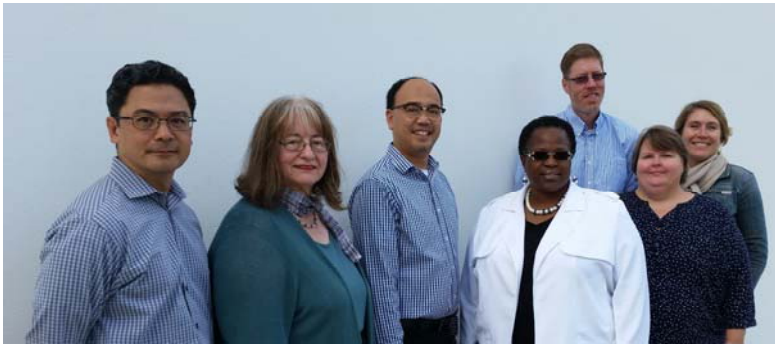
- Information and Technology — Electronic Data Warehouse and Business Intelligence Tools
- Self-Supporting Operations
- Indirect Cost Recovery Data Analysis (advisory)

Engagements focused on operational priorities:

- Business Continuity
- Campus Shared Services
- Human Resources — Management and Supervisory Training
- Information and Privacy — Data Usage in Online Services
- Operational Efficiency (advisory)
- Organized Research Units
- Scholarships and Fellowships
- Student Information System Post Implementation Review
- UCOP (Executive Compensation, Outside Professional Activities, Fair Wage/Fair Works)

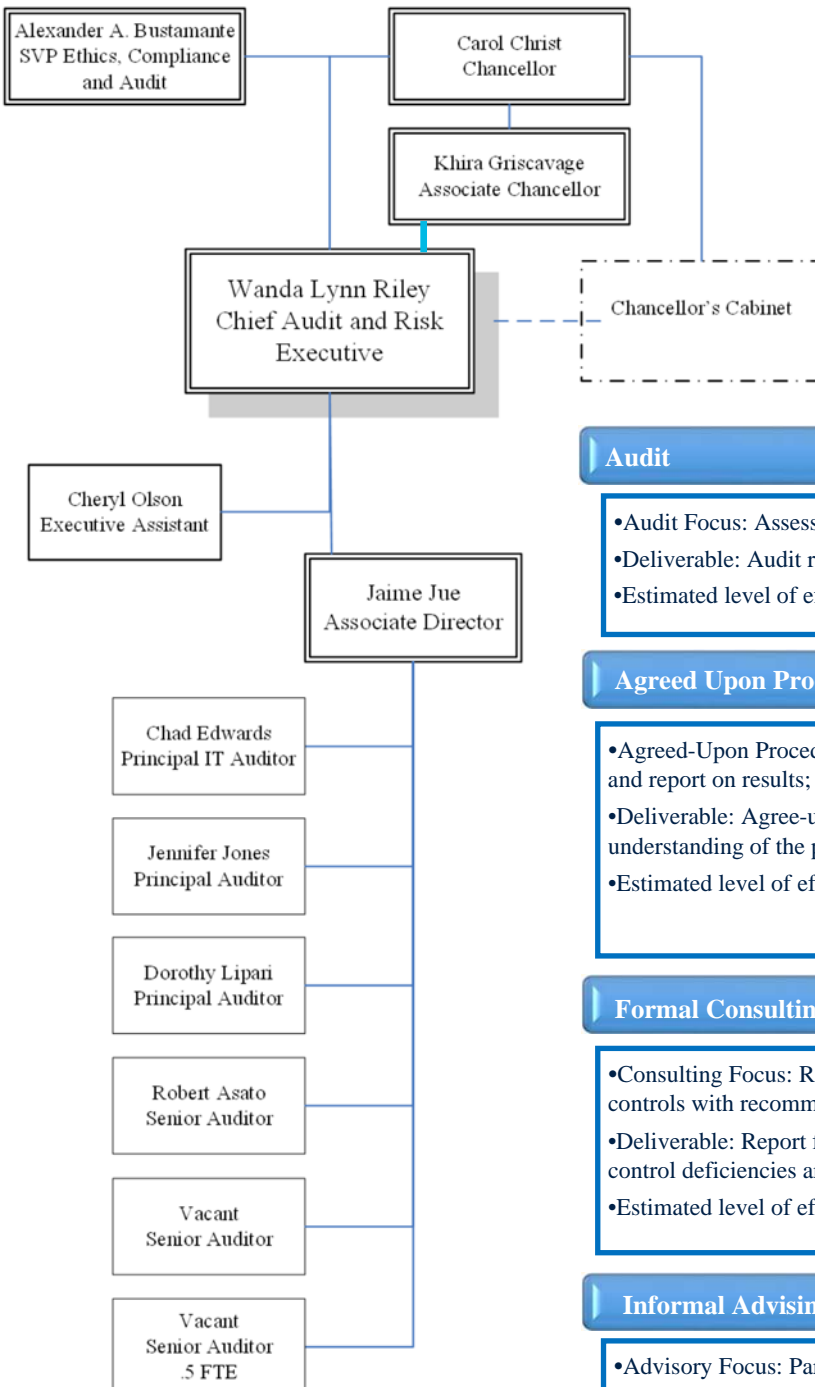
Please visit audit.berkeley.edu to view the full service plan including background and preliminary project objectives and estimated quarters of completion. You may also request audit and advisory engagements.

Audit and Advisory Services



Our mission is to provide independent and objective assurance and consulting services designed to add value and to improve operations. We do this through communication, monitoring and collaboration with management to assist the campus community in the discharge of their oversight, management, and operating responsibilities. Internal audit brings a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

As the scale and complexity of the campus environment including internal and external factors increase, alongside the growing need for accountability and transparency, the role of internal audit is becoming increasingly important. Indeed, the need to review and report on the continually changing risk profiles, be it of a financial, operational, strategic, governance, or reputational nature, in addition to compliance with laws and regulations, can significantly impact the demand on management time.



Bridging the Gap through Service

Audit

- Audit Focus: Assess evidence available in order to conclude on an audit objective
- Deliverable: Audit report for public distribution unless protected by statute
- Estimated level of effort per project: 250-400 hours

Agreed Upon Procedures

- Agreed-Upon Procedures Focus: Determine specific steps to test with management's agreement and report on results; used for data analytics and testing of specific data and transactions
- Deliverable: Agree-upon report format for public distribution (use is limited to those with an understanding of the procedures performed)
- Estimated level of effort per project: 100-200 hours

Formal Consulting

- Consulting Focus: Respond to requests for formal study or assessment of governance, risk, and controls with recommendations; no assurance provided
- Deliverable: Report formatted in consultation with client for limited distribution; significant control deficiencies are reported to executive management
- Estimated level of effort per project: 100-200 hours

Informal Advising

- Advisory Focus: Participate in activities in a non-voting capacity (e.g., committees, training, and input on policies and procedures)
- Deliverables: Verbal discussion or a brief memorandum to management
- Estimated level of effort per activity: 10-80 hours

Visit us soon:
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