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INTRODUCTION

Purpose

.01 The purpose of this manual is to outline the authority and scope of the Internal Audit function within the University of California (UC or University) and to document standards and provide cohesive guidelines and procedures for the Internal Audit Department. These guidelines aim to provide for consistency, stability, continuity, standards of acceptable performance and a means of effectively coordinating the efforts of the staff members comprising the Internal Audit Department.

Objective

.02 The overall objective of the Internal Audit function is to provide all levels of University management and The Board of Regents with an independent assessment of the quality of the University's internal controls and administrative processes, and provide recommendations and suggestions for continuous improvements.

The auditor's judgment will be required in applying this information to specific audit assignments. This manual should provide guidance, but it should not inhibit professional judgment, practicality and innovative auditing.

1000 AUTHORITY, ORGANIZATION AND PROFESSIONAL STANDARDS

Section Overview

.01 The following sections set forth the mission and management charter of the UC Internal Audit Program and outline the policies and guidelines for the UC Internal Audit Management Plan, dual reporting and professional standards and ethics.

Authority

.02 The mission and management charter authorizes and guides the UC Internal Audit Program in carrying out its independent appraisal function.

Organization

.03 It is the policy of The UC Board of Regents to establish and maintain an Internal Audit Program as a staff and independent appraisal function. Internal Audit is a management control that functions by assessing the effectiveness of other managerial controls. Internal Audit examines and evaluates University business and administrative activities in order to assist all levels of management and members of The Board of Regents in the effective discharge of their responsibilities and furnishes them with analyses, recommendations, counsel and information concerning the activities and records reviewed.

Internal Audit is headed by a University Auditor in the Office of the President. The University Auditor is appointed by the President. The University Auditor prepares, for approval by the President and The Board of Regents Audit Committee, a UC Internal Audit Annual Plan that defines the Audit Program to be conducted for the University during the year.

Professional Standards

.04 The University of California Internal Audit Program complies with the Institute of Internal Auditor's *Standards for the Professional Practice of Internal Auditing* and *Code of Ethics*.

1100 Mission and Management Charter

Mission Statement

.01 The mission of Internal Audit is to assist The Board of Regents and University management in the discharge of their oversight, management and operating responsibilities through independent audits and consultations designed to evaluate and promote the system of internal controls, including effective and efficient operations.

Management Charter

.02 The Management Charter was last revised by The Regents in March 1995.

Authority

Internal Audit functions under the policies established by The Regents of the University of California and by University management under delegated authority.

Independence

To permit the rendering of impartial and unbiased judgment essential to the proper conduct of audits, internal auditors will be independent of the activities they audit.

Independence is essential to the effectiveness of the Internal Audit Office. This independence is based primarily upon organizational status and objectivity.

The Office of the University Auditor has direct access to both the President and The Regents of the University of California, recognized by a dual reporting relationship. The Office of the University Auditor reports to the Senior Vice President--Business and Finance and The Board.

All Internal Audit Departments have direct access to both the campus Chancellor or Laboratory Director and to the Office of the University Auditor. The Internal Audit Departments report to the campus Chancellor or Laboratory Director directly or through designated channels and to the Office of the University Auditor. (For reporting purposes, the Chancellor's designee shall be at the level of Vice Chancellor or above, and the Laboratory Director's designee shall be at the level of Associate Director or above.)

Internal Auditors may take directly to the respective Chancellor or Laboratory Director, the University Auditor, the President, or The Regents matters that they believe to be of sufficient magnitude and importance.

1100 Mission and Management Charter

Independence (cont'd)

In performing the audit function, the Internal Audit Office has no direct responsibility for, nor authority over, any of the activities reviewed. Therefore, the internal audit review and appraisal process does not in any way relieve other persons in the organization of the responsibilities assigned to them.

Scope

Internal Audit 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 Board's approvals of this charter and applicable federal and state statutes.

Except where limited by law or University policy, 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.

Standards

The responsibility of Internal Audit is to serve the University in a manner that is consistent with the standards established by the University of California internal audit community. At a minimum, it shall comply with the relevant professional standards, such as the Standards For The Professional Practice of Internal Auditing and with professional standards of conduct such as the Code of Ethics of the Institute of Internal Auditors, Inc.

1200 Outline of UC Audit Management Plan

Total University Audit Program

.01 A. An external certified public accounting firm reporting to The Regents.

B. Office of the President Internal Audit Department reporting to The Regents' Committee on Audit and the Senior Vice President-Business and Finance.

C. Campus/Laboratory Internal Audit Departments reporting to the Chancellors/Laboratory Directors or designee and the University Auditor.

Program Objectives

.02 To conduct a program of audits, consultations, and investigations which are of service to The Regents and management through the following activities:

A. Reviewing management, financial, and operating controls to appraise their soundness and adequacy to advise management, and on matters of material import, The Regents, as to whether:

1) The systems of internal control effected by the University's Board of Regents, management and other personnel, provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting;
- Compliance with applicable laws and regulations;

2) Established plans, policies, and procedures are being complied with

3) University assets are accounted for and safeguarded from loss.

B. Providing recommendations to improve operating efficiency and internal controls.

C. Providing consultation on current and proposed operating policies and procedures and changes in the system of internal controls.

1200 Outline of UC Audit Management Plan

Program Objectives (cont'd)

D. Conducting investigations in support of the University's compliance with laws governing improper government activities.

Audit Group Responsibilities

.03 A. External Auditors.

1) Perform, in accordance with generally accepted auditing standards, an examination of the financial statements of the University to determine whether such financial statements present fairly the University's financial position and changes in fund balances in accordance with generally accepted accounting principles.

2) Review the adequacy of the systems of internal controls and render recommendations as appropriate.

3) Perform such additional financial or compliance audits as directed by The Regents.

4) Provide such accounting and other consultation as requested by management or The Regents.

B. Office of the President Internal Audit Department.

1) Audit Office of the President fiscal and business matters, such as:

- Division of Agriculture and Natural Resources;
- Office of Technology Transfer; and
- Other administrative units.

2) Audits of the offices of the principal officers of The Regents;

3) Establish a relationship with the University's external auditors whereby annual plans are developed in concert, appropriate support is provided to them, and an active channel exists for sharing audit findings and other information of mutual interest and concern;

4) Analyze and evaluate University-wide policies, plans, and procedures;

1200 Outline of UC Audit Management Plan

Audit Group Responsibilities (cont'd)

5) Conduct investigations pursuant to Business & Finance Bulletin G-29, *Procedures for Investigating Misuse of University Resources*, within the Office of the President and at the campuses or laboratories at the request of the President, the Chancellor or Laboratory Director or their designee, or the campus or laboratory Internal Audit Director in the event of a conflict of interest;

6) Provide Oversight and administration of compliance with Business & Finance Bulletin G-29;

7) With the Senior Vice President-Business and Finance, provide information with respect to material audit and investigation matters so as to keep the President and appropriate Regents adequately informed on a timely basis.

8) Coordinate and direct special non-recurring studies as requested by The Regents' Audit Committee, the President, or other appropriate University officials;

9) Coordinate all communications with the California State Auditor in connection with their investigations and requests for preliminary investigations by the University;

10) Working with the campus/laboratory Internal Audit Directors, develop appropriate methodologies and objectives, and coordinate the preparation of annual and long-range University-wide internal audit plans.

11) Working with the campus/laboratory internal audit directors, establish documented standards for:

- the conduct, documentation and reporting of audit, consultation and investigation activities;
- timely follow-up to assess whether appropriate action has been taken on reported audit findings;
- continuing education and a systematic training program for internal auditors;
- rotation of auditor assignments to enhance freshness and objectivity of audit perspective; and

1200 Outline of UC Audit Management Plan

Audit Group Responsibilities (cont'd)

- the determination of appropriate minimum levels of audit staffing.

12) Develop and oversee the conduct of a peer review program designed to assess and assure compliance with Institute of Internal Auditors and University adopted professional standards.

13) Coordinate the development of, and archive model audit programs to avoid duplication of efforts.

14) Facilitate and serve as a conduit for the sharing of information among campus/laboratory audit departments regarding planned audit efforts, significant audit and investigation findings of mutual interest and concern, audit reports issued, and the development of improved audit techniques/technologies.

15) Provide research and technical support to campuses or laboratories as needed and requested.

16) Provide, or facilitate the sharing of human resources among the internal audit departments as needed and available.

B. Campus Internal Audit Departments.

1) Audit campus and medical center operations and activities in accordance with an annual plan submitted to the Office of the President.

2) Conduct investigations in accordance with Business & Finance Bulletin G-29, keeping the University Auditor, Senior Vice President-Business and Finance and the General Counsel's office advised as called for by the Bulletin.

3) Provide services in a consultation role as requested by management, business units, and academic administration when such requests are consistent with the professional expertise of the auditors and maintenance of an appropriate level of independence, and do not materially impact the accomplishment of the risk based campus annual internal audit plan.

1200 Outline of UC Audit Management Plan

Audit Group Responsibilities (cont'd)

4) Review campus or laboratory compliance with University fiscal and administrative polices and procedures, conformity with governmental laws and regulations, and compliance with resource allocation and gift endowment restrictions.

5) Participate and provide appropriate support to campus/laboratory committees, work groups, task forces and the like involved in the development, review and/or re-engineering of policies, procedures and systems. In these endeavors auditors will be mindful of their appropriate role versus the role of management and will actively promote and advocate a sound system of internal controls in support of operational effectiveness and efficiency objectives.

6) As requested by the Chancellor/Laboratory Director, serve as external audit coordinator working with all external agencies having an audit interest in the University/Laboratory.

7) As requested by the Chancellor/Laboratory Director, serve as the whistleblower coordinator facilitating the adoption, implementation, and administration of local whistleblower procedures in support of the University policy.

8) Conduct audit, consultation and investigation activities in accordance with standards established for the entire University of California internal audit community.

9) Participate in the development of standards, audit planning methodologies, common audit programs, peer review programs, and other initiatives undertaken for the benefit of the entire University of California internal audit community.

10) Consult with the University Auditor on any matter representing a conflict of interest, or the appearance of a conflict of interest on the part of the local internal audit department.

1200 Outline of UC Audit Management Plan

Reporting Channels

.04 C. The University Auditor.

1) Reports to the Senior Vice President-Business and Finance as staff function and to The Regents' Committee on Audit and has direct access to the President as circumstances warrant.

2) Provides formal reports to The Regents' Committee on Audit semi-annually, and at other times as requested. The University Auditor will take it as his/her responsibility to seek to establish an active channel of communications with the Chair of The Regents' Committee on Audit.

3) Meets with the Vice Chancellors-Administration or Deputy Laboratory Directors quarterly to discuss audit matters of University-wide concern, to provide information on system-wide internal audit initiatives and to promote consistency of internal audit oversight.

4) Conducts at least quarterly meetings of Internal Audit Directors forming a committee for the promulgation of auditing standards, practices and policies.

5) Serves as ex-officio member of all campus or laboratory audit committees and work groups.

6) Meets with Chancellors or Laboratory Directors and Vice Chancellors or Deputy Laboratory Directors as requested.

D. Campus and Laboratory Internal Audit Directors.

1) Report to the Chancellor or Laboratory Director as a staff function and to the University Auditor but have direct access to the President or The Regents' Committee on Audit as the circumstances warrant.

2) When, pursuant to their re-delegation authority, Chancellors or Laboratory Directors designate a position to whom the Internal Audit Director shall report, that position shall be at least at the Vice Chancellor or Deputy Laboratory Director level and the Chancellor or Laboratory Director shall retain responsibility for:

1200 Outline of UC Audit Management Plan

Reporting Channels (cont'd)

- approval of the annual audit plan;
- approval of audit committee/work group charter;

3) Such designated position shall meet with the Internal Audit Director at least annually to review the state of the internal audit function and the state of internal controls locally. When reporting responsibility is re-delegated, Internal Audit Directors also have direct access to Chancellors or Laboratory Directors as the circumstances warrant.

4) Facilitate the scheduling of local audit committee/work group meetings and provide staff support to the audit committee/work group.

Certain Personnel Matters

.05 A. Action to appoint, demote or dismiss the University Auditor requires the approval of The Regents.

B. Action to appoint campus/laboratory Internal Audit Directors requires the concurrence of the University Auditor. Action to demote or dismiss campus/laboratory Internal Audit Directors requires the concurrence of the President and consultation with the University Auditor.

1300 Administrative Guidelines for Dual Reporting

Dual Reporting Structure

.01 In March 1995, The Regents' Committee on Audit approved a recommendation for a dual reporting structure for the University's Internal Audit Program. These Administrative Guidelines are intended to assist The Regents and senior administrative officials with local responsibility for the Internal Audit Program and internal auditors in the understanding and execution of their responsibilities under the dual reporting relationship.

It is acknowledged that the Laboratories have reporting responsibilities to the U.S. Department of Energy (DOE) as delineated in their contracts and the Cooperative Audit Strategy. The DOE in its oversight role may require certain activity and has certain authority, for example, approval of the Annual Audit Plan. These guidelines are not intended to usurp any of the DOE's authority and any conflict in the application of these guidelines by the Labs with their contracts and the Cooperative Audit Strategy should be brought to the attention of the University Auditor.

Purpose

.02 Both The Regents and campus and laboratory management have an interest in a capable and effective Internal Audit Program. Both recognize the need for objectivity and an appropriate level of organizational independence from day to day operations and management activities. Campus/laboratory management further recognizes the benefit of a local Internal Audit Program that is:

a) knowledgeable about local policies, procedures and practices,

b) available and responsive to local needs, especially for investigations,

c) respectful of campus/laboratory local authority for decision making, and,

d) for the labs, responsive to the needs of the local DOE contracting officer.

e) The dual reporting relationship structure is designed to accommodate both interests by providing for a locally operated Internal Audit Program while preserving the organizational independence necessary for objectivity and accountability to The Regents.

1300 Administrative Guidelines for Dual Reporting

Definition **.03** Dual reporting means that the local Internal Audit Program will be equally responsible to The Regents' Committee on Audit (effected through reporting to the University Auditor) and campus/laboratory management (effected through reporting to the Chancellor/Laboratory Director or their designee).

Structurally, this relationship is depicted in organization charts by a dual solid line reporting relationship for the campus/laboratory Internal Audit Director (IAD) to the Chancellor/Laboratory Director (or designee as provided by the Internal Audit Management Plan) and the University Auditor.

Typically, the IAD's avenue for communications with The Regents' Committee on Audit will be through the University Auditor. However, each IAD has the authority to communicate directly with the Chair of The Regents' Committee on Audit as necessary in their judgment regarding matters of independence.

The term "dual" is intended to mean "equal" for these purposes. However, it is acknowledged as a practical matter that campus/laboratory management will have primary responsibility for local administrative matters (such as space allocation and funding), and in the case of the laboratories, management of an audit program that is acceptable to the local DOE contracting officer, while the University Auditor will have primary responsibility for the professional and technical aspects of the Internal Audit Program.

Shared Responsibilities **.04** There are certain responsibilities shared by campus and laboratory management and the University Auditor. Typically, action on the personnel aspects of these shared responsibilities will be initiated by the campus, with input and consultation from the University Auditor. These shared responsibilities include the following:

a) Approval of the campus/laboratory annual audit plan.

b) Evaluation of the campus/laboratory Internal Audit Program.

c) Selection of the campus/laboratory IAD.

d) Annual performance evaluation of the IAD.

e) Determination of the compensation/classification of the IAD.

1300 Administrative Guidelines for Dual Reporting

Shared Responsibilities (cont'd)

f) Assessment of the adequacy of resources provided for the Internal Audit Program (e.g. human, financial, technological).

g) Collaboration on Internal Audit policy development and implementation.

h) Pursuant to the Internal Audit Management Plan, termination of an Internal Audit Director requires the approval of the President, which will be requested upon the concurrence of campus/laboratory management and the University Auditor.

University Auditor Responsibilities **.05** The University Auditor will have responsibility for the following matters. Typically, the University Auditor will initiate action in regard to these responsibilities but will work in concert with the IAD's as a group on their development and execution.

1) Establish UC Internal Audit Program mission and the Internal Audit Management Plan.

2) Establish policies and procedures for the conduct of the Internal Audit Program.

3) Establish and implement professional standards for the conduct of the Internal Audit Program.

4) Fulfill reporting requirements to The Regents' Committee on Audit and gain Committee approval of:

- The Internal Audit Mission Statement
- The Internal Audit Management Plan
- The Annual Audit Plan
- The Audit Strategic Plan
- The Annual Report of Audit Activities

5) Administer BFB G-29 and other Business & Finance policies as appropriate. This includes approving (as requested by the Senior Vice President--Business & Finance) the campus/laboratory G-29 implementation plans, and maintenance of a G-29 database of open investigations.

1300 Administrative Guidelines for Dual Reporting

University Auditor Responsibilities (cont'd)

6) Maintain a current understanding of the progress of all open G-29 and other investigations (e.g., state auditor) and coordinate with campus/laboratory management the timely communication of such matters to the Office of the President and The Regents. Consult with campus/laboratory management and IAD on the investigation plan and the adequacy of investigation resources.

7) Serve as primary Internal Audit liaison with the State Auditor and The Regents' external auditors.

8) Establish system-wide Risk Assessment and other planning methodologies.

9) Establish time reporting and other periodic reporting mechanisms for monitoring the accomplishment of the annual plan and for accountability and performance measurement.

10) Establish and oversee a quality assurance program, the principal component of which will be a peer review program.

11) Maintain a data warehouse of audit programs, reports and other materials useful as a resource to campus/laboratory internal audit departments to promote consistency and efficiency.

12) Communicate with campus/laboratory IAD's significant findings from other campus/laboratory audits and investigations and ensure consideration of such issues on a system-wide basis.

13) Establish a training curriculum in core competencies for UC internal auditors. Separate competencies may need to be developed to address the unique needs of the campus or laboratory environments.

14) Establish guidelines for campus/laboratory audit committees/workgroups.

15) Conduct periodic strategic planning sessions with the IAD's and oversee the carrying out of strategic planning initiatives.

1300 Administrative Guidelines for Dual Reporting

University Auditor Responsibilities (cont'd)

16) Promote, encourage and provide a mechanism for active involvement in Internal Audit Directors and "All Auditors" meetings and Program initiatives (such as accomplishment of strategic plan goals) on the part of the campus/laboratory management to whom internal auditors report locally.

Campus and Laboratory Responsibilities

.06 The following are campus/laboratory responsibilities. Some are the responsibility of local internal auditors, while some are the responsibility of local management with oversight responsibility for the Internal Audit Program.

1) Conduct the local Internal Audit Program in accordance with the provisions of the Internal Audit Management Plan and, for the laboratories, in a manner that is "satisfactory" to DOE, and in compliance with the Cooperative Audit Strategy.

2) Designate an external audit coordinator. (Note: the coordinator does not have to be in the internal audit office.)

3) Maintain an active campus/laboratory audit committee or workgroup within UC guidelines established by the University Auditor.

4) Involve internal audit in the design of major new automated systems.

5) Establish and fund at an appropriate level the Internal Audit Program operating budget and in the case of the laboratories meets the requirements of the DOE contracts. The University Auditor will consult on such needs as requested or necessary to provide information on comparability or appropriate levels of support.

6) Provide for appropriate physical location and space requirements of the Internal Audit Program and attendant needs (e.g., technology, data access).

7) Prepare an annual internal audit plan using Risk Assessment and other planning methodologies established by the University Auditor.

1300 Administrative Guidelines for Dual Reporting

Campus and Laboratory Responsibilities (cont'd)

8) Recommend the campus annual internal audit plan to the University Auditor for approval, and submission to The Regents' Committee on Audit. The laboratories' annual audit plans are subject to the concurrence of the DOE.

9) Implement the annual campus internal audit plan approved by the Chancellor/Laboratory Director, the University Auditor and The Regents' Committee on Audit, reporting periodically, as requested by the University Auditor, conformance with the plan and reasons for material deviations from the plan. Additionally, periodic reporting of conformance with the plan is required by the labs to the local DOE contracting officer. Day to day execution of the plan, including prioritization of assignments, will rest locally.

10) Develop and maintain G-29 implementing procedures, assuring timely notification to the Office of the President of matters under investigation either internally, or by external audit agencies.

11) Conduct investigations in accordance with BFB G-29 and local implementing policies, keeping the University Auditor and the Office of the President informed of major developments in open investigations.

12) Submit for review by the University Auditor in draft form, audit and investigation reports on sensitive matters and those that are expected to be distributed outside of the normal campus/laboratory channels. This will include all investigation audit reports on matters reported to the Senior Vice President—Business and Finance pursuant to BFB G-29.

13) Participate in benchmarking and other surveys, etc., as requested for the assessment of the Internal Audit Program.

14) Contribute to the strategic planning efforts and accomplishment of Internal Audit Program initiatives.

15) Fulfill reporting requirements as established by the University Auditor.

1300 Administrative Guidelines for Dual Reporting

Overall Responsibility

.07 A. The overall responsibility for implementation of an effective dual reporting relationship for auditors in the UC system rests jointly with the University Auditor and the campus or laboratory management to whom local internal auditors report.

B. The necessity for independence and accountability to The Regents in order for the Internal Audit Program to have credibility will be paramount in resolving conflicts or issues arising in the implementation of the dual reporting relationship.

1300 Administrative Guidelines for Dual Reporting - Appendix

Page content is under development.

1400 Professional Standards and Ethics

2000 INTERNAL AUDIT PROGRAM

Section Overview

.01 The following Section provides an overview of the history and evolution of the UC Internal Audit Program and of its current array of customers and services. Additionally, it outlines the requirements for Internal Audit to communicate information and findings about its activities to its customers, the role of the University Auditor's Office in the Internal Audit Program and guidelines for local audit committees.

2100 History and Overview

Overview

.01 UC Internal Audit has evolved since the mid 1950s from a single function performing campus audits to an Internal Audit Program comprised of thirteen Internal Audit Departments, plus the University Auditor's Office. The Program provides a broad spectrum of services to assist The Board of Regents and University management in the discharge of their oversight, management and operating responsibilities.

Establishment and Early Growth

.02 **Campus Audits -** The Internal Audit Program was first established at the University of California, Berkeley campus in July 1955 with one auditor responsible for auditing at all of the campuses. Soon thereafter, a second auditor established a "branch office" based out of UCLA for the southern campuses. The audit function remained centralized and grew over time to a staff of approximately eight in the north division and six in the south division by the early 1960s.

Laboratory Audits - In the early 1970s, a Laboratory Contract Audit Group was established operating out of the Lawrence Livermore National Laboratory. The addition of the Lab Internal Audit staff eventually brought the total staff to 21 professionals.

Efforts to Expand Program - During the 1970s, University administration consistently reported to The Regents' Committee on Audit that the Internal Audit Program was understaffed due to budget constraints.

In 1976, the University of California's external auditors, Haskins & Sells, observed that Internal Audit staffing, which had not increased since 1963-1964, had not kept pace with the growth of the University. With local management's interest in an Internal Audit function, certain campuses began to establish their own "management audit" capabilities. Management committed to increase the audit staffing level and to study the organization of the Internal Audit Program.

2100 History and Overview

Plan of Reorganization

.03 Decentralization - As a result of the study, University administration worked with Haskins & Sells to develop a Reorganization Plan for the Internal Audit Program in 1978. This plan was consistent with the strict accountability program in a decentralized environment introduced by President Saxon and based on the premise that campuses are responsible for monitoring their operational activities.

Staffing Increases - The Reorganization Plan called for a three-fold increase in the number of auditors situated at the campuses as follows:

- 45 campus auditors
- 5 system-wide auditors
- 10 Department of Energy contract auditors

Although funding and coordination issues delayed ramping up staffing to these levels and UC was still at the low end of adequate audit coverage, the staffing concerns of the external auditors were adequately addressed.

The campuses continued to add staff during the 1980s, especially in health sciences, with funding support from the schools of medicine and medical centers. In 1987, there were 67 campus auditors, 12 system-wide auditors and 17 DOE contract auditors.

Roles and Reporting - The external auditors also observed in 1980 the need to more firmly establish lines of reporting for internal auditors under the new decentralized structure as follows:

- Campus-based auditors should report to the Chancellors or their designees.
- The System-wide Internal Audit office should primarily "provide leadership for policy development, coordination, representation, resource acquisition and allocation, accountability and evaluation."

2100 History and Overview

Development of System-wide Program

.04 **Core Audit Program -** Based on The Regents' Committee on Audit's continuing concern about the adequacy and effectiveness of the Internal Audit Program's structure and operations, Arthur Andersen & Co. completed a study in 1987. The resulting report, accepted by the Committee on Audit in November 1987, focused on the following:

- Development of a system-wide "stewardship" audit program which became known as the Core Audit Program
- Creation of campus audit committees
- Strengthening of the oversight provided by the Office of the University Auditor
- Maintenance of the decentralized structure, but with a more central focus on the major portion of the program of work

Implementation

Risk Assessment - The Core Audit Program was implemented in the 1988-1989 fiscal year after additional system-wide staff was added to design and administer its elements. Its concepts were used to drive the assessment of system-wide or "institutional" risk in approximately 45 common areas of operations as a basis for determining areas for audit on a system-wide basis. During the seven years that the Core Audit Program was in use, there were 23 Core audits conducted covering approximately one-half of the universe of institutional risk areas identified by the Core Audit Program.

Laboratory Contract Auditors - As part of that implementation, the Laboratory Contract Auditors were established under the local jurisdiction of Laboratory Audit Directors, led by individuals on equal footing with the campus Internal Audit Directors. Previously, its members reported directly to the Office of the University Auditor.

Additional Restructuring of Program

Continued growth - The growth of the staffing of the Internal Audit Program at the individual locations from the late 1980s to the mid-1990s was largely driven by campus growth and by local events that brought audit issues to the forefront.

2100 History and Overview

Additional Restructuring of Program (cont'd)

.05 Dual Reporting - Together with the hiring of a new University Auditor, the appropriateness of the structure and adequacy of operation of the Internal Audit Program was further studied at the request of the Committee on Audit in 1994. This resulted in the March and September 1995 recommendations accepted by the Committee on Audit for adoption of a dual reporting structure and related revisions to the Internal Audit Management Plan.

The Outline of the UC Audit Management Plan is included in Section 1200.

Administrative Guidelines for Dual Reporting are included in Section 1300.

.06 In addition, the Core Audit Program was abandoned in 1995 in favor of a system-wide risk assessment and audit planning methodology, and increased reporting of local audit department activities to the University Auditor.

Quarterly reporting to The Regents Committee on Audit of progress against the annual plan commenced in 1996 and was designed to increase visibility and accountability.

Additional developments during the late 1990s were intended to strengthen the Program through increased information sharing and communications among the thirteen audit departments. In addition, a system-wide Director of Investigations was hired to provide added expertise and support for this area of service that had grown in hours substantially in the middle 1990's and continued to consume a significant portion of internal audit's time.

In 1998, another external review of the Program was conducted using a panel of experts from both internal auditing and public accounting. This review reaffirmed the appropriateness of the decentralized model as modified by the dual reporting structure.

2200 Customers and Services

Overview

.01 The UC Internal Audit Program's perspective of its customers and services has evolved and broadened along with the changes occurring within the internal audit profession. The changes in the profession itself are in part based on the report of an Institute of Internal Auditors' Guidance Task Force in 1999. Even the definition of *internal auditing* has been revised.

The Internal Audit Program of the University of California fully ascribes to the revised definition including the emphasis on consulting activities in addition to assurance activities.

Customers of Internal Audit Services

.02 In the broadest sense, the beneficiaries of the services of Internal Audit include the taxpayers of the state of California, donors, federal, state and private research sponsors, and all faculty, students, patients and staff of the University. However, customers are those we serve more directly and who are the recipients of our services, or reports on services provided. The customers of Internal Audit include those parties with oversight, management and operating responsibilities for the University such as:

- The Board of Regents
- The Regents' Committee on Audit
- Senior Management
- Local Audit Committees
- Operating Management

Services Provided by Internal Audit

.03 Internal Audit's primary activity in fulfilling its mission is the conduct of a program of regular audits of the University's business operations. However, as the Internal Audit Program has evolved and restructured in recent years, it has expanded to include additional activities in order to enhance the value of services to its customers. The Annual Audit Plan outlines Internal Audit services under three types of activities as follows:

2200 Customers and Services

Audits

These services include the planned and supplemental program of regular audits of business units (including academic departments) and business processes that cut across all organizational units (e.g., purchasing, travel, etc.).

Investigations

Pursuant to University policy, Internal Audit conducts investigations into suspected financial irregularities whether reported by whistleblowers, uncovered in the course of regular audits, or based upon concerns conveyed by management.

Advisory Services

Advisory Services encompasses a broad array of activities beyond regular audits. These additional activities are proactive or preventive in nature and are focused in the following areas:

Internal Control & Accountability - Promotes the systems of internal controls through training of University personnel in concepts of internal control and consultation on their implementation. These services include our efforts to support the Controllers' accountability initiatives, including Control Self-Assessment as well as the independent Control Self-Assessment effort at the laboratories.

Special Projects and Consultations - Promote effective and efficient operations through special management studies, advisory participation on business process and systems reengineering teams and consultation on business issues (e.g., regulatory compliance matters) and assist department and program managers in dealing with issues before they become audit or investigation problems.

Systems Development and Reengineering - Involves participation with teams and committees to assist in the continued efforts of campuses and laboratories to develop and implement new systems, redesign their business processes to be more effective and efficient and deal with other campus or lab business issues. Involvement of auditors in a consultative manner during the design and development phase helps to ensure that sound business practices, including effective internal controls, are built into the systems and processes.

Other - Internal Audit may serve in additional capacities such as External Audit Coordinator (acting as liaison for campus visits by regulators and investigators), Information Practices Act Coordinator or Conflict of Interest Coordinator.

2200 Customers and Services

Alignment of Services with Customer Needs

.04 Internal Audit's Services are designed to fulfill the varying needs of its diverse customers. The operating plan of the Internal Audit Program prepared annually aligns these services, across all of the University's business operations.

University Lines of Business

.05 The business operations of the University are organized under the following three lines of business.

Campuses

The University encompasses nine campuses located throughout the state with a tenth campus expected to open by 2004, five medical schools, three law schools and a statewide Division of Agriculture and Natural Resources.

Eight campuses are general campuses and one, UCSF, is a health sciences only campus. In 1999, enrollment totaled 174,000 students of whom 41,000 were graduate students. In 1999 research expenditures totaled nearly $2 billion.

Laboratories

Under contract with the U.S. Department of Energy, UC manages Lawrence Berkeley National Laboratory and Lawrence Livermore National Laboratory in California and Los Alamos National Laboratory in New Mexico. The laboratories conduct broad and diverse basic and applied research in nuclear science, energy production, national defense and environmental and health areas. The annual budget for the three national labs approximates $3 billion.

Health Sciences

UC operates the nation’s largest health science and medical training program. The instructional program is conducted in 14 health sciences schools on six campuses. They include five medical schools, two dentistry schools, two nursing schools, two public health schools, a school of optometry, a school of pharmacy and a school of veterinary science.

UC operates 8 acute care hospitals, 2 psychiatric hospitals, 5 level 1 trauma centers and numerous clinics. Licensed beds total 2,700. In 1999 approximately 560,000 inpatient days of care were provided to over 100,000 patients and outpatient visits totaled 3,382,000. Medical center revenues approximate $2 billion annually.

2300 Communications

Overview

.01 Beyond the issuance of reports on audits, investigations, and advisory services, the Internal Audit Program formally communicates with its customers on a systematic basis.

Regents

.02 The University Auditor is responsible for establishing an active channel of communication with the Chair of The Regents' Committee on Audit, and for the Committee as a whole, prepares the following formal reports:

Annual Plan - The consolidated annual audit plan of the nine campuses, three national laboratories and the Office of the President is presented to The Regents on an annual basis in May. The annual plan outlines the planned Internal Audit service activities by line of business as well as the distribution of resources necessary to deliver those services and the risk coverage provided. The annual plan also conveys the current elements of the strategic plan for continuous improvement of the Program.

Annual Report - A formal annual report is provided to The Regents' Committee on Audit annually in November. Historically, The Regents Committee on Audit has requested and received information analyzing the Internal Audit Program (e.g. staffing levels by location) as well as a report of accomplishments measured against the annual plan, accomplishment of strategic plan initiatives and other material on a detailed level by location. The annual report has some traditional and essential elements. But it also offers an annual opportunity to convey to The Regents educational information about the Program, the profession, controls, risk assessment and other matters.

Quarterly Report - A formal report is provided to The Regents' Committee on Audit (and Senior Management) quarterly which presents comparative analyses of actual results for the year-to-date period to both the annual audit plan and to the prior year.

Senior Management

.03 **Client Satisfaction Survey -** A management survey is sent at least annually to elicit management's perception of the Internal Audit Program's ability to fulfill its mission of assisting management in the effective discharge of their responsibilities.

2300 Communications

Local Audit Committees

.04 Local Audit Committees provide for the communication and coordination of internal audit and, at certain locations related matters (e.g. external audit matters and control initiative activities). The guidelines for local audit committees include the regular agenda of information and reports to be reviewed.

Guidelines for Local Audit Committees are included in Section 2500.

COVCA

.05 The Council of Vice Chancellors—Administration is a group of the University's senior business officers who meet regularly with the Senior Vice President—Business & Finance and his/her staff. The group includes deputy lab directors for operations. As such, for most locations, this group includes the individuals to whom the local Internal Audit Directors report. The University Auditor communicates with this group about broad Program strategies and developments that impact all locations

2400 Role of the University Auditor's Office

Overview

.01 The University Auditor's Office is a Department of the Office of the President. Within it are two functions: the Office of the President Internal Audit Department and the Office of the University Auditor.

The OP Internal Audit Department operates in a manner similar to the campus and lab Internal Audit Departments and is managed by a Director independently from the University Auditor's involvement on a day to day basis.

The Office of the University Auditor is responsible for overall management, coordination, administration and development of the Internal Audit Program of the University. The University Auditor is the Program's principal representative before The Regents.

Duties of the University Auditor's Office

Management

- Oversee the preparation of the annual plan
- Prepare reports to The Regents
- Assess staffing and funding sufficiency
- Assist locations in selection of IAD's
- Consult with IAD's on significant audit, investigation, staffing, or operational issues
- Appoint and guide workgroups of IAD's and managers as necessary for the execution of the strategic plan
- With the Director of Investigations, lend assistance to, monitor and manage communications regarding significant investigations

Coordination

- Conduct regular meetings of the IAD's and other sub-groups (e.g. health sciences IAD's) as necessary
- Communicate with IAD's regularly on all issues of interest to the Internal Audit Program
- Coordinate overlapping activities of the workgroups addressing strategic and operational issues
- Facilitate training activities including All Auditors Conferences, Audit Forums, and specialized training

2400 Role of the University Auditor's Office

Duties of the University Auditor's Office (cont'd)

- Facilitate the development of the Internal Audit Program's collective views on University policy matters
- Act as liaison as necessary for campuses and labs with other Office of the President functions
- Coordinate activities with other groups such as the Controllers

Administration

- Maintain Program records including staffing, reports issued, Regents reports etc.
- Provide support to the workgroups in execution of the strategic plan
- Provide support for conference and other training activities
- Maintain a database of all reports issued and audit programs for common areas
- Prepare analyses to assist in the management of the Program including staffing, compensation, benchmark/best practices, risk assessment,
- Through the Director of Investigations, maintain records of investigation activities

Development

- Establish policies for the conduct of the Internal Audit Program in consultation with the IAD's
- With the IAD's create, and monitor the execution of a strategic plan
- Maintain an awareness of and assess the impact on the Program of developments in the accounting, public accounting, and internal audit professions
- Assess the results of the Quality Assurance Program for impact on needs of the Program
- Evaluate the Program's accomplishment of its objectives and the extent to which The Regents and management's' needs and expectations are being satisfied
- Cause a periodic evaluation of the Program by outsiders to be performed against best practices of the profession and The Regents and management's expectations

2400 Role of the University Auditor's Office

Audit Management Plan

.02 ***The University Auditor's responsibilities under the Audit Management Plan are outlined in Section 1200.***

Dual Reporting

.03 ***Guidelines for the University Auditor's administrative responsibilities for dual reporting are outlined in Section 1300.***

Role and Responsibilities

.04 ***The University Auditor's role and responsibilities are outlined in Section 4100.***

2500 Guidelines for Local Audit Committees

Purpose, Charter and Scope

.01 Each UC campus and national lab will have a local audit committee for the purpose of communication and coordination of internal audit and related matters. The intent is to share information with and promote a dialogue among a variety of local participants who collectively represent the customers of internal audit services.

The scope of the audit committees' function and perspective may be expanded locally to include external audit coordination matters and the control and accountability initiatives of the controllers, or these matters may be separate.

While the campus or lab audit committee should have an interest in investigation matters (at least in regard to the impact on the audit program and indications of internal controls deficiencies), a separate group typically provides oversight to investigation activities.

A local charter for the committee should be prepared documenting the purpose, scope and designated members. Such charter for the committee is separate and distinct from a local audit charter—which is optional, given The Regents' charter.

Some locations may choose to combine the audit committee with the oversight of activities carried out under their controls initiative. Such an expansion of the charter is not in conflict with the objectives of these guidelines and is a local option.

Appointment of Members and Orientation

.02 Pursuant to the Regentally approved Internal Audit Management Plan, the Chancellor or Laboratory Director appoints the members of the local audit committee. The Director of Audit should prepare a packet of materials including Regental and campus charters and other materials as appropriate for orientation of new members.

Composition and Chair

.03 The composition of the committee will depend to some extent on local custom, but should be broad enough to represent the interests of the campus or lab community as a whole. It is important that there be sufficient representation from the faculty administrative leadership, the health sciences enterprise, a research perspective and others as deemed appropriate including student and auxiliary

2500 Guidelines for Local Audit Committees

Composition and Chair (cont'd)

services, budget, human resources, etc. It is appropriate to include the campus or lab controller even if the charter for the committee is not expanded as discussed above. Consideration should also be given to including the campus or lab counsel if the committee is to deal with investigation matters.

Unless the Chancellor or Lab Director chooses to chair the committee, it should be chaired by the senior manager to whom the Internal Audit Director reports—typically the Vice Chancellor for Business or Deputy Lab Director for Operations. That Vice Chancellor, the University Auditor and the Audit Director are ex officio members of each campus or lab audit committee.

Meeting Frequency

.04 Committees should meet quarterly, or three times per year at a minimum. The meeting cycle can be viewed as tied to the annual audit plan cycle.

Prior to submission of the annual audit plan to the Chancellor and Regents for approval, it should be reviewed and approved by the audit committee. This typically occurs in April. In the fall, September to November, a second meeting is useful to review the results of the prior year and first quarter (if available) and to approve changes to the plan as necessary. A third meeting in early winter, January or February should be held to begin the process of providing committee input into the risk assessment for the planning cycle for the next year, as well as to approve additional changes to the plan as necessary—a mid-year course correction if needed.

Regular Agenda Items

.05 The regular agenda should cover at a minimum:

- the most recent quarterly report,
- more current project-specific summaries or statistics of progress against the annual plan,
- any proposed changes in the approved plan,
- any personnel changes and their impact on completion of the audit plan,

2500 Guidelines for Local Audit Committees

Regular Agenda Items (cont'd)

- major reports issued and their findings,
- major investigation activities and their influence on the program of regular audits.

In addition, open recommendations from previously issued audit reports should be reported at regular intervals, especially for situations where senior management awareness could lead to more rapid action or the removal of barriers to action to improve controls.

Audit Plan Role

.06 The audit committee shall approve the annual audit plan prior to submission to the Chancellor for approval. Every effort should be made to have the plan approved by the audit committee before it is submitted to the University Auditor for consolidation and submission to The Regents on a system-wide basis.

The most important role the audit committee plays in the formulation of the audit plan is assistance in risk identification. A significant portion of a mid-year meeting should be devoted to discussion of risk issues facing the University and the location.

Any changes to the annual plan that result in approved audits being dropped from the current year workplan, even if only deferred until a subsequent year, require the approval of the audit committee and the University Auditor. This mechanism for change acknowledges the dynamic nature of our environment but also our accountability for completion of the plan of work approved by the committee, the Chancellor and others.

Audit Reports and Follow-ups

.07 The audit committee's input and guidance on sensitive matters can be very useful to effective communications in audit reports. In addition, their support in gaining customer acceptance and encouraging committed responses to recommendations can be very useful to effecting improvements. And lastly, broad awareness that the audit committee has an active interest in tracking follow-up activities to make sure that committed actions are completed in a timely manner helps assure their appropriate attention. Accordingly, Audit Directors may choose to share draft audit reports with audit committee members to further these objectives as appropriate on an ad hoc basis.

2500 Guidelines for Local Audit Committees

Audit Reports and Follow-ups (cont'd)

Care should be taken so as not to create a report issuance protocol that conveys an impression that the audit committee approves the draft reports for issuance. The reports are the product of the internal audit program and must be viewed as independent of management influence.

3000 INTERNAL AUDIT PROGRAM PLANNING AND REPORTING

Section Overview

.01 The following Section sets forth the annual processes by which the operating and strategic plans for the Internal Audit Program are developed, monitored for progress and reported to customers.

Planning

.02 UC Internal Audit undertakes an extensive planning process to establish the operating plans for the Internal Audit Program on an annual basis. These plans guide the Program in its goal of providing the most timely and comprehensive scope of audit and other services possible and in deploying its resources in an effective and efficient manner.

In addition to the operating plan, a strategic plan for the continuous improvement of the Program is established and maintained on an ongoing basis. While the strategic plan goals, objectives and initiatives are re-assessed on an annual basis, many elements of the plan may have a multi-year planning perspective.

Reporting

.03 Internal Audit monitors activities and progress toward both the annual operating and strategic plans and reports the related information to The Regents and Senior Management on a quarterly and annual basis.

3100 Strategic Plan

Overview

.01 The strategic plan is one component of the Internal Audit Program Annual Plan and conveys the planned efforts designed to provide continuous improvement to the Internal Audit Program.

Objectives

.02 The strategic plan objectives are driven by Internal Audit's recognition of the needs and opportunities to improve the Program, recommendations from periodic external reviews and changes in the direction of the Internal Auditing profession. The specific strategic plan goals in place at any given time are included as an exhibit to this manual and can also be found on the University Auditor's homepage.

Plan Establishment

.03 The University Auditor convenes the IAD's for the purpose of creating the strategic plan. A consultant or facilitator may be employed to assist the group.

The strategic plan is a dynamic set of goals and objectives agreed to by the University Auditor and IAD's for the purposes of strengthening the Internal Audit Program. It is constantly revised as tactical initiatives are established and executed. It is created with a multi-year perspective with short-term milestones that can be measured to assure progress.

On approximately a three-year cycle, the plan should be completely refreshed, although external events or newly recognized Program needs may dictate a different interval. On an annual basis, the goals and objectives, and the current initiatives should be assessed to validate the direction of the Program.

Plan Execution

.04 **Structure and Charter of workgroups** - Execution of the strategic plan is carried out by all of the Internal Audit Directors and managers through their organization into five workgroups described below. The workgroups are charged with execution of the strategic plan on behalf of the University Auditor and IAD's as a whole. Their efforts are preliminary rather than determinative as significant proposals for Program policies, initiatives and direction are brought back to the group as a whole for approval before significant effort or resources are committed. The University Auditor participates in the activities of all five workgroups and provides overall leadership to the strategic planning efforts as one of the position's principal responsibilities.

3100 Strategic Plan

Plan Execution (cont'd)

Each workgroup has a Director who, at the request of the University Auditor, convenes the Team and is generally the spokesperson for the Team in communications with the Directors as a whole.

Strategic Workgroups

Best Practices - This Team has principal responsibility for the establishment of professional standards and a quality assurance program, the identification of benchmarks and measures for the assessment of performance and mechanisms for sharing best practices.

Risk Based Audit - This Team has principal responsibility for assuring that the audit program uses modern tools and techniques for the recognition and mitigation of risk. It also has ownership of goals that are developed in the areas of professional proficiency and audit customer satisfaction.

Information Technology - This Team's charge addresses issues related to professional proficiency and the program of work in the area of Information Technology auditing. Its activities include developing and training the professional staff in the concepts of integrated auditing and assuring the presence of more highly developed specialized skills as needed. In addition, this Team advises the rest of the Internal Audit community on utilization of technology within our Program.

Advisory Services - This Team has responsibility for the development of skills, resources, services and service delivery concepts for advisory services as a proactive and effective alternative to regular audit activities. The Team has ownership for goals related to all non-audit services as well as the development of customer awareness and acceptance of Internal Audit as the provider of these services. In addition, this Team shares responsibility for any goals addressing customer relationships or the identification and mitigation of risks through other than routine audit activities.

3100 Strategic Plan

Strategic Workgroups (cont'd)

Investigations - This Team's responsibilities are two-fold. Within the Internal Audit Program, it has responsibility for any goals having to do with the professional proficiency of the conduct of investigations (including training), and establishing mechanisms for reporting, sharing information about and learning from investigation activities. As advisory services to the University, this Team also has responsibility for strategic goals related to the development of appropriate University policy in the area of investigations, tracking and commenting on statutory changes that affect the University's investigation activities, and the development of tools for educating the workforce in techniques of fraud prevention and detection.

3200 Operating Plans

Overview

.01 The Operating Plan is the primary component of the UC Annual Audit Plan. The Plan represents the consolidated audit plans of each of the Internal Audit Departments, as well as the allocation of human resources necessary to deliver these services to customers. The Plan strives to assure an appropriate balance among the University's lines of business as well as the Internal Audit Program's three service activities. The Plan also serves as a tool to assist internal audit management in analyzing its mix of customers and services and for measuring and monitoring the risk exposure in the audit universe.

Annual Audit Planning

.02 The Plans are developed annually through a comprehensive risk assessment and audit planning process. The Risk Based Audit Work Group (RBAWG) and the University Auditor lead a collaborative process to establish the audit universe, identify strategic and business risk and develop the planning guidelines to complete the Annual Audit Planning process.

Establishment of Audit Universe

The audit planning process begins with an understanding of the entity, activity or process to be audited and identification of the auditable elements, or components, of the entity, traditionally referred to as the audit universe. Annually, the planning process involves reconsideration of transactions, events or conditions which may impact the audit universe such as:

- New activities, organizations and programs
- Changes within the existing organization or operating units

Identification of Risk

The Annual Audit Plan is driven by consideration of the institution's strategic, financial, operational, regulatory and reputational risks at both a system-wide and local level, thus permitting local flexibility and input in determining the allocation of audit resources. The risks identified are organized along the University's lines of business:

3200 Operating Plans

Identification of Risk (cont'd)

- University-wide Risk - Risks which affect the University's mission of teaching, research and public service as well as patient care
- Campus Based Risk – Risks that impact the campuses generally, such as enrollment growth, capital, operating and research funding
- Laboratory Based Risk – Risks that impact the three national laboratories, such as political and regulatory risks or matters affecting the DOE contract
- Health Sciences Based Risk – Industry and regulatory risks, such as managed care, medical education and disproportionate share funding, and Medicare enforcement

Sources of Information - A variety of sources are utilized to identify risks for the University as a whole. These sources include: regulatory experts, financial experts, The Regents' Audit Committee, Office of the President Executives, Laboratory Directors, Chancellors, Vice Chancellors, local Audit Workgroup Members, and senior laboratory and campus managers.

Development of Annual Planning Guidelines

The RBAWG develops Guidelines for Audit Planning on an annual basis and submits proposals for any revisions to the University Auditor and Campus and Laboratory Audit Directors. RBAWG distributes a memorandum along with the Planning Guidelines to the University Auditor and the UC Directors/Managers. These guidelines include:

- ♦ Timeline for audit planning process
- ♦ Risk Model, risk analysis worksheets and guidelines for the assignment of predictive risk factors
- ♦ Narrative outline of the lines of business risk
- ♦ Guidelines for resource allocation

Annual Planning Time Line

A specific time line defining procedures and related deadlines for the audit planning process is distributed by the University Auditor to the campus and laboratory Audit Directors each year. The timeline is developed to facilitate the timely preparation of the Operating Plan for its inclusion in the Annual Audit Plan presented to The Regents Committee on Audit at their May meeting.

3200 Operating Plans

Annual Audit Planning Process

.03 The Annual Audit Planning process involves the Risk Assessment Phase and the Audit Plan Preparation Phase.

- The Risk Assessment Phase is performed at the beginning of the planning cycle and is focused on gathering current risk information about the audit universe components and assessing the relative risks necessary to prepare the Annual Audit Plan, all in the context of the institution's risks previously identified.

- The Audit Plan Preparation Phase is performed upon completion of the Risk Assessment Phase and represents an exercise in deploying Internal Audit's resources in the most effective manner possible prioritizing risks and assuring balance in the Annual Plan.

Risk Assessment

.04 A comprehensive and thorough risk assessment is the key driver in the development of an effective audit plan. The risk assessment process involves both a high level overview of topical and selected strategic business risk as well as an intensive and comprehensive process to assess risk for all items included in the audit universe.

Audit Universe and Definitions

The audit universe identifies process and entity topics to allow individual campuses and labs the flexibility to include local and specific topics, to minimize the number of line items requiring calculated risk assessments, and to provide a reporting format that can be condensed at the levels of the various "tiers" for reporting to different audiences and for different purposes.

The universe is divided into four tiers as follows:

- Tier One consists of major reporting categories.

- Tier Two consists of major processes and entity groupings.

- Tier Three consists of predominantly major process topics and is generic across all sites. This permits comparative evaluation of risk scores across all sites for specific topics. Sites do not have the ability to modify Tier Three.

- Tier Four consists of predominantly local specific organizational entities and minor process topics.

3200 Operating Plans

Audit Universe and Definitions (cont'd)

- Entities which are related to Tier Two broad categories such as "departments" or "programs" should be added to Tier Four by individual sites, based on specific site criteria. It is possible that elements of Tier Four could change each planning year for each site.

NOTE: The term "sites" rather than "locations" is used above because at the health science campuses risk assessment is performed for both the campus and health sciences sites separately.

The Audit Universe is included as an appendix to this Section.

Relative Risk Assessment

The audit risk of each component unit in the audit universe is assessed using a methodology traditionally utilized by auditors. Relative risk assessment is necessary to provide a means for rational deployment of limited resources across the audit universe.

In assessing relative risk, auditors at each location gather information from:

- Financial analyses
- Change analyses (management, systems, funding sources/levels, regulations, etc.)
- Interviews with management
- Consideration of external audit activities
- Audit issues identified and shared by the controllers, other UC locations and other universities

A formal risk assessment process is required every other year. During this formal risk assessment process, each topic included in ***Tiers Three and Four*** is ranked after significant data gathering, analysis and discussion with management, members of the Audit Committee or Workgroup and others. During the alternating years when a formal risk assessment process is not required, individual sites adjust risk-ranking scores using professional judgement and first hand knowledge as appropriate without the benefit of an extensive data gathering process. Documentation shall be available to explain major deviations in Tier Three scores or why a Tier Three topic, scored in the previous year, was not scored.

3200 Operating Plans

Relative Risk Assessment (cont'd)

The Risk Model reflects COSO terminology and is applied to all UC lines of business. The factors proposed for campus, laboratory and health sciences environments are identical. However, different weightings for each factor within these three environments have been established.

Risk Model

In the risk model, each component of the audit universe is assessed for relative risk considering the following:

Predictive Factors And Value Weights

Management Control Environment - Assessment of control environment is based on factors such as:

- Adequacy of the existing control structure
- Expertise of management
- Historical problems
- Interval since the last audit review
- Conditions found during recent reviews
- Adherence to the budget
- Complexity of operations and technology
- Overall effectiveness and efficiency of operations

The relative performance of a function as perceived by other managers may influence risk. In general, effective management reduces overall risk.

Business Exposure - Larger potential losses are normally associated with larger sized activities, as indicated by revenues and expenditures. Other things being equal, large dollar amounts either flowing through a system or committed to an activity or project will increase audit interest. Dollar amount and relative liquidity of assets safeguarded will impact this factor. Other objective information to be considered for each auditable unit includes the dollar amount of cash receipts, receivables, inventory and plant and property safeguarded.

3200 Operating Plans

Predictive Factors And Value Weights (cont'd)

Public and Political Sensitivity - A public relations exposure exists whenever an event occurs which would erode public confidence in the University. The following conditions influence this factor:

- Probability of adverse publicity
- Reduced support
- Tarnished reputation or depletion of goodwill
- Erosion of the legitimacy of the University's mission or miscommunication of traditional values

Selected audit topics may not appear to be material, but could nevertheless influence risk. As sensitivity, exposure, or potential for public embarrassment increases, the risk factor assigned will increase. The amount of interest that The Regents or the Office of the President expresses in a particular unit or function could also impact this factor.

Compliance Requirements - Complexity and clarity of all internal and external policy, procedure, regulatory and statutory matters affecting the operations of the organization as a whole or any of its sub-units impacts an organization's ability to comply, and therefore influences risk. Risk associated with non-compliance relates to the inability to meet business objectives which can result in monetary loss due to:

- Improper business practices
- Levy of fines or litigation
- Loss of funding sources and disallowed costs from funding agencies.

Information and Reporting - Reliable information is needed at all levels of an organization to run the business and move toward achievement of the entity's objectives in all categories. Reliable internal measurements are essential for generating information used in:

3200 Operating Plans

Predictive Factors And Value Weights (cont'd)

- Developing financial statements for external dissemination
- Operating decisions, planning, budgeting and pricing
- Monitoring performance, providing services and allocating resources
- Evaluating vendor performance and joint ventures

Risk factors for information and reporting to be considered for assigning value weights to each auditable unit include:

- Extent to which the process or entity depends upon a computerized information system and the complexity of that system
- Time sensitivity, mission criticality, support of life safety processes
- Campus wide impact due to the loss of access to information or reporting
- Accuracy, availability, and integrity of the information provided either via manual or automated systems.

Organizational Change or Growth - Organizational structures may change significantly as the University moves from transactional and procedural controls to more innovative and diagnostic controls associated with paperless processing. Changes in management personnel or structure or a function's existing and future operations can influence risk. In some cases, reorganization of responsibilities and activities can result in significant changes that compromise the internal control environment. Significant downsizing, early retirement programs, and reengineering efforts to streamline processes may also increase control risk.

3200 Operating Plans

Risk Model Scoring and Ranking

These predictive factors are weighted, scored and the relative risk ranking of each component of the audit universe is compiled by Local Audit Management.

Risk index results for audit topics in one line of business environment should be comparable to risk index results for audit topics in other environments. For example, an index of 700 for a medical center topic should indicate the same level of risk as an index of 700 for a campus or laboratory topic.

The Risk Model and Guidelines for the assignment of predictive risk factors are included as an appendix to this Section.

Although the entire four-tiered package will be forwarded to the University Auditor, only the calculated risk factors from Tiers One through Three will be rolled up into the consolidated calculated risk ranking analyses and summaries.

Determination of High Risk

As part of the Audit Planning Guidelines prepared by the RBAWG and distributed by the University Auditor, a definition of "High Risk" items will be developed for use in the planning process. This designation is used to measure coverage of high-risk items and for other analytical purposes.

Analyses of Risk Assessments

As part of the risk assessment process the University Auditor will prepare various analyses of the preliminary risk assessments to assist in the consistent application of the risk assessment methodology among all of the UC sites. The analyses also strive to identify common risks for the purpose of recognizing opportunities for sharing risk mitigation strategies. The analyses and their impact on the Annual Audit Plan will be discussed among Audit Directors and their managers at a meeting held for this purpose and scheduled as part of the Annual Planning Time Line.

Audit Plan Preparation

.05 Upon completing the risk assessment process, each Local Audit Management prepares a Local Annual Audit Plan following the requirements of the Planning Guidelines. The package of Audit Plan materials is submitted to the University Auditor along with the final risk assessment results according to the time line outlined under paragraph .02 of this Section.

3200 Operating Plans

Audit Plan Preparation (cont'd)

A Sample Local Annual Audit Report format and narrative instructions are included as an appendix to this Section.

Resource Allocation Guidelines

General guidelines for the allocation of the percentage of time to selected time charge categories are provided below. These are only guidelines that may be changed from time to time, and local circumstances may dictate planned levels outside the ranges presented below. When this situation occurs, the Audit Director should address the unique circumstances in the transmittal letter accompanying the Audit Plan.

In general, it is anticipated that an average of 85% of total time available should be budgeted for direct time charges.

The range of regular audit time is expected to be between 40% and 65%. This is a very large range and will depend on matters such as demand for investigations and advisory services. Within this total, approximately 10% is normally expected to be set aside for Supplemental Audits.

The range for audit advisory services (consisting of consultations, special projects, systems reengineering, and internal control training--including control and accountability initiatives) is expected to be between 10% and 25% including External Audit Coordination which is to be a part of this reporting category.

On an overall basis, it is expected that investigation time will be between 10% and 15%. Local offices should budget this category based on their own experience and expectations. On an individual location basis, the range of normal budgeted amounts is 5% to 20%. Anything outside the upper end of this range should be commented upon and consideration should be given to whether the investigation level represents an undue intrusion on the ability to deliver normal audit services.

An expectation of 6% has been established for audit support activities including audit planning, audit committee support, system-wide audit support, computer support and quality assurance on an overall basis. On an individual location basis, the normal range is 5% to 10%.

3200 Operating Plans

Resource Allocation Guidelines (cont'd)

Laboratory audit functions must be responsive to DOE requirements. In some cases, these requirements may impact the ability of the laboratory audit functions to meet the above guidance.

Documentation of Planning Process

Each Audit Director should maintain documentation of the annual audit planning process. This documentation should include:

- Records of internal planning sessions
- Records of management input to the planning process
- Financial and other background information collected for selected audit planning topics

The Audit Director should also provide a written explanation in the annual audit planning documentation for any topic assessed as a High Risk that is not included in the final annual audit plan.

Approval of the Annual Audit Plan

.06 Upon completion, the Annual Audit Plans are subject to review and approval as follows:

- By the University Auditor
- By the Local Audit Workgroup (prior to submission to UAO if possible)
- By the Chancellor/Lab Director as provided by the delegation of authority

Laboratories - In accordance with UC/DOE contractual guidance, the laboratories must submit their annual audit plans to DOE for review and approval, and must be responsive to DOE requests for DOE mandated audits for topics such as cost allowability

Changes to the Annual Audit Plan

Revisions to the audit plans may be necessary in some circumstances. The required procedures for revising audit plans depend upon the nature and extent of the change.

3200 Operating Plans

Changes to the Annual Audit Plan (cont'd)

Minor Changes - Relatively minor changes to priorities and the contents of the plan should be submitted for information to the Campus Audit Committee. If the above guidelines cannot be met, the Audit Director should consult with local management and the Office of the University Auditor.

Significant Changes - Significant modifications to the plan should be addressed with the Campus Audit Committee and the University Auditor. For example, all topics which are ultimately defined as being in the high risk category and are included in the annual plan and which are subsequently likely to be cancelled or postponed must be reported to and discussed with the Campus Audit Committee and the University Auditor.

Laboratory - Modifications to laboratory audit plans should be made in accordance with contractual responsibilities to DOE. In general, significant changes should be discussed in advance with appropriate DOE representatives, as well as the Local Audit Committee and University Auditor.

Request for Assistance

.07 Any location which does not expect to accomplish at least 50% of planned audit and advisory services (line items) listed in the annual audit plan as amended should confer with the Audit Committee and the University Auditor to determine a mutually acceptable method of obtaining additional resources or implementing an alternative method to provide greater breadth of coverage.

In addition, because the laboratory audit functions must be conducted in a manner "satisfactory to DOE," any laboratory which does not expect to make substantial progress in meeting its annual plan should communicate this circumstance to DOE for appropriate mutual resolution.

3200 Operating Plans - Appendix

Annual Audit Planning Time Line			
Step	**Procedure**	**Responsibility**	**Timing**
1	Work with Local Audit Directors and Managers to obtain and review current information relevant to the audit universe and determine its effect on the Annual Planning Guidelines.	**RBAWG**	**November and December**
2	Distribute a memorandum outlining Lines of Business risk along with the Draft Annual Planning Guidelines to the University Auditor and the UC Directors/Managers.	**RBAWG**	**Mid-January**
3	Distribute Annual Planning Guidelines and Risk Analysis Worksheets to Audit Directors.	**University Auditor**	**End of January**
4	Perform the risk assessment process utilizing the risk model and methodology and validate procedures with local management.	**Local Audit Management**	**January to March**
5	Submit the local risk assessment results to the University Auditor.	**Local Audit Management**	**March**
6	Perform comparative analyses based on the risk assessment results and distributes the analytical results to the Local Audit Management.	**University Auditor**	**March**
7	Meet with University Auditor and UCOP to review comparative analysis results and share information in order to prepare local annual audit plans.	**Local Audit Management**	**March**
8	Present local annual audit plans to Local Audit Committees.	**Local Audit Management**	**March to April**
9	Submit local annual audit plans to the University Auditor.	**Local Audit Management**	**April**
10	Prepare consolidated UC Annual Audit Plan and send to Regents' Item Coordinator.	**University Auditor**	**April to May**
11	Present consolidated UC Annual Audit Plan to UC Regental Audit Committee.	**UCOP**	**May**

3200 Operating Plans - Appendix

Page content (risk analysis spreadsheet) under development.

3200 Operating Plans - Appendix

Risk Assignment for Predictive Factors	
Score	**Key Descriptive Phrases**
Management Control Environment	
1	High confidence in control environment; Well run organization; Good reputation; Efficient and effective operations; Sound system of internal control; Recently audited with good results
2	Good confidence in control environment; Audited within the last three years with reasonable results
3	Reasonable confidence in control environment; audited with significant issues within the last five years but follow-up completed and corrective action implemented
4	Limited confidence in control environment; Not audited within the last five years
5	Little or no confidence in control environment; No prior audit coverage or fairly recent audit with significant unresolved issues or material cash losses; Poor campus reputation; High whistleblower or grievance activity
Business Exposure	
1	Low probability of loss
2	Exposure potential is relatively immaterial
3	Exposure represents a relatively low percentage of total campus operations
4	Exposure represents a moderate percentage of total campus operations
5	Exposure represents a significant percentage of total campus operations
Public and Political Sensitivity	
1	No press or local press interest in generic topic
2	Exposure potential is relatively immaterial
3	Somewhat politically sensitive, but interest is narrowly focused to a limited audience
4	G-29 potential, State or Federal audit interest, high public interest
5	Regents, national exposure, loss of funding, extreme public interest

3200 Operating Plans - Appendix

Risk Assignment for Predictive Factors	
Score	**Key Descriptive Phrases (cont'd)**
Compliance Requirements	
1	Few regulations; Clear and simple policies, procedures & guidance
2	Limited regulations; Flexibility permitted in meeting policies, procedures & regulations
3	Moderate or significant percentage of transactions subject to policies, procedures & regulations; Effective and efficient business processes
4	Significant or high percentage of transactions subject to complex policies, procedures & regulations; Heavy fines; Unallowable costs; Somewhat inefficient or ineffective processes
5	Significant or high percentage of transactions subject to complex and changing policies procedures, and regulations; Ineffective or inefficient processes; High probability of monetary or funding source loss
Information & Reporting	
1	High degree of accuracy, availability, timeliness & usefulness of information; Associated information systems or applications are fairly simple, stable or low criticality; Loss of access to system generated information or reporting capability would have low campus, process or entity impact
2	Some minor issues of accuracy, timeliness or usefulness of information; Automated systems have some complexity; Most reporting needs are met and loss of access to system or reporting would have minor impact to campus, process or entity.
3	Some potential for information to be not timely, useful or meaningful; Automated systems may require some special training or expertise; Systems in mid-life of implementation cycle (not yet outdated or just newly implemented); Associated information systems or application has medium criticality or impacts more than one entity or processing systems
4	Uncertain reliability of data, timeliness of information or usefulness; Associated information system or applications are fairly complex or potentially unstable; Loss of access to system or reporting will have fairly major campus, process or entity impact; Automated system may be older, with inability to provide necessary data, or newly implemented system not been fully tested; System is complex, impacts other processes or entities or may support life safety process or entities

3200 Operating Plans - Appendix

Risk Assignment for Predictive Factors	
Score	**Key Descriptive Phrases (cont'd)**
Information & Reporting (cont'd)	
5	Low degree of information accuracy, availability, timeliness and usefulness; Information system is manual or outdated or new and untested; System is highly complex, has campus-wide impact, mission critical or supports life safety processes or activities; Computing risks have not been adequately addressed or controlled
Organizational Change/Growth	
1	Stable organization; No increase or decline in budget
2	Limited management change or personnel turnover
3	Average turnover in key personnel, average change in prior year budget
4	Significant change in processes; Downsizing; Early retirements; Turnover in key personnel
5	High turnover; Major system changes; Significant reengineering; Significant change in prior year budget

Value Weights by Environment

Points (percentage)

Factor	Laboratory	Campus	Health Sciences
Management Control Environment	50 (25%)	50(25%)	50 (25%)
Business Exposure	40 (20%)	50 (25%)	30 (15%)
Public & Political Sensitivity	20 (10%)	20 (10%)	20 (10%)
Compliance Requirements	40 (20%)	20 (10%)	50 (25%)
Information & Financial Reporting	30 (15%)	40(20%)	30 (15%)
Organizational Change/Growth	20 (10%)	20 (10%)	20 (10%)

3200 Operating Plans - Appendix

Page content (audit universe) under development.

3200 Operating Plans - Appendix

Sample Local Annual Audit Plan

UNIVERSITY OF CALIFORNIA *SCHEDULE 1*
INTERNAL AUDIT PERSONNEL
FY 200X
UCXX

I. Authorized Personnel	**Profess.**	**Admin.**	**Total**
Number of Authorized Personnel			

(Provide detail of any changes, e.g. date, classification level, etc. Provide separate narrative on any reductions.)

II. Actual FTE's	**IAD**	**Assoc. IAD or MGR.**	**Prof. Staff**	**Total***
Beginning of Period				
Anticipated Additions**				
Estimated Separations**				
End of Period				

* Footnote the approximate number of professionals assigned to Health Sciences during the period on an FTE basis.
**** Use assumed start and leave dates to calculate weighted average FTE's below.**

III. Gross & Net Available Hours Calculation

	Total Year Hours	**1st Quarter**	**2nd Quarter**	**3rd Quarter**	**4th Quarter**	
Weighted Avg. FTE's**						Lab 9/30/00
Hours in the period	C=2080	520	520	520	520	520
Sub-Total	L=2080					
Other Resources:						
Overtime						
Contract Labor/Interns						
Recharge In or (Out)						
Admin. & Other						
Sub-Total						
Gross Available Hours						
Less Non-Controllable Hours						
Non-Controllable Percent						
Total Net Available Hours [(1)]						

[(1)] Must tie to "Total Net Available Hours" on Schedule 2 - Annual Resource Allocation

3200 Operating Plans - Appendix

Sample Local Annual Audit Plan

UNIVERSITY OF CALIFORNIA
INTERNAL AUDIT ANNUAL RESOURCE ALLOCATION *SCHEDULE 2*
FY 2001
UCXX

Distribution of Net Available Hours	**UCOP % Guideline**	**Plan Percent**	**Total Year Hours**	**1st Quarter**	**2nd Quarter**	**3rd Quarter**	**4th Quarter**
Indirect Hours							
Administration	5--10%						
Professional Development	2--5%						
Other	0--3%						
Total Indirect Hours							
Total Indirect Percent	**15%**						
Direct Hours							
Audit Program							
Planned Audits - Current Year							
Planned Carryforward Audits							
Suppl. Audits - Current Year	10%						
Total Audit Program							
Total Audit Percent	**40--60%**						
Advisory Services							
Consultations/Spec. Projects							
Systems Dev., Reengineering Teams, Etc.							
Internal Control & Accountability							
External Audit Coordination							
IPA, COI & Other							
Total Advisory Services							
Toa Advisory Percent	**10--25%**						
Investigations--Hours							
Investigations--Percent	**10--20%**						
Audit Support Activities							
Audit Planning							
Audit Committee Support							
Systemwide Audit Support							
Computer Support							
Quality Assurance							
Total Audit Support							
Total Audit Support Percent	**5--10%**						
Total Direct Hours							
Total Direct Percent	**85%**						
Total Net Available Hours [1]							
Total Net Available Percent [2]	**100%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**

[1] Must tie to "Total Net Available Hours" on Schedule 1 - Personnel
[2] Must equal 100% or there is an error

3200 Operating Plans - Appendix

Sample Local Annual Audit Plan

UNIVERSITY OF CALIFORNIA
INTERNAL AUDIT PLAN DETAIL *SCHEDULE 3*
FY 2001
UCXX

Name/Title of Audit	High Risk? Yes or No	Planned Hours	Primary Index Code	Additional Index Code(s)
Carryover--(WIP)				
Subtotal Carryover				
New Audits				

3200 Operating Plans - Appendix

Sample Local Annual Audit Plan

UNIVERSITY OF CALIFORNIA *SCHEDULE 4*
INTERNAL AUDIT PLAN STATISTICS
FY 2001
UCXX

I	Coverage of High Risk*	Hours	Number	Annual Goal
	In Planned:			
	Audits			
	Advisory Services			
	Investigations			
	Total			
	Percentage	N/A		80--100%

*DEFINITION OF HIGH RISK
The highest 10 risk scores assigned at the local campus or laboratory.

II	Coverage of Next Tier Risks**	Hours	Number	
	In Planned:			
	Audits			
	Advisory Services			
	Investigations			
	Total			
	Percentage	N/A		N/A (Info only)

**DEFINITION OF NEXT TIER RISKS
The **NEXT** 10 highest risk ranked items after the **HIGH** risks.

III	Distribution of Tier 1 Audit Coverage	Hours	Pct.
A	Auxiliary, Business, & Employee Support Services		
B	Development & External Relations		
C	Environmental Safety and Security		
D	Facilities, Construction & Maintenance		
E	Financial Management		
F	Human Resources & Benefits		
G	Information & Communications		
H	Campus Research Departments & Instruction		
I	Health Sciences Research, Instruction & Clinical Services		
J	Lab Research Programs & Processes		
K	Office of the President		
	Total		

3300 Monitoring and Reporting

Overview

.01 This section outlines the processes by which both the Strategic and Operating Plans are monitored and the standard reporting requirements for both internal reporting (within the Internal Audit function) and reporting to management and The Regents.

Strategic Plan

.02 The University Auditor has ultimate responsibility for monitoring the execution of the strategic plan. The "master" version of the plan is maintained by the Office of the University Auditor and is updated by input from the workgroups as progress is reported. There are no set forms or intervals for reporting against the strategic plan. However, the Quarterly Reports to The Regents contain a narrative description of major milestones and accomplishments.

Work Group Teams - Each workgroup's leader is the spokesperson for the Team as a whole. However, individual members may have a lead role on specific initiatives and assume responsibility for communicating with the IAD's as a whole on that matter.

Workgroups keep the University Auditor and the IAD's apprised of progress and initiatives through the bi-weekly Directors' conference calls, by utilizing a portion of the regularly scheduled Directors' meetings or by other means as appropriate.

Operating Plan

.03 The Internal Audit Program demonstrates accountability for its resources as well as communicates its accomplishments through regular reports to The Regents Committee on Audit and Senior Management.

(NOTE) Because of the federal government fiscal year employed by the national labs, the period of time encompassed in reports for the campuses and OP and the labs is different by one quarter, with the labs' data trailing by three months. Therefore, the annual report presented in November of 200X includes activity for the twelve months ended June 30, 200X for the campuses and OP but includes activity for the twelve months ended September 30, 200X for the labs. Since the Annual Report isn't presented until November, this reporting convention is appropriate.

3300 Monitoring and Reporting

Operating Plan (cont'd)

However, for quarterly reporting purposes, the activities accomplished on a year-to-date basis against the current year plan for the same calendar period are reported. For example, the September 30th quarterly report includes no lab activities since none have been commenced against the fiscal year being reported on, while the report for December 31st includes two quarters for the campuses and one quarter for the labs—a consistent 90 day lag.

Annual Report - The Annual Report of the Internal Audit Program is presented by the University Auditor to The Regents Committee on Audit at their November meeting each year. The report compares actual activities to the Operating Plan approved for the fiscal year being reported upon. Consistent reporting formats and styles as used in the Annual Plan are presented in the interest of comparability.

The activity data in the Annual Report is essentially a compilation of the quarterly reports. In addition, the Annual Report should be prepared to include other information about the Program (e.g., staffing analyses, etc.), the University's controls, developments in the internal audit profession or to otherwise educate the Committee or provide information requested by the committee.

The Chair of The Regents Committee on Audit should be consulted in advance of preparation of the Annual Report to determine if additional reporting elements would assist in the oversight of the Internal Audit Program.

Quarterly Reports - The University Auditor prepares quarterly reports within a target of 45 days after the end of each calendar quarter for dissemination to The Regents Committee on Audit, the President's Cabinet, and Senior Campus/Lab Management. The quarterly reports include the following sections:

- Bullet highlights of the reporting period
- Narrative discussion about progress achieved against the Annual Plan
- Significant personnel matters
- Narrative discussion about progress achieved against the strategic plan

3300 Monitoring and Reporting

Operating Plan (cont'd)

The Quarterly Report is consolidated from more detailed reports submitted by the IAD's. A standard report format and instructions are included as an exhibit to this section. The University Auditor establishes the quarterly report due date, which may vary from time to time, but absent other instructions is established as the last Monday of the month following a calendar quarter. Therefore, reports are due the last Monday in October, January, April and July. Special instructions determined annually apply to the labs for their October report due to the proximity to the Annual Report.

Time Reporting in Quarterly Reports

Standard Time Reporting Categories and Definitions - Standard time categories and definitions have been adopted by all UC audit departments. Standard categories and definitions are included as an Exhibit to this section. The standard definitions are provided in the interest of consistency and to facilitate consolidation of individual audit plans. Some categories may not be used by certain Audit Directors. Audit Directors will discuss any plans to deviate from the standard categories and definitions with the University Auditor.

4000 PERSONNEL

Section Overview

.01 This section of the manual describes personnel policies adopted by the Internal Audit Program. It includes sections on roles and responsibilities, career development and counseling, training and professional development, Skills Assessment and Resource Analysis (SARA), and performance evaluations.

4100 Roles and Responsibilities

Policy

.01 The roles and responsibilities required to efficiently and effectively perform the UC internal audit function are clearly defined and communicated.

Application of UC Policy for Roles and Responsibilities

.02 Each local Internal Audit Department consists of several levels of staff positions, each having varying responsibilities for carrying out the audit function. Each position is described and the related responsibilities required to perform it are outlined.

Job Descriptions

Job descriptions that outline the roles and key responsibilities for each staff level position have been developed. Each member of the Internal Audit Department should have a current job description signed by both the employee and supervisor. The job description should reflect all of the activities and expectations for the particular position. It should also include the knowledge, skills and abilities required to perform the duties of the position.

Sample job descriptions are included as an appendix to this section for these categories of staff members:

- Director
- Associate Director/Manager
- Supervisor/Principal Auditor (generally Auditor IV or Principal Auditor II)
- Senior/Staff Auditor (generally Auditors I through III)

Local campus/lab Internal Audit Departments may opt to modify the sample job descriptions to meet their specific needs.

Roles and Responsibilities

Key roles and responsibilities for the various staff levels are summarized below:

University Auditor. The University Auditor reports jointly to the Board of Regents and the Senior Vice President--Business and Finance. The Auditor assists the Board and University management in the discharge of their oversight, management, and operating responsibilities using independent audits and consultations designed to evaluate and promote the internal controls system. In carrying out this responsibility, he or she performs the following:

4100 Roles and Responsibilities

Roles and Responsibilities (cont'd)

- Makes revisions to the UC Internal Audit Program
- Revises and updates the audit process
- Increases communications regarding audits to and from the campuses and to the Regents
- Reengineers performance standards and improves electronic technology used in the audit process
- Revamps the investigations and external review processes

The University Auditor works closely with the campus Vice Chancellors for Administration, the campus auditors, and the Business and Finance department heads.

Director - The Director guides the local campus/lab Internal Audit Department in performing its audit function. This generally requires that he or she:

- Formulates strategic long-term plans that ensure application of the system-wide philosophy and vision.
- Develops relationships with management and audit clients to promote the positive image of the department.
- Establishes short-term and annual work plans that review significant high-risk areas of university activities including material financial concerns.
- Ensures the availability of qualified Internal Audit resources and their efficient and effective use to meet planned and other obligations.
- Creates an environment conducive to the best practices of risk assessment, job management, staff supervision and quality assurance.
- Contributes to the improvement and enhancement of the system-wide audit function through participation in workgroups and meetings.
- Ensures that all professional activities comply with IIA Standards and University Policy.

4100 Roles and Responsibilities

Roles and Responsibilities (cont'd)

Associate Director/Manager - The Associate Director/Manager assists the Director and may function as Director in the Director's absence. To fulfill these responsibilities, the Associate Director/Manager generally:

- Assigns and manages the daily work of the professional audit staff.
- Participates in or is responsible for many departmental management responsibilities such as counseling staff.

In the absence of an Associate Director/Manager, these responsibilities will typically be performed by the Director.

Supervisor/Principal Auditor - The Supervisor/Principal Auditor plans and conducts the most difficult, complex and sensitive assignments and reports results to management. He or she may supervise others and generally works independently with only general direction.

Senior/Staff Auditor - The Senior/Staff Auditor plans and conducts assignments and reports results to management. The primary distinctions between the senior and junior staff positions are the complexity of assignments and degree of supervision. Seniors will conduct complex assignments with direction from the project supervisor while staff auditors will conduct less complex assignments with closer supervision. Seniors may function as team leaders on assigned projects.

To carry out his or her responsibilities, the Senior/Staff Auditor generally, depending on his or her specific staff level:

- Gathers financial, operational, and internal control information.
- Analyzes and verifies the accuracy of financial statements and transactions and/or other management documents, records, reports, and methods.
- Reviews systems established to ensure compliance with policies, plans, procedures, laws, or regulations and determines the extent of such compliance.
- Reviews and evaluates basic systems of internal control.

4100 Roles and Responsibilities

Roles and Responsibilities (cont'd)

- Prepares audit programs, subject to review by higher level auditors.
- Prepares reports of audit results, subject to review by higher level auditors.

The individual's specific responsibilities will vary depending upon his or her staff level and assigned audit role.

Related Guidelines for Roles and Responsibilities

.03 Recruitment and Advancement Guidelines - The Internal Audit Program identifies guidelines for basic educational and professional experience qualifications as well as desired knowledge, skills and abilities for each staff level. The qualifications and knowledge, skills and abilities apply to both candidates who are being recruited as well as staff members who are being considered for advancement. They are also a useful reference tool that can assist supervisors in preparing staff evaluations and conducting career development and counseling sessions.

A matrix reflecting the qualifications, knowledge, skills, and abilities desired for each staff level is included as an appendix to this section.

Career Development and Counseling - Each staff member receives career development and counseling in order to continuously enhance his or her knowledge, skills, and abilities and ensure that they are commensurate with his or her assigned roles and responsibilities.

Career Development and Counseling Policies and Procedures are included in Section 4300.

Performance Evaluation - Each staff member's performance is evaluated regularly to assess how his or her knowledge, skills, and abilities compare to the responsibilities outlined in his or her job description. System-wide or local *Skills Assessment and Resource Analysis (SARA)* efforts may be useful in identifying areas requiring the enhancement of individual or group skills.

Performance Evaluation Policies and Procedures are included in Section 4500.

SARA Policies and Procedures are included in Section 4400.

4200 Career Development and Counseling

Policy

.01 The Internal Audit Program initiated a Career Development and Counseling Program in order to continuously enhance the skills and abilities, guide the career paths and cultivate the varied interests and abilities of its professionals.

Application of UC Policy for Career Counseling and Development

.02 Each local campus/lab Internal Audit Department is responsible for establishing a process for career development and counseling. A career development and counseling process allows management and professional staff to work in a positive and participatory manner to establish career goals and guide the career paths of individuals interested in long-term careers within internal audit as well as for those who may be interested in internal audit as an avenue to other opportunities within the University.

Career Development and Counseling Session

Each member of the professional staff should participate in an annual career development and counseling session to establish goals for the ensuing year. Career development and counseling sessions for the staff may be conducted by Managers or Associate Directors. Directors should conduct career development and counseling sessions with Managers and Associate Directors.

Objective - The focus of the meeting should be on both the short and long-term career development of the individual in a manner consistent with their aptitude and interests and the current and long-term objectives of the department.

Goal setting - Specific goals should be established which are achievable and measurable, and their accomplishment should form a part of future performance evaluations (in addition to the handling of assignments and responsibilities during the year). An emphasis should be placed on development of skills necessary to achieve both individual career objectives and departmental objectives. System-wide or local *Skills Assessment and Resource Analysis* efforts and the knowledge, skills, and abilities included in the Recruitment and Advancement Guidelines may be useful in identifying areas requiring the enhancement of individual skills.

SARA Policies and Procedures are included in Section 4400.

Recruitment and Advancement Guidelines are included in Section 4100.

4200 Career Development and Counseling

Career Development and Counseling Session (cont'd)

Appropriate areas for the establishment of goals include, but are not limited to:

- Long-term career objectives
- Certification and training
- Enhancement of existing skills as well as acquisition or development of unique skills
- Types of future assignments as well as expected performance criteria for them
- Additional responsibilities
- Contributions to the Internal Audit Department and support for departmental objectives
- Outside activities associated with the University or profession

Documentation and Follow-Up - Goals agreed upon by the employee and supervisor should be documented and signed by both parties. Follow-up activities necessary to support the accomplishment of the goals may be the responsibility of either party depending on the nature of the specific goal. Ultimate accomplishment of the goals is the responsibility of the employee.

Related Guidelines for Career Development and Counseling

.03 Performance Evaluation - The career development and counseling session is in addition to the annual performance evaluation. It may be appropriate to combine the two sessions, particularly when there are performance issues to be dealt with through future improvement efforts.

If the two activities are combined in one meeting, documentation should be created for each part of the session. The performance evaluation component has a retrospective orientation while the career development and counseling focus is prospective.

Performance Evaluation Policy and Procedures are described in Section 4500.

A ***Career Development and Counseling Form (see template included as an appendix to this section)*** or a locally developed equivalent is completed to facilitate and document the counseling session.

4200 Career Development and Counseling

Supplementary Guidelines for Career Development and Counseling

.04 The Internal Audit Department and the University benefit from the contributions of internal audit staff with traditional skill sets as well as from the involvement of professionals from varied and diverse backgrounds. Some of these individuals may be interested after some time in career paths outside of internal audit. While applying the policy for career counseling and development, the following supplementary guidelines may be considered:

Career Advancement Goals

Goal setting - In connection with the career development and counseling program, each professional may establish goals for developing additional or enhanced skills necessary to adapt to changing environments and increase his or her contribution to Internal Audit. Through the enhancement of individual skills, professionals prepare themselves for advancement opportunities.

Following are suggested guidelines for setting career advancement goals:

- Goals should be aligned with both the individual's aptitude and interests and the objectives of the internal audit program.
- Goal setting should occur in a participatory environment where the short and long term interests of both the individual and the Internal Audit are considered.

Career advancement counseling may be incorporated into the career development and counseling session outlined above. The supervisor should make it clear to the employee that, while enhancing one's skill set increases one's value to the University, it is not a guarantee of future promotion.

Alternative Career Paths

Rotation Opportunities - Many internal auditors are interested in career opportunities outside of the Internal Audit Department. Conversely, individuals with non-traditional backgrounds may be interested in gaining some experience through internal audit. Each local campus/lab Internal Audit Department is encouraged to explore innovative ways to bring professionals resources into and out of internal audit.

4200 Career Development and Counseling - Appendix

Page content (Career Development and Counseling Form) under development.

4300 Training and Professional Development

Section is under development.

4400 Skills Assessment and Resource Analysis

Section is under development.

4500 Performance Evaluations

Policy

.01 Performance evaluations are required for every staff member to document his or her performance, achievement of agreed upon goals and compliance with departmental standards. Performance evaluations serve several major functions:

Employee development - Through performance ratings and constructive comments, the evaluation assists employees in recognizing how their performance levels compare to the expectations of management and provides recommendations for further training or actions for improvement.

Management decisions - The evaluation process uses consistent criteria to measure staff performance and, therefore, provides a basis for making relative rankings among staff members. Relative rankings and individual experience levels provide input to salary and advancement decisions.

Professional standards - The evaluation is one of the components of the overall process of supervision, quality assurance, and development of the audit staff and demonstrates compliance with IIA and departmental standards.

Application of UC Policy for Performance Evaluations

.02 Performance evaluations should be conducted for every staff member annually by the director and periodically throughout the year by the Associate Director/Manager or appropriate project manager.

Annual Performance Evaluation

Every staff member should receive a written performance evaluation at least once a year from the director or his or her designee. The director must indicate his participation in and review of any appraisal conducted by a designee.

An Annual Performance Evaluation Form (see template included as an appendix to this section) or a locally developed equivalent should be used to facilitate and document this requirement.

Interim Performance Evaluations

In addition to the annual performance evaluation, staff members should receive feedback on an interim basis. One of the following interim evaluation procedures should be implemented by the local campus/lab Internal Audit Department.

4500 Performance Evaluations

Interim Performance Evaluations (cont'd)

- **Written project evaluations -** Every staff member who works at least 100 hours on an individual project will receive a written performance evaluation from the project supervisor, Associate Director/Manager, or Director. Cumulative comments from these evaluations provide a basis for the annual evaluation.

or

- **Periodic evaluations -** Every staff member will receive a written performance evaluation from the project supervisor, Associate Director/Manager, or Director at least quarterly. Cumulative comments from these evaluations provide a basis for the annual evaluation.

An Interim Performance Evaluation Form (see template included as an appendix to this section) or a locally-developed equivalent should be used to facilitate and document this requirement.

Related Guidelines for Performance Evaluations

.03 **Career Development and Counseling** - The performance evaluation session is in addition to the annual career development and counseling session. It may be appropriate to combine the two sessions, particularly when there are performance issues to be dealt with through future improvement efforts. If the two activities are combined in one meeting, documentation should be created for each part of the session. The performance evaluation component has a retrospective orientation while the career development and counseling session focuses on the future.

Career Counseling and Development Policy and Procedures are included in Section 4200.

Supplementary Guidelines for Performance Evaluation

.04 While applying the performance evaluation policy, the following supplementary guidelines may also be considered:

Continuous Feedback - Regular project update meetings may incorporate an element of evaluation in the form of performance feedback and guidance to create a continuous dialogue on the staff member's strengths and weaknesses as observed on the job. These timely assessments materially affect the quality of the work done and the improvement of staff performance.

4500 Performance Evaluations

Supplementary Guidelines for Performance Evaluation (cont'd)

Ongoing discussions of the staff member's strengths and weaknesses may be documented and used as support for or updates to annual evaluations. Customer feedback may also be sought and incorporated into staff performance evaluations.

4500 Performance Evaluations - Appendix

Page content (sample performance evaluation forms) under development.

5000 LIAISONS

Section Overview

.01 This Section describes the relationships between Internal Audit and the campus controllers, the Office of the General Counsel, the State Auditor General, law enforcement agencies, and the Department of Energy.

5100 Campus Controllers

Overview

.01 Internal Audit works in liaison with the Campus Controllers in order to strengthen the University's control environment.

Background

.02 In November of 1996, the University launched a controls initiative intended to heighten management's ownership and responsibility for the internal control environment. At the center of the controls initiative was the creation of a controllership position at each campus. (Medical Centers and the national labs already had financial controllership functions in place.)

For many members of the University community, Internal Auditors had been viewed as primarily responsible for controls. The creation of the controller's position reaffirmed the concept that management is responsible for controls.

Control Environment & Responsibilities

.03 All employees share responsibility for ensuring an effective and efficient control environment. However, certain groups of employees are charged with more specific and interrelated responsibilities with respect to the control environment.

Internal Audit - Assists management in their oversight and operating responsibilities through independent audits and consultations designed to evaluate and promote the system of internal controls.

Academic and Administrative Management - Responsible for developing, implementing and maintaining controls to mitigate risks and achieve objectives.

Campus Controllers - As part of Academic and Administrative Management, the controllers have primary responsibility for providing leadership to ensure effective internal control and accountability practices at the campus.

Faculty and Staff – Responsible for ensuring that operations are conducted consistent with University values, policies, procedures and regulatory requirements.

5100 Campus Controllers

Interrelationship of Controllers' and Internal Auditors' Responsibilities

.04 The relationship between the Internal Auditors and Controllers is best characterized by their definitional responsibilities for controls. That is, controllers lead management's efforts to design, implement and monitor internal controls while auditors evaluate the effectiveness of the controls as designed and functioning.

Both groups have a natural interest in promoting sound controls through such activities as training, development of appropriate policies and procedures, identification of risks and utilization of risk mitigation techniques. These activities are carried out jointly and separately as determined locally, and should be viewed as mutual interests rather than conflicting responsibilities.

In addition to evaluating controls through traditional audit activities, Internal Auditors also provide advice and consultation on the design, implementation and monitoring of controls, typically through advisory services. However, responsibility for the controls remains with management.

Control Self Assessment (CSA) has evolved as a useful tool for monitoring and evaluating controls and in most organizations is principally utilized by auditors to supplement traditional audit techniques. For University campus and medical center activities, the Controllers utilize CSA to assist line management in evaluation of controls and their effectiveness. Internal Auditors sometimes assist in specific CSA activities, may have a more structured role in a campus' use of CSA, or may have little or no role in the Controllers' CSA activities, again as determined locally.

CSA is a tool for assessing controls. While the Controllers have structured programs to use this tool as part of their initiative this does not preclude auditors from using CSA as a tool in their audit program. However, efforts should be coordinated so as not to confuse our customers or produce duplicative efforts. Whether auditors or Controllers employ CSA, it should be remembered that CSA does not substitute for the validation of functioning controls that occurs within an audit.

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5100 Campus Controllers

Interrelationship of Controllers' and Internal Auditors' Responsibilities (cont'd)

Internal Audit should gain an understanding of the Controllers' control initiative activities as part of their understanding of the control environment and in connection with the annual risk assessment. Likewise, Internal Auditors should seek the Controllers' input into the annual risk assessment process. Jointly Internal Auditors and Controllers have an opportunity to assist others in the identification, assessment and mitigation of institutional risks

5200 Office of the General Counsel

Overview

.01 Internal Audit works in liaison with the Office of the General Counsel (including Resident Counsel) on a number of matters, including many sensitive investigation matters. These or other matters may lead to a request to perform Internal Audit services for the General Counsel on a privileged basis. This Section provides guidance on working with the Office of General Counsel.

Note: The guidance in this Section does not purport to represent a legal determination regarding when an internal auditor's work may be determined to fall under a privilege, but intends only to guide internal auditors on certain procedural requirements when performing services for the Office of the General Counsel.

Background

.02 Normal communications between Internal Auditors and University Counsel are not covered by an attorney client privilege. However, certain Internal Audit services (principally investigations) occasionally give rise to a request from management to perform the services on a privileged basis with the General Counsel's Office as the client and recipient of the report. In addition, Internal Audit may be requested to perform fact finding with respect to a matter already in litigation or otherwise subject to a privilege.

Internal Audit Guidance

.03 In general, it may be appropriate for Internal Auditors to undertake work for the General Counsel's Office so long as their professional obligations, including required communications, are not compromised.

There are three principal professional obligations to consider:

1) The Internal Auditor's independence must not be compromised by agreeing to perform work "at the direction of counsel". The Internal Auditor must retain the ability to exercise professional judgement as to the necessary scope and nature of procedures to be carried out.

5200 Office of the General Counsel

Internal Audit Guidance (cont'd)

2) The Internal Auditor's obligation to report in a fair and unbiased manner must not be compromised. This does not preclude sharing report drafts with attorneys, but the auditor must retain the freedom to report facts that are both favorable and unfavorable to the University's interests, and without undue influence.

3) The Internal Auditor's obligation to communicate with Senior Management and The Regents (through the Office of the University Auditor) must not be compromised. The Internal Auditor must retain the ability to report fraud and other irregularities to management and The Regents. As a practical matter, the Office of the General Counsel frequently handles such communications in the normal course of the University's management of the matter. The Internal Auditor's responsibility is met by ensuring that the communication occurs—the Internal Auditor does not have to communicate directly with management or The Regents.

Required Communications

.04 It is expected that work will be undertaken for the General Counsel only in rare circumstances, and as a result of special considerations. Therefore, the Vice President & General Counsel and the University Auditor should be informed of each such instance. An engagement letter, which includes a standard reference to the conditions enumerated above should be prepared for each such arrangement and issued by the local IAD to the responsible University Counsel with copies to the Vice President &General Counsel and University Auditor.

5300 Bureau of State Audits

Overview

.01 It is the responsibility of the University Auditor to maintain a liaison relationship with the Bureau of State Audits (BSA). The most significant contact points are the State Auditor and his/her Director of Investigations. The University Auditor's Office should be involved in all matters involving the BSA and has specific responsibility for:

- Assuring that Senior Management at the Office of the President and The Regents are kept apprised of BSA audits and investigations,
- Coordinating responses to audit and investigation reports, and
- Coordinating follow-up reports of University actions in response to audit or investigation report recommendations

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Background

.02 By statute, the BSA is empowered to conduct audits of any California State Agency, including for this purpose, the University of California. In addition, the BSA operates a whistleblower hotline and is the State's official investigative arm for allegations of improper governmental activities. Investigations may also be launched at the request or direction of the BSA's legislative oversight body, the Joint Legislative Committee on Audit.

When conducting audits, the BSA will allow Internal Audit or other University designees to fulfill a normal external audit coordination role, and will conduct entrance and exit conferences. With the exception of the added responsibility to involve the University Auditor's Office, normal procedures and guidance for External Audit Coordination should be followed for BSA audits.

For investigations, the BSA does not acknowledge the role of an external audit coordinator and has statutory authority that allows direct access to University employees and records. This Audit Manual Section deals principally with special considerations for coordination of investigation activities.

5300 Bureau of State Audits

BSA Investigations

.03 The BSA initiates an investigation by sending a letter to the President, General Counsel, University Auditor and Chancellor of the affected campus announcing that an investigation is to be conducted. The subject matter is only very broadly stated and may or may not trigger recognition as an issue of which management is already aware. The announcement will identify the auditor in charge and the approximate start date and invites to addressee to call the BSA for additional information.

Typically, such a communication will yield little additional information, as the confidentiality of BSA investigations is provided for in statute. However, if the matter is recognized as one already under review or investigation internally, the BSA may agree, at its sole discretion, to work with or through the University's process. A single investigation would generally be viewed as in the University's best interest and Internal Auditors should agree to share access to their working papers and investigation findings in preliminary form.

Nothing prevents the University from conducting a separate investigation if warranted. Conversely, this should not be taken as implying that Internal Audit should undertake an "advance" investigation to forewarn the University of possible findings by the BSA.

BSA Coordination

.04 While the BSA does not conduct investigations through normal external audit coordination channels, it has been mutually recognized that the University needs a process by which University employees can be advised of the BSA's rights of access to employees and records. It has been agreed that the University may assign an individual to serve as a central point of contact for employees during the course of an investigation. The central contact point will be the Vice Chancellor—Administration or his/her/ designee. The Internal Audit Director may be the designee.

It is appropriate to offer the University's assistance in gathering information and facilitating access to employees and records, but the University may not insist on such an arrangement. Notwithstanding the BSA's statutory authority to "stand in the shoes" of the University, the Office of General counsel should be consulted before releasing any privileged information.

5300 Bureau of State Audits

University Employees' Rights

.05 University Employees have rights to representation or support (e.g. a supervisor) when interviewed by investigators from the BSA or become "targets" of BSA investigations. BSA investigators are not obligated by statute to inform employees of these rights. The University, thought the central contact point, is within its rights to inform employees of their rights without interfering in the conduct of the investigation.

BSA Investigation Reports

.06 The BSA will distribute draft investigation reports to the University for comment. There is a brief five-day turnaround time for the University's response and so the draft's deliverance, and the review and response process, should be carefully coordinated in advance.

During this brief review period, the University has the right to review the BSA workpapers that support the investigator's conclusions (but not all workpapers, e.g. exculpatory data).

Unlike their audit reports, the BSA does not commit to full inclusion of the University's response in the investigation report.

The University frequently has little advance knowledge about the conclusions being drawn by the BSA investigators or the evidentiary support for the conclusions. Therefore the risk of disagreement with the findings is increased. The BSA will typically be responsive to concerns of factual inaccuracies in the draft report. Therefore every effort should be made to correct the draft report through direct contact with BSA in contrast to putting the University's objections in the written response.

The University Auditor's Office should be involved in the response process and is responsible for coordination with other Office of the President officials.

5400 Law Enforcement Agencies

Overview

.01 Investigation activities may give rise to interactions with law enforcement agencies. This Section provides policy and guidance for these circumstances.

UC Policy

.02 Investigation results that conclude that a crime has probably been committed shall be reported to the District Attorney or other appropriate law enforcement officials for the purpose of determining whether or not to pursue the matter criminally. The UC Police are normally the conduit for communications with law enforcement agencies.

Internal Audit Guidance

.03 In cases where the UC Police have jurisdiction, they should be the agency to which all investigation conclusions of potential criminality are initially referred. In situations where the UC Police do not have jurisdiction, then the IAD needs to determine what the appropriate agency may be. Such a determination depends on the nature of the suspected criminality and local conditions. For instance, a case of embezzlement at a rural co-operative unit may be more appropriately handled at the level of County Sheriff than a local police department with few resources. The IAD may wish to consult the local UC Police unit or the Director of Investigations for aid in making such a determination.

In investigations involving law enforcement agencies, Internal Audit should normally appoint a person to act as liaison with the law enforcement agency. If the liaison person is other than the IAD, a determination should be made as to the extent to which the person is authorized to speak for the department, and under what circumstances the IAD should be involved.

Internal Audit should normally provide support and assistance to the extent requested by law enforcement agencies. However, there may be circumstances where the nature of the support or assistance raises questions about the appropriateness of the activity. Consultation with the Office of General Counsel should be sought in those circumstances. In addition, there may be circumstances where Internal Audit may question whether the support represents the best utilization of resources for the University. Management consultation and other possible resource avenues should be considered in those circumstances.

5400 Law Enforcement Agencies

Internal Audit Guidance (cont'd)

Law enforcement officials may instruct Internal Audit to hold confidential information about the investigation matter being jointly addressed. Such instructions do not override the Auditors obligation to communicate with local senior management or the Office of the University Auditor.

[See also Section 7100 Law Enforcement]

5500 Department of Energy

Overview

.01 UC Internal Audit maintains a liaison relationship with the United States Department of Energy (DOE) with respect to the audit services provided to three laboratories.

University of California manages and operates the following three laboratories for the DOE:

- Lawrence Berkeley National Laboratory (LBNL)
- Lawrence Livermore National Laboratory (LLNL)
- Los Alamos National Laboratory (LANL)

These longstanding relationships are governed by separate management contracts with the DOE.

History and Overview

The origins of the University of California internal audit presence at the labs dates back to early 1970's, when the UC Office of the President maintained an internal audit function at each of the three UC/DOE Laboratories. A separate contract with DOE provided funding for the internal audit activities that were centrally managed through The University Auditor's Office.

In late 1992, to more closely align the internal audit structure to that of the UC campuses and to meet the newly required internal audit clause in our contracts with DOE, the University decentralized its DOE Contracts Audit Group, assigning the function to the Laboratories.

Imbedded in each contract is the "standard" Department of Energy Acquisition Regulation (DEAR 970.5204-9(h)) that requires the UC/DOE Labs to:

> *"...conduct an internal audit examination, satisfactory to DOE, of records, operations, expenses, and transactions with respect to costs claimed to be allowable under this contract annually, and such other times as may be mutually agreed upon. The results of such audits, including working papers, shall be submitted or made available to the contracting officer."*

5500 Department of Energy

History and Overview (cont'd)

To provide a basis for interpreting the standard internal audit clause, in 1992 the DOE Contracting Officers, the Office of Inspector General (OIG), and the Contractor Internal Audit staffs developed the *Cooperative Audit Strategy*. The Strategy's governing principles include:

- assuring internal audit staffs meet professional standards
- providing consistent guidance
- coordinating audits based on acceptable risk assessment methodology
- assessing and tracking the audit work performed at each management and operating contractor
- relying on the work of contractor internal audit staffs
- improving communications between the OIG, Operations Offices, and contractor internals audit staffs
- working with audit partners to ensure the Cooperative Audit Strategy is modified to address changing conditions with the DOE

DOE Audit Criteria

The DOE Acquisition Guide entitled *Cooperative Audit Strategy*, provides the following criteria to more fully define the contractors internal audit functions requirement to "…conduct an audit and examination satisfactory to DOE…":

- Organizational independence
- Sufficient size and training
- Performing financial, financial related, performance and specific audits as requested by the contracting officer
- Meeting Institute of Internal audit standards or similar standards as prescribed by the Comptroller General of the United States (Yellow Book)
- Preparing a satisfactory audit plan for each fiscal year by April 15th that is based upon an acceptable risk assessment and considers guidance provided by the DOE Office of the Inspector General

5500 Department of Energy

DOE Audit Criteria (cont'd)

- Providing an annual report of activities for the previous fiscal year by January 31st or prepare a report data sheet with each audit report.
- Performing external peer review every three years.

Annual Reviews

The DOE Contracting Officer is required to interpret and assess the compliance of the internal audit functions with the Cooperative Audit Strategy criteria. Additionally, the OIG performs annual reviews of selected working papers as prescribed in the DOE Office of Inspector General Audit Manual. These reviews provide the basis for DOE's reliance on work performed by the UC/DOE audit groups as well as the required external peer review.

DOE Orders

Specific DOE Orders are accepted into the UC/DOE management contracts. The following DOE Orders are relevant to maintaining contract compliance and appropriate liaisons with the DOE Contracting Officer, the Office of Inspector General and the US General Accounting Office.

- 2030.4B - Reporting Fraud , Waste, and Abuse to the OIG
- 2300.1B - Audit Resolution and Follow-up
- 2320.1C - Cooperation with the OIG
- 2321.1B - Auditing of Programs and Operations
- 2340.1C - Coordination of GAO Activities

Contract Oversight

The Laboratory Administration Office (LAO) is responsible for overseeing the UC/DOE lab contracts. All final internal audit reports should be distributed to LAO. Further, external audits coordinated by the laboratory internal audit functions should be appropriately communicated to LAO through opening announcements, formal responses and final reports. LAO approves the settlement of questioned costs on contracts with the Department of Energy.

6000 AUDIT SERVICES

Section Overview

.01 This section of the manual outlines the entire internal audit process from the initial assignment through reporting and follow-up.

A flowchart of the audit process is included on the following page to give the auditor an overview of the process. (Flowchart is under development.)

6100 Planning an Audit

Policy

.01 Internal Audit performs adequate planning for every audit prior to the commencement of audit fieldwork.

This section provides information on planning policies and procedures related to individual audits. For information on planning policies and procedures related to the Annual Audit Plan, see Section 3200.

Application of UC Policy for Planning

.02 Adequate audit planning requires that the auditor conduct a preliminary survey, establish an appropriate scope that addresses relevant business risks, develop an audit plan, obtain the approval of the Associate Director/Manager and Director, and communicate with the client. Documentation of these planning activities is also required.

Communication with the Client

Notification – The auditor-in-charge should notify the parties responsible for an organization or area to be audited that an audit is scheduled. Notification should be sent via written memo or e-mail to the audit client with copies to senior officials as appropriate.

Preliminary Scope and Objectives - The audit timing and preliminary objectives should be communicated to the client in writing in advance of the beginning of fieldwork. This information may be included in entrance meeting materials, such as agendas, schedules and handouts distributed to the client during the meeting.

Entrance Conference - The entrance conference should be conducted with the client in order to discuss the preliminary scope and objectives. The following individuals should be invited and encouraged to attend the meeting:

- Directors and department heads responsible for the area being audited
- Manager(s) and any of his or her subordinates who work in the specific audit area
- Internal audit director, for all high-risk audits

6100 Planning an Audit

Audit Plan and Program Development

Preliminary Survey - The auditor-in-charge should obtain and review the following types of background information about the area being audited:

- Objectives and goals
- Policies, plans, procedures, laws, regulations and contracts having significant impact on operations
- Organizational information, such as number and names of employees, job descriptions, process flowcharts, details about recent changes, etc.
- Budget information, operating results and financial data
- Prior audit workpapers and audit reports (including reports of external auditors and other external parties), correspondence files and relevant authoritative and technical literature

Risk Assessment - As part of the preliminary survey, the auditor should review systems and processes to identify key controls. The auditor generally uses various tools and techniques, which may include flowcharts, questionnaires, and interviews or other inquiries, in order to identify key controls and gain an understanding of the related audit risk. The audit program is developed to test these high-risk areas. The possibility of fraud should be considered in the assessment of risk.

Audit Program - The audit program should be prepared in advance of field work and outlines:

- Objectives of the audit
- Scope and degree of testing required to achieve the audit objectives in each phase of the audit
- Procedures for collecting, analyzing, interpreting and documenting information during the audit
- Technical aspects, risks, processes and transactions which should be examined

6100 Planning an Audit

Documentation

Documentation to evidence the planning procedures includes:

- Copy of engagement or notification letter
- Assignment sheet, with scope, objectives, purpose, timing, budget, and client contacts, signed by the Associate Director/Manager and Director
- Preliminary survey summary memo, which includes the auditor's assessment of risk, signed by the Associate Director/Manager and Director
- Approved audit program, signed by the Associate Director/Manager and Director

Form templates for the above are included as an appendix to this section.

Supplementary Guidelines for Audit Planning

.04 While applying the planning policy, the auditor may also consider the following supplementary guidelines:

Communication - The preliminary objectives and audit timing may be communicated to the client 4 to 6 weeks in advance of the beginning of fieldwork to provide adequate preparation time for the client.

Shared Resources - Sharing mechanisms, such as the data warehouse, shared workpaper files, list-serves and internal networks that exist within and outside the system-wide program, may be utilized in order to enhance efficient planning and execution of audits.

6100 Planning an Audit

Page content (engagement letter template) is under development.

6100 Planning an Audit

Page content (assignment sheet template) is under development.

6100 Planning an Audit

Page content (preliminary survey memo content template) is under development.

6200 Conducting an Audit

Policy

.01 Internal Audit maintains adequate workpaper documentation to support the audit conclusions reached.

Every audit is properly supervised to ensure that audit staff are adequately guided and have the requisite knowledge and skills to meet the audit objectives as well as to minimize audit risk.

Application of UC Policy for Conducting an Audit

.02 Conducting an audit involves examining, evaluating and documenting the information pertinent to the area under audit in order to support audit results.

Supervision and workpaper documentation and review throughout the audit process ensures goals, objectives, risks and findings are addressed and resolved.

Supervision

Communication - The supervisor should communicate the goals and objectives, risks and other relevant information to the auditor-in-charge in order to provide the guidance and understanding necessary to conduct a high quality audit. Audit objectives and other relevant information should be documented.

The Supervisor and staff should maintain regular communication throughout the audit to ensure risks, findings and errors are adequately addressed and resolved.

Workpaper Documentation

Purpose - The workpaper file documents the work the auditor has done. The workpapers serve as the connecting link between the audit assignment, the auditor's fieldwork and the final report. Workpapers contain the records of planning and preliminary surveys, the audit program, audit procedures, fieldwork and other documents relating to the audit. Most importantly, the workpapers document the auditor's conclusions and the reasons those conclusions were reached.

The workpapers also provide a basis for evaluating the local campus/lab Internal Audit Department's Quality Assurance Program.

Quality Assurance Policies and Procedures are included in Section 9000.

6200 Conducting an Audit

Workpaper Documentation (cont'd)

Contents - Workpapers should include the audit program along with documentation supporting findings, testing, interviews and other analyses. All changes to the scope or audit plan should be documented and approved by the Associate Director/Manager and/or Director. Findings and recommendations should be cross-referenced to the audit report or to their final disposition. Workpapers that are created and later determined to be unnecessary should be deleted.

Format - Audit workpapers may be in any form prescribed by audit management (paper, tapes, diskettes, etc.). If workpapers are in a form other than paper, appropriate backup procedures should be developed and followed.

Policies and Procedures for Electronic Workpapers are included in Section 6500.

Workpaper Review

All workpapers should be independently reviewed to ensure there is sufficient evidence to support conclusions and all audit objectives have been met. Responsibilities for workpaper review are summarized as follows:

Manager's Responsibilities - The supervisor of the auditor-in-charge should perform a detailed review of the workpapers. The Associate Director/Manager should also review and approve all changes to the scope of the audit and to the approved audit program.

Director's Responsibilities - For each audit engagement, the Director should perform at least a summary review. A summary review consists of a review of audit planning documents, the audit program, and the summary of audit findings and their disposition. The Director should perform a detailed review of any workpapers that have not been subjected to a detailed review by the Associate Director/Manager or have been prepared by the Associate Director/Manager. The Director should review and approve significant changes to the scope of the audit and to the approved audit program.

If a detailed review of the workpapers has not been performed (as in the case where the auditor-in-charge reports directly to the Director), the Director performs the detailed review and no summary review is required.

6200 Conducting an Audit

Workpaper Review (cont'd)

If the Director prepares the workpapers, the Associate Director/Manager or, if there is no Associate Director/Manager, another experienced member of the staff should review the workpapers.

Timing and extent of review - The level and frequency of review and communication during the audit depends upon the experience of the audit staff, the risk associated with the audited area and the significance of the findings.

Attestation - The auditor in charge, manager and director should attest that the workpapers have, to the best of their knowledge, been prepared in accordance with IIA and University standards.

Sample attestation statements are included as an appendix to this section.

Workpapers should be signed off and dated by the preparer and the reviewer.

6200 Conducting an Audit

UNIVERSITY OF CALIFORNIA
INTERNAL AUDIT
SAMPLE ATTESTATION STATEMENTS

Auditor in Charge

I have been the Auditor in Charge for our (audit, advisory service, or investigation) of (project name and number). In this capacity, I prepared the (audit, advisory service, or investigation) program and working papers or reviewed all working papers prepared by the staff assigned to this project. I also prepared or assisted in the preparation of the report to be issued.

In my opinion, the working papers were prepared in accordance with professional standards established by the IIA and the University of California Internal Audit Program and comply with our department policies. Also, in my opinion, the working papers support the findings and conclusions in the report, and the report complies with IIA and University standards and department policies.

_____ _____

signature date

6200 Conducting an Audit

UNIVERSITY OF CALIFORNIA
INTERNAL AUDIT
SAMPLE ATTESTATION STATEMENTS

Manager (if assigned) or Associate Director

I have been the Manager (or Associate Director) assigned to our (audit, advisory service, or investigation) of (project name and number). In this capacity, I approved the (audit, advisory service, or investigation) program and reviewed all working papers prepared by the assigned staff. I also reviewed the report to be issued.

In my opinion, the working papers were prepared in accordance with professional standards established by the IIA and the University of California Internal Audit Program and comply with our department policies. Also, in my opinion, the working papers support the findings and conclusions in the report, and the report complies with IIA and University standards and department policies.

_____ _____

signature date

6200 Conducting an Audit

UNIVERSITY OF CALIFORNIA
INTERNAL AUDIT
SAMPLE ATTESTATION STATEMENTS

Director

Our (audit, advisory service, or investigation) of (project name and number) has been conducted under my supervision and direction. As the Director, I approved the (audit, advisory service, or investigation) program and reviewed the working papers to the extent required by professional standards established by the IIA, the University of California Internal Audit Program, and the department. I also reviewed the report to be issued.

In my opinion, the working papers were prepared and reviewed in accordance with professional standards established by the IIA and the University of California Internal Audit Program and comply with our department policies. Also, in my opinion, the working papers support the findings and conclusions in the report, and the report complies with IIA and University standards and department policies.

_____ _____

signature date

6300 Reporting Results

Policy

.01 Internal Audit maintains a formal process for communicating to UC management and The Regents the results and recommendations for all audits conducted.

Application of UC Policy for Reporting Results

.02 A standard audit report is issued upon the completion of each audit examination. Reporting of audit results and recommendations assists all levels of UC management and members of the Board of Regents in the effective discharge of their responsibilities. The process for reporting results includes draft report preparation and reviews, quality assurance reviews and final audit report issuance and distribution.

Report Elements

Reports can be issued in long (report) form or, if the situation warrants, in a shorter, more informal letter form. Long form audit reports should include the following elements:

- Letter of transmittal signed by the director (signature attests that the director fully endorses and supports report contents)
- Title page
- Contents page (as appropriate considering report length)
- Executive summary (no more than one page)
- Purpose of the audit, including origin or source of the audit, as appropriate
- Scope of the audit, including
  - Time period covered
  - Functions or processes reviewed, such as payroll, procurement, travel, cashiering, accounts receivable, information technology, etc.
  - Audit techniques used, such as interviewing, reviewing records, testing transactions, analytical auditing procedures, etc.
- Background information related to the audited organization or activity

6300 Reporting Results

Report Elements (cont'd)

- Audit results, including findings, conclusions or opinions reached, and recommendations for improvement (or its equivalent)
- Management response or management action plan
- Schedules and attachments as appropriate to support or provide additional detail to audit findings and conclusions

Draft audit reports should be clearly labeled as a draft.

Report Timeliness

Reports should be issued as soon as practical following the completion of the audit work. The Director should establish processes for ensuring the timely issuance of audit reports.

- Reports should be reviewed in draft form with responsible operating management on a timely basis following completion of audit work.
- A management response should be requested within a prescribed time frame in order to ensure timely issuance of the final report. The audit report may be issued without the response in the event of undue management delays in responding.

Audit Report Quality Assurance

A pre-issuance quality assurance review of draft and final audit reports should be performed by the auditor-in-charge of the engagement or an independent party and be reviewed by the Associate Director/Manager or Director.

The Director should review and approve the final report prior to issuance.

The ***Audit Report Pre-issuance Quality Assurance Checklist*** included as an appendix to this section or a locally-developed equivalent should be used to facilitate and document this process.

Report Distribution

Audit reports should be addressed to the director, chairperson or department head directly responsible for the audited activity or activities. Reports for audits conducted under attorney-client privilege should be addressed to **TBD**

6300 Reporting Results

Report Distribution (cont'd)

Draft audit reports - Report copies should be distributed to:

- Management personnel directly responsible for the audited activity or activities.
- Higher level management where necessary to obtain authorized commitment to recommended actions.

Final audit reports - Report copies should be distributed to:

- The director, chairperson or department head directly responsible for the audited activity or activities.
- Management personnel in the chain of command above the report addressee (e.g., Dean, Provost, Vice Chancellor and equivalent positions at the DOE Laboratories) as deemed appropriate.
- The local executive to whom the Audit Director reports (typically the Vice Chancellor for Administration or Deputy Director of the DOE Laboratory).
- University Auditor.
- Other University officials on a need-to-know basis, as determined by the Audit Director.
- Other University personnel requesting a report copy, at the discretion of the Audit Director in consultation with audit client management and other University officials as deemed appropriate.
- The Department of Energy (Laboratory audit reports).
- The Laboratory Administration Office at the Office of the President (Laboratory audit reports).

When reports are distributed by electronic means, a hard copy version signed by the director should be kept on file.

Policies and Procedures for Electronic Workpapers are included in Section 6500.

6300 Reporting Results

AUDIT REPORT
PRE-ISSUANCE
QUALITY ASSURANCE CHECKLIST

REPORT ELEMENTS

	Draft	Final	N/A
1. The audit report includes:			
• Transmittal letter (transmittal letter for final audit report must be signed by the director)			
• Title page			
• Table of contents, if appropriate			
• Report summary (one page Executive Summary preferred)			
• Purpose of the audit, including the origin/source, as appropriate			
• Scope of the audit, including time period covered, functions or processes reviewed, and audit techniques used, as appropriate			
• Background information describing the audited organization or activity			
• Audit results			
– Audit findings			
– Audit conclusions (opinions)			
– Audit recommendations (or its equivalent)			
• Management's response or management's action plan			
• Schedules and attachments, as appropriate, to support or provide additional detail for report content			
• Addendum containing standard definition of internal control objectives and methods, such as from the COSO model (not to exceed one page)			
2. Draft report is clearly labeled as a draft			

6300 Reporting Results

REPORT QUALITY, TONE, AND APPEARANCE

	Draft	Final	N/A
1. Report is clear and concise, free of unnecessary detail			
2. Conclusions expressed in Executive Summary, report summary, and body of report are consistent			
3. Report is broken down into sections. Sections are:			
• Brief			
• Clearly labeled			
4. Descriptions of operating procedures, if required, are summarized			
5. Report is easily understood and logically presented			
6. Jargon, technical language, cliches, and colloquialisms are avoided			
7. Acronyms are defined before being used			
8. Active voice predominates			
9. Report is direct and to the point			
10. Headings are informative and descriptive			
11. Opening sentences are strong and attention-getting			
12. Main points are presented first			
13. Findings referenced to COSO elements, as appropriate			
14. Tone is balanced			
15. Findings are worded constructively			
16. Recommendations are directed toward achieving desired results without prescribing step by step actions			
17. Report has proper spelling, grammar, and punctuation			
18. Report has a professional appearance			
19. Report makes use of graphics and attachments, as appropriate, to convey points and/or additional information			
20. Spacing is proper and consistent			
21. Fonts and formatting are proper and consistent			
22. Report addressee name and title are proper and correctly spelled			
23. Transmittal and report cc's are correct; names and titles are correctly spelled			
24. Audit number and subject title are included on the report and are correct			

6400 Audit Follow-up

Policy

.01 Internal Audit maintains an audit follow-up process to monitor whether significant audit concerns for which corrective actions are recommended have been adequately addressed by management.

Application of UC Policy for Audit Follow-Up

.02 The audit follow-up process assists management and The Regents in monitoring and controlling potential risk exposures related to significant audit concerns. The process involves assessing the adequacy and effectiveness of actions taken by management and documenting and communicating outstanding follow-up issues to higher levels of management when appropriate actions have not yet been taken.

Follow-Up Procedures

The auditor should conduct follow-up no later than twelve months after the issuance of the audit report. Follow-up requires that the auditor:

- Ascertain the implementation status of each corrective action item and evaluate the adequacy and progress of actions taken.
- Decide whether there is a need for additional follow-up or close out the audit.
- Document the results of follow-up in the workpapers.
- Compile an inventory of outstanding corrective action items or open audits.
- Advise the local audit committee of follow-up activities and any material open items at least annually.

Audit management should notify the next higher level of management and/or the audit committee of any unsatisfactory responses or actions as well as those corrective actions which are overdue.

Documentation - The follow-up work should be documented using the same standards as those for documenting original audit work.

Workpaper Documentation Policies and Procedures are included in Section 6200.

6500 Other Audit Matters

Policy

.01 Internal Audit maintains policies for managing administrative and other matters related to the audit process in order to facilitate the continuing effective and efficient operation of its function.

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Application of UC Policy for Other Audit Matters

.02 Policies for the following other audit matters are described in this section: Project management and reporting, Record retention, Dispute resolution, Scope limitations, Client satisfaction surveys, Access to audit information and Electronic workpapers.

Project Management and Reporting

Capturing Information - Each audit department must have a project management system in place. The system should capture the following information at a minimum:

- Type of project (audit, advisory service, investigation)
- Audit Universe identifier
- Line of business (campus, lab, health science)
- Hours budgeted
- Actual hours expended
- Draft report issuance date
- Final report issuance date

Audit department management uses the information generated by their local project management system to oversee and monitor department operations, such as:

- Adherence to approved budgeted hours
- Elapsed time since the start of the project
- Timely issuance of audit reports

Reporting - The Project Management system is the basis for preparing periodic reports for Internal Audit and campus/lab management, the local audit committee, and quarterly reports for submission to the University Auditor.

6500 Other Audit Matters

Project Management and Reporting (cont'd)

- **Campus/Lab Management -** Internal Audit Directors should meet with their supervisor on a regular basis. The Director should use these meetings to communicate current and material risk issues identified by audit projects and impending high profile projects and investigations.

- **Campus/Lab Audit Committee -** Each campus and lab has a local audit committee as specified in the UC Policy regarding Local Audit Committees. As part of the audit committee meetings, Internal Audit Directors may choose to share information regarding activity of the department, such as the quarterly reports submitted to the University Auditor.

Guidelines for Local Audit Committees are included in Section 2500.

- **University Auditor -** Campus and Lab audit departments must submit four quarterly activity reports a year to the University Auditor. Due dates and content for quarterly reports will be communicated to audit departments prior to July 1 each year.

Record Retention

Audit work products are the property of the University. Internal Audit maintains custody of all audit work products, which are subject to the retention requirements set forth below.

Audit work products – Audit work products include reports and workpapers for all audit, investigation, and advisory service projects. They may be in electronic or hardcopy form.

Administrative records - Administrative records consist of reports, documents, analyses, and other materials generated to support the department's functions. Administrative records include:

- Quarterly and annual reports
- Client Satisfaction Surveys and summarized results
- Support for system-wide and local audit plans
- Audit planning documents
- Risk assessment analyses

6500 Other Audit Matters

Record Retention (cont'd)

- Internal QAR materials
- Training records
- Interim project performance reviews, to the extent they are not covered by other UC record retention requirements.

Retention Periods - The retention period begins with the end of the fiscal year in which the report is issued.

Audit work products should be retained as follows:

- One signed copy of the final report - permanently
- Workpapers - 5 years

Administrative records should be retained as follows:

- Special administrative records, such as Audit Committee minutes, Annual and Quarterly Reports to The Regents, and Annual Plans – permanently
- Administrative records that support our professional program, such as those set forth above – 5 years
- Other administrative records – at local discretion

All other notes, documents and reports relating to a completed audit that are not included in the workpapers (i.e., retained in auditor's desk files) should be destroyed after the final report has been issued. All versions of the draft audit report should also be destroyed after the final report has been issued.

Privileged Records - Audit work products and administrative records that are covered by attorney-client privilege or related to a lawsuit or other court action are not to be destroyed until the lawsuit or other court action has been closed or the 5 year workpaper retention period has been reached, whichever is later.

Government Records - Record retention for audit work products and supporting documents are retained according to mutually agreed (with the Department of Energy) Records Retention Schedules at each respective laboratory. UC retention periods should be used as guidelines in negotiating retention periods for UC laboratory internal audit reports and workpapers.

6500 Other Audit Matters

Record Retention (cont'd)

Disposition Process - Audit work products and administrative records will be destroyed by December 31 of the year in which the records have reached the end of their retention period.

The director will be responsible for reviewing the inventory listing of records scheduled for destruction to ensure that they should be destroyed (i.e., there is no reason that their retention period should be extended).

Audit work products and administrative records should be destroyed in a manner that gives appropriate consideration to the sensitivity of the information contained in the documents to prevent the unauthorized release of proprietary or confidential information.

Notification - A reminder will be sent by the University Auditor's Office at the beginning of each fiscal year specifying the fiscal year audit work product and administrative records to be destroyed.

Dispute Resolution

Disputes Between Audit Staff & Audit Management - The exercise of professional judgement involved in determining reportable conditions and the expression of conclusions in audit reports may lead to differences in professional opinions.

A process is needed to resolve such differences while respecting both the chain of command within audit management and the obligation of the staff to exercise independent professional judgement.

This process applies only to disagreements having to do with the contents and conclusions in audit reports. It is not intended for personnel matters such as job assignments and performance appraisals where separate University policy exists. It is likewise not intended for administrative matters such as audit budgets and departmental management matters.

6500 Other Audit Matters

Dispute Resolution (cont'd)

Dispute Resolution Process - In the event that there is a disagreement of professional opinion between audit staff and an audit manager, associate director or equivalent, the Internal Audit Director, in the normal course of providing supervision, shall reach an independent conclusion on the matter and attempt to forge a consensus or compromise among the members of the engagement team. No specific record of dispute resolution at this level needs to be created or maintained.

If this process is unsuccessful, or if the disagreement originally involves the Internal Audit Director, the University Auditor shall be consulted. The University Auditor will review draft reports and other written materials, interview the disputing parties and/or convene a meeting for the purpose of forging a consensus or compromise among the disputing parties. A written record of this dispute resolution process, efforts, and outcomes shall be created and maintained outside of the working papers.

If consensus or compromise is not achieved from these processes, the final judgement of the University Auditor will prevail insofar as the issuance of the audit report is concerned. However, no individual's rights as an employee of the University will be compromised by invoking this process or by its outcome.

Disputes Between the Audit Client & Auditors - Disputes which may arise between internal auditors and audit clients can be generally categorized into those regarding the factual accuracy of reported findings, and those dealing with the appropriateness of conclusions or recommendations (the "fairness" of the audit report in total or specific matters). Such disputes are separate from scope limitations imposed by audit clients.

Policies and Procedures for Scope Limitations are included in this section.

Every effort shall be made to resolve all questions of factual accuracy before the final audit report is issued.

6500 Other Audit Matters

Dispute Resolution (cont'd)

Conclusions and recommendations represent the professional judgement of internal auditors and cannot be overridden or unduly influenced by audit clients. The judgement of the local Internal Audit Director is the prevailing position. Therefore, audit clients do not have the authority to "appeal" an audit report to the University Auditor or to higher local management. The written response to the audit report is the recourse and appropriate vehicle for audit clients to communicate their views.

However, in exercising their professional judgement, Internal Audit Directors should aggressively seek compromise and consensus views that communicate issues clearly and completely and deal with identified audit issues effectively.

Scope Limitations

Definition - Scope limitations include situations in which a client is uncooperative, attempts to limit the scope of planned work or denies access to records, personnel, assets or other information necessary to complete the audit.

The Management Charter provides Internal Audit unrestricted access to all assets, information, reports, records, and personnel required to perform their work.

The Mission and Management Charter is included in Section 1100.

Resolution Process - The auditor should bring all matters involving scope limitations to the attention of Internal Audit management. If Internal Audit management is unable to resolve the matter at the local level, the University Auditor should be notified and involved in the process to assist in its resolution. The matter should be brought to the attention of the Local Audit Committee, as warranted.

Policy for Local Audit Committee Guidelines is included in Section 2500.

All scope limitation discussions should be documented in the audit workpapers.

Policies and Procedures for Workpaper Documentation are included in Section 6200.

6500 Other Audit Matters

Scope Limitations (cont'd)

Impact on Audit Report - In the event a scope limitation significantly impacts the planned scope of the audit and is not resolved to the satisfaction of Internal Audit, the audit report should state that the audit team was unable to perform the planned tests.

Audit reports with significant limitations on scope will be distributed to the Chancellor/Lab Director and other University officials, including The Regents, as determined by the University Auditor.

Client Satisfaction Surveys

Each internal audit department should measure and monitor the satisfaction level of its clients in order to continuously maintain and improve the quality of services provided.

Transactional Survey - This type of survey should be used to elicit the client's perception of the service rendered and identify opportunities for improvement in those instances where a report is issued.

The ***Client Satisfaction Survey*** included as an appendix to this section or a locally-developed equivalent should be used. A standard rating scale should be implemented in order to facilitate the measuring of results.

Transactional surveys should be sent to the addressee of the audit report and other audit participants, as considered appropriate, no later than 30 days after issuance of the final audit report. The surveys should be returned to the campus/lab audit department director.

Results of the surveys should be tabulated and shared with the auditor-in-charge, audit director, persons to whom the audit director reports and, at least annually, to the Local Audit Committee.

Management Survey - This type of survey is used to elicit management's perception of the audit program's ability to fulfill its mission assisting members of the organization in the effective discharge of their responsibilities.

The ***Management Survey*** included as an appendix to this section or a locally-developed equivalent should be used.

6500 Other Audit Matters

Client Satisfaction Surveys (cont'd)

Management surveys will be sent from the University Auditor to upper management, including the Chancellor or Lab Director, and Local Audit Committee members at least annually. A standard rating scale will be implemented to facilitate the measuring of results. Surveys will be returned to the University Auditor.

Results of the surveys should be tabulated and shared with the Local Audit Committee and, along with copies of the individual survey documents, the campus/lab audit director.

Access to Audit Information

All requests for access to, or copies of, audit reports and audit workpapers are subject to the approval of the audit director.

The audit director should inform the University Auditor of all requests for audit materials related to investigations or other sensitive matters in advance of their release.

The audit director should inform client management of any requests for access to or copies of audit materials by internal or external parties.

Internal Campus/Lab Requests - The audit director should normally grant approval of requests for audit reports by management responsible for the audited activity.

Requests for access to, or copies of, audit reports from University personnel other than management responsible for the audited activity are subject to the discretion and approval of the audit director.

External Audit Requests - The audit director should normally approve requests for audit materials by external audit agencies or firms duly engaged by the UC Regents and other authorized audit agencies where the report and/or workpaper content is pertinent to the external audit scope.

The audit director should follow the policy established in the Liaisons section of the Audit Manual in responding to requests for audit materials by the State Auditor's Office.

Policies and Procedures for Liaison with the State Auditor are included in Section 5300.

6500 Other Audit Matters

Access to Audit Information (cont'd)

The audit director should coordinate requests from external audit agencies with the campus/lab external audit coordinator at locations where the audit director does not serve in that capacity.

Outside Party Requests - All other requests for access to and/or copies of audit materials by external parties should be coordinated with campus counsel, or General Counsel at locations not having local counsel, and with the local information practices officer and media relations director as appropriate. The audit director should authorize release of materials only after legal counsel affirms the legal requirement to do so.

The audit director should inform the University Auditor of all requests for copies of audit reports by news media in advance of their release.

Electronic Workpapers

Section is under development.

6500 Other Audit Matters

UNIVERSITY OF CALIFORNIA
INTERNAL AUDIT DEPARTMENT
CLIENT SATISFACTION SURVEY

Audit Title: Audit Client:

Audit Conducted by: Client Department:

Survey Questions	Strongly Agree	Agree	Neither Agree Nor Disagree	Disagree	Strongly Disagree	No Basis
1. The audit objectives, purpose and scope were clearly communicated to me.	☐	☐	☐	☐	☐	☐
2. My business concerns and perspective on key operating areas were adequately considered during the audit.	☐	☐	☐	☐	☐	☐
3. The auditor(s) demonstrated technical proficiency in the audit areas.	☐	☐	☐	☐	☐	☐
4. The auditor(s) demonstrated effective communication skills.	☐	☐	☐	☐	☐	☐
5. The auditor(s) demonstrated courtesy, professionalism, and a constructive and positive approach.	☐	☐	☐	☐	☐	☐
6. The disruption of daily activities was minimized as much as possible during the audit.	☐	☐	☐	☐	☐	☐
7. The audit took an acceptable amount of time (from entrance to exit).	☐	☐	☐	☐	☐	☐
8. Communication of audit results and status to me during the audit was timely and adequate.	☐	☐	☐	☐	☐	☐
9. The audit report was clearly written and logically organized.	☐	☐	☐	☐	☐	☐
10. Audit results were accurately reported and appropriate perspective was provided.	☐	☐	☐	☐	☐	☐

Survey Questions	Strongly Agree	Agree	Neither Agree Nor Disagree	Disagree	Strongly Disagree	No Basis
11. The conclusions and opinions of the auditor(s) were logical and well documented.	☐	☐	☐	☐	☐	☐
12. Audit recommendations were constructive and actionable.	☐	☐	☐	☐	☐	☐
13. The objectives of the audit were met.	☐	☐	☐	☐	☐	☐
14. Audit report was issued timely.	☐	☐	☐	☐	☐	☐
15. Overall, the audit was "value added" to my organization.	☐	☐	☐	☐	☐	☐

Please feel free to provide additional comments regarding the performance of Internal Audit in the space provided below. We are especially interested in any thoughts you might have on how we can improve our efforts to provide value at the University of California.

Survey Completed by: _____ Date: _____

Please return the completed survey to: Audit Director or designee
Address

7000 INVESTIGATION SERVICES

Section Overview

.01 This Section of the manual establishes the standards for conducting investigations. It includes criteria for determining whether an engagement qualifies as an investigation and, therefore, becomes subject to these investigation standards. These investigation standards supplement the audit services standards described in the 6000 Section.

7100 Introduction

Purpose

.01 The investigations section of the UC Audit Manual is intended to implement and supplement UC Investigations Policy (such as Business & Finance Bulletin G-29 and any successors) as such Policy pertains to investigations conducted by UC Internal Audit. It is intended to supplement the audit standards as set forth in this Audit Manual for certain types of engagements as defined below. An investigation is a special purpose type of audit. Therefore the standards for conducting an audit contained in Section 6000 of the manual are generally applicable.

In the event of a direct conflict between a section of this chapter and law, regulation or official policy, such law, regulation or policy shall rule.

UC investigations conducted by Internal Audit are expected to comply with relevant standards set forth by appropriate sets of law such as federal and state civil and criminal procedure and rules of evidence. They should also be conducted in compliance with applicable standards set forth by professional bodies representing internal auditors (the Institute of Internal Auditors) and fraud examiners (Certified Fraud Examiners).

Application of Investigations Standards

.02 The investigation standards shall apply for an internal audit engagement when:

- The primary purpose is to gather, develop, examine and/or evaluate evidence to determine if there has been an improper act (as defined herein) committed by a person or entity.

And

- Allegations of an improper act which carry with them the possibility of legal action, whether in the form of hearings, litigation, or criminal proceedings.

It is expected that such an engagement would also determine the techniques used in committing the improper act, the extent of damage caused by the improper act and the causal factors permitting or contributing to the improper act (including internal control or policy violations or deficiencies).

7100 Introduction

Application of Investigations Standards (cont'd)

There are matters related to fraud that are not covered by the investigation standards set forth in this manual. They include:

- An examination for the purpose of improvement of controls involved in an allegation of an improper act.
- Auditing for fraud in the absence of an allegation or reasonable suspicion.
- Developing fraud prevention or detection programs.

Such engagements are governed by either the audit or advisory service standards whichever are more appropriate in the circumstances.

Definition of Improper Act

.03 For purposes of this manual, an improper act is an improper governmental activity as defined in statute and serious or substantial violations of University Policy as defined in the *University Policy on Reporting and Investigating Known or Suspected Improper Governmental Activities*.

The Client

.04 The ultimate clients of the investigations conducted by Internal Audit are The Regents of the University of California. Accordingly, the Internal Audit function of the University of California acts with independence and derivative authority to initiate investigations on its own for the benefit of the client. Such activities are normally coordinated with designated channels at each location. However, the local procedures do not override Internal Audit's authority to conduct investigations.

Roles and Relationships

.05 Following are the primary roles and related responsibilities for conducting investigation services:

University Auditor

The University Auditor is responsible for general oversight of all audit investigations as well as for communication with The Regents and Senior Management. In addition, the University Auditor is responsible for reporting summary information on all audit investigations to The Regents annually.

7100 Introduction

Director of Investigations

The Director of Investigations is responsible for assisting the University Auditor in his oversight role as well as for tracking investigations reported to the University Auditor's office. The Director of Investigations also provides investigative resources and consultation where requested or needed. In the event of an actual or perceived conflict of interest on the part of campus Internal Audit the Director of Investigations shall assume responsibility as provided for in the Audit Management Plan. In situations involving multiple campus/labs, the Director of Investigations has the responsibility for coordinating the multiple efforts and ensuring the overall cohesiveness of investigative efforts.

Internal Audit Directors

The IAD is responsible for conducting audit investigations at the local level. When an investigation substantiates improper acts, the IAD shall also be responsible for recommending strengthening of related controls, policies or procedures to reduce future vulnerability to similar improper acts. At the DOE Laboratories, the investigation responsibilities may be assigned to someone other than the IAD.

The IAD shall also be responsible for required communications with the University Auditors Office.

Law Enforcement

If it appears that a crime may have been committed, campus police and Office of the General Counsel shall be consulted to determine appropriate action with regard to the investigation and legal proceedings. It is expected that UC Police will normally handle all communication with other law enforcement bodies.

In the event that campus police conduct a criminal investigation initiated under this policy Internal Audit investigators shall share information and also lend assistance to the extent specialized skills or expertise are needed or desired. An example of such assistance might be the analysis of accounting and other business records.

7200 Conducting an Investigation

Initiating an Investigation

.01 While the specific reasons for initiating an investigation will vary, there must be an adequate basis for suspecting a possible improper act. The primary factors to consider are:

- The allegation or suspicion if true, constitutes an improper governmental activity under law or a serious or substantial violation of University policy. If not, then no matter how egregious a situation or behavior may appear, it would not provide a basis for an investigation under this standard.
- An allegation should be accompanied by information specific enough to be investigated. For example, "There is fraud in the hospital" by itself, is not sufficient to begin an investigation.
- An allegation should have or directly point to, corroborating evidence that can give the allegation credibility. Such evidence may be testimonial or documentary.

Matters referred to Internal Audit for investigation that do not meet the above criteria may be appropriately reviewed as an advisory service to management provided the requisite expertise exists within or is available to Internal Audit. Matters that result from the normal exercise of management judgement are rarely susceptible to investigation, and frequently not appropriate for review as an advisory service (e.g. "fairness" of compensation, adequacy of supervision, etc.).

When an investigation is undertaken based on reported allegations by a person making an informal whistleblower report, care should be taken to clarify the matters to be reviewed. If the initial communication is verbal, it is advisable to document your understanding of the whistleblower's allegations and obtain their concurrence with your articulation of their assertions. In addition to assuring that all of the whistleblower's allegations are captured, this documentation will assist in referral of matters outside of Internal Audit's jurisdiction.

A decision to end an inquiry without an investigation or to discontinue and investigation must be documented.

7200 Conducting an Investigation

Planning for Investigations

.02 The planning of an investigation includes determining:

- What is the nature of the allegations?
- What other investigative bodies need to be involved?
- What type of evidence is needed to sustain or disprove the allegations?
- What records or other evidence needs to be secured.
- What assistance may have been required to commit the alleged improper act and is there a possibility of collusion
- What resources including specialized skill sets, are likely needed?
- What notifications are required?
- What methodologies should be used to gather, secure and analyze evidence? The methodology should include coordination of the case as a whole with non-audit personnel, whether internal to the UC or an outside party.

Documentation

.03 Within audit investigations there are two types of documentation: administrative and evidentiary. The two types of documentation should be kept discrete.

Administrative Documentation

Administrative documentation pertains to the management of the case within the University that does not have a direct bearing on evidence.

Administrative documentation includes but is not limited to materials evidencing:

- Chronologies of important events.
- Planning not pertaining to allegations or evidence (e.g. personnel scheduling).
- When, and how, the allegations reached Internal Audit's attention.
- The definition of roles within the investigation, including roles assigned in the triage process.

7200 Conducting an Investigation

Administrative Documentation (cont'd)

- Internal Audit notifications (e.g. in accordance with BFB G-29 and other management policies)
- Personnel considerations such as if and when a subject employee was placed on investigatory leave and/or terminated, if applicable.
- Operational considerations such as emergency or interim procedures that may be necessary.
- Engagement administration

Evidentiary Documentation

Gathering Evidence - Care should be taken to gather evidence so as not to compromise its admissibility. In cases that result in a deposition or a trial the person who gathered the evidence may have to testify as to the means and authority to gather the evidence. University policies exist in certain areas (e.g. electronic communications policy) which impact, but do not override, Internal Auditors' access authority as provided by The Regents.

Care of Evidence - In all cases that have the possibility of litigation or criminal proceedings, due care must be taken to preserve the integrity of all original evidence. The investigator should ensure that steps are taken to secure and protect all original evidence. This includes:

- Taking steps to ensure that evidence is not destroyed either by the subject or inadvertently by someone else.
- The use of "working copies" rather than originals for analysis
- The use of "image copies" for securing information on computer storage media.

If the case has a significant chance of a civil or criminal action being taken there should be documentation as to:

- When evidence was gathered.
- How evidence was gathered.
- How a chain of custody was maintained.
- How the integrity of the evidence was preserved.

7200 Conducting an Investigation

Evidentiary Documentation (cont'd)

Interviews - Interviews are made for the purpose of gathering information. A formal record of the interview should be generated of the interviews of all material witnesses. In addition, it is strongly recommended that two persons should conduct interviews of material witnesses including subjects. Such a record should have at a minimum, in addition to the substance of the interview, the name[s] of the interviewer[s], the interviewee[s] and the time and date of the interview. [see also witness statements]

In cases where an interview is recorded, there must be clear permission given by the witness. The interviewer should have the witness acknowledge that permission was granted on the tape. Tapes are considered original evidence. If a transcript made from the tape is used, the tape must still be preserved.

Planned Interrogations - For purposes of this manual, an interrogation is defined as a special purpose interview that has the aim of eliciting an admission of responsibility. In the law enforcement arena, interrogations are most often performed after a subject is in custody. Such a situation is often impractical and yet obtaining an admission is often necessary in order to solve a case.

It is strongly suggested that planned interrogations handled by internal audit should only be performed by seasoned investigators with the IAD present. In cases which have been reported to the Senior Vice President—Business & Finance pursuant to policy, the Director of Investigations should be consulted in advance of planned interrogations that have clear criminal implications. In all cases of interrogations in which an admission is made, a statement should be obtained if possible. If the subject refuses to make a formal statement that refusal must be noted in the record of the interview.

Witness Statements - Statements prepared by a witness should be signed by the witness in such a way as to acknowledge authorship. Handwritten statements are acceptable if legible. All statements prepared by a witness should be maintained “as is” without editing or corrections of any sort.

7200 Conducting an Investigation

Evidentiary Documentation (cont'd)

If a statement [including interview notes] is prepared by the interviewer careful proofreading must be done prior to signing by the witness. The statement should be prepared with a paragraph just above the witness signature that the statement represents the views, thoughts etc. of the witness.

7300 Communications and Reporting

Initial Notification of OP

.01 The IAD (or other designated official at the DOE Laboratories) shall notify the Office of the University Auditor in writing of any audit investigation as soon as it appears that the investigation:

- Involves resources with a value of $1,000 or more;
- Concerns corruption
- Is the result of control deficiencies which are likely to be present at other locations;
- Is likely to receive media or other public attention; or,
- May be significant for other reasons in the judgment of the IAD.

The notification to the Office of the University Auditor shall be in writing and shall to the extent known at the time of reporting include:

- Sufficient description of the allegation(s) to enable a judgement of potential significance as well as type of known or suspected improper activity;
- Identification of the department or operational unit involved;
- The alleged or potential dollar value of the activity;
- The source of funding involved;
- The source type of allegation (i.e. formal whistleblower, management, 3rd party etc.);
- A summary of the investigative workplan

A standard intake form should be used for initial notifications by IAD's to the University Auditor. The same form should be prepared by the IAD for investigations reported to the Senior Vice President—Business & Finance independent of any other notification sent pursuant to policy.

7300 Communications and Reporting

Interim Communications

.02 Reports of changes in the status of information provided above shall be made to apprise the Office of the University Auditor of the progress of investigations. Such reports should be made whenever there is a development in the investigation that materially affects the information previously provided above including but not limited to new allegations, certain allegations shown to be untrue, the entry of law enforcement or other authorized investigative body into the case, changes in the principal subject, media or other public interest and new estimates of dollars involved. In those cases that are inactive or for which there has been no change, there should be a communication of this fact monthly.

Communication of Results

.03 There are different types of reports that can be issued. Generally the differences depend on the end-users of the reports, which may in turn depend on whether any administratively or legally actionable matters were sustained in the course of the investigation.

For those investigations not reportable to the Senior Vice President—Business and Finance that result in null findings, a memo or a letter format for the report may be used. Otherwise a formal report should be issued. However, there may be cases where evidence is found that affirmatively clears a subject who is clouded with a suspicion of an improper act. In such cases, a more detailed report may be advisable.

In reports of investigations intended to be used by attorneys and law enforcement as in litigation or criminal legal proceedings, serious consideration should be given to creating a detailed report that includes references to exhibits of evidentiary matter (in addition to exhibits, which for example, tabulate a loss). Such evidence includes but is not limited to copies of original documents, signed witness statements, transcripts of interviews etc. Such a report should include all information that is relevant to a case.

For purposes of normal distribution to University officials a report does not need to contain the evidentiary exhibits.

7300 Communications and Reporting

Communication of Results (cont'd)

For audit investigations requiring notice to the Senior Vice President-Business and Finance, a draft investigation report shall be sent to the University Auditor's Office for comment prior to the issuance of a final report. The draft should be provided before findings, conclusions and recommendations have been finally communicated to management or others so as not to preclude meaningful editorial review or opportunity for changes to the draft report.

All final investigation reports or a closing memorandum shall be distributed to the University Auditor at the completion of an investigation, regardless of previous reporting requirements.

Report Format

For purposes of formal reporting, it is expected that there will normally be both an executive summary and a detailed section of the report unless the case is so simple that such a breakdown would not be warranted.

Matters dealing with the allegations or theories of improper acts should either be in a separate report from one dealing with control issues or they should be in a separate section.

Principal allegations should be dealt with and concluded upon individually. Secondary allegations, which are those dependent on the principal ones for veracity or relevance may be addressed within the principal allegation to which it is related.

Report Elements

Each report must contain certain elements no matter what type of report is issued. These elements are:

Predicate - The reason for initiating an investigation.

Hypothesis/Allegation - What must be sustained or not sustained by the investigation or preliminary evaluation.

Methodology - The method used to gather and analyze evidence.

7300 Communications and Reporting

Report Elements (cont'd)

Analysis - The reasoning that connects the methodology and evidence to support the conclusion. In memo and summary reports this section can be abbreviated, but must be sufficient enough to enable an uninformed, independent party to reach the same conclusion as that of the investigator. In reports that are intended for direct use by counsel or a DA it may include virtually all of what would be considered the evidentiary workpapers.

Conclusion - There are two overall types of conclusions: either the allegations are sustained or the allegations are not sustained.

If the allegations are sustained, the conclusion should state so, in a factual manner.

1. In matters of policy one should state that a violation of policy occurred.

2. In matters of litigation or criminality however, one should avoid making a legal conclusion. For example, one should avoid saying that "the employee is guilty of embezzlement." Rather the report should state something like "the subject is responsible for a loss of $X million and the case has been turned over to the DA for possible criminal charges."

If the allegations are not sustained there are two main types of situations.

A. In a situation wherein the investigator simply does not have the evidence to sustain an allegation, but suspicions cannot be put to rest, the report should say that there is not sufficient evidence to conclude on the allegations.

B. There may also be situations wherein the suspicions are put to rest or the allegations are affirmatively proven to lack merit. In these cases the conclusion should state that fact.

7300 Communications and Reporting

Report Distribution

Investigation reports are a special purpose type of audit report. Accordingly, all normal draft and final report distribution policies and practices, including copies to OP are applicable. Care should be taken to ensure that the addressee is at an appropriately high level of management.

In addition, certain special report distribution considerations may exist.

Subject - Unless there are reasons to withhold the report from the subject such as in the case of certain criminal matters where the police investigation is not complete, subjects should be included on the distribution of audit investigative reports. This does not relieve the investigator of the responsibility to review material facts of the case with the subject.

Whistleblower - Unless there are significant reasons to withhold the report from the original whistleblower(s), the whistleblowers should be given a copy of the final report. However, care should be exercised not to break any confidentiality in such a distribution.

8000 ADVISORY SERVICES

CONTENTS

8100 Advisory Services Overview

Policy **.01** Internal Audit should perform advisory services in a manner consistent with its charter.

Application of UC Policy **.02** Policies for the types of advisory services engagements which are performed, and issues concerning objectivity and independence are discussed in this section.

Definition

Advisory services are defined as activities designed to mitigate risk, improve operations, and/or assist management in achieving its business objectives, in which the nature and scope of the engagements are agreed upon with the client. Examples include informational resources, counsel, advice, facilitation, process design, and training.

Inclusion in Audit Plan

Internal Audit's annual plan of engagements should include anticipated advisory services. The audit planning process may include consideration of advisory services engagements to address areas considered high risk. Specific engagements that have been accepted should be included in the Annual Audit Plan along with unallocated hours for non-specified but anticipated advisory services projects.

Use in Risk Assessment

Internal auditors should incorporate knowledge of risks gained in consulting engagements into the process of identifying and evaluating significant risk exposures of the organization.

Service Limitations

Advisory services engagements should be accepted when the engagement's objectives are consistent with the current or prospective values and goals of the University. The Audit Director/Manager should refrain from providing advisory services for engagements where they feel that the audit staff cannot be objective. Further, if the internal audit staff lacks the knowledge, skills, or other competencies needed to perform all or part of the engagement, the Audit Director/Manager should decline to perform the engagement or should obtain the necessary competence either through internal or external sources.

Disclosure of Impairments

Disclosure of potential impairments to independence and objectivity should be made to the engagement client prior to accepting the engagement.

Exceptions to Policy

In most cases, advisory services engagements will be treated n accordance with this policy. However, the requirements for an advisory services plan, notification to the engagement client,

workpapers, and a formal report may be waived by the local Audit Director for fairly informal consultations such as brief telephone conversations or individual committee meetings involving limited scope contact with an audit client.

8200 Planning an Advisory Services Engagement

Policy

.01 In most cases, Internal Audit should develop and record a plan for advisory services engagements.

Application of UC Policy for Planning

.02 Adequate engagement planning requires that the consulting auditor establish an appropriate scope that addresses client concerns and relevant business risks, develop an advisory services plan, obtain the approval of the Associate Director/Manager and Director, and communicate with the client. Documentation of these planning activities is also required.

Communication with the Client

Preliminary Scope and Objectives - The review timing and preliminary engagement objectives should be mutually agreed to with the client in advance of the beginning of fieldwork.

Notification – Internal Audit management or its designate should notify appropriate parties and organizations concerning management's and audit's mutual agreement to perform a review. For ***smaller engagements requiring less than forty hours***, notification may be informal. For ***larger engagements requiring more than forty hours***, notification should generally be sent via written memo or e-mail to the engagement client with copies to senior officials as appropriate.

Entrance Conference – For larger engagements, an entrance conference should normally be conducted with the client in order to reach mutual agreement on the scope, objectives, timing, and reporting of the review. The following individuals should be invited and encouraged to attend the meeting:

- Management and their invitees responsible for the area under review
- In-charge consulting auditor
- Internal audit director, for all high-risk consulting engagements

8200 Planning an Advisory Services Engagement

Advisory Services Work Plan Development

Overview - The consulting auditor-in-charge should obtain and review relevant information about the advisory services area being reviewed that may include but are not limited to the following:

- Objectives and goals
- Policies, plans, procedures, laws, regulations and contracts having significant impact on operations
- Organizational information, such as number and names of employees, job descriptions, process flowcharts, details about recent changes, etc.
- Budget information, operating results and financial data
- Results of prior reviews (including reports of external auditors and other external parties), correspondence files and relevant authoritative and technical literature

Risk Assessment - As part of planning for the engagement, the consulting auditor should address risk consistent with the engagement's objectives and should be alert to additional significant risks. Various tools and techniques useful for audit engagements may also be useful for advisory services, such as flowcharts, questionnaires, and interviews or other inquiries, in order to identify key controls and gain an understanding of the related risk. The possibility of fraud should be considered in the preliminary assessment of risk related to the engagement.

Advisory Services Work Plan –
Work plans for consulting engagements should vary in form and content depending upon the nature of the engagement. In general, an advisory services work plan should be prepared in advance of field work and should outline:

- Objectives of the engagement
- Scope and degree of testing required to achieve the objectives in each phase of the review
- Procedures for collecting, analyzing, interpreting and documenting information during the review

- Technical aspects, risks, processes and transactions which should be examined

8200 Planning an Advisory Services Engagement

Documentation

Documentation to evidence the planning procedures should include:

- A record of mutual agreement with the engagement client of the procedures to be performed. This may take the form of an engagement letter or other communication.
- ***For larger engagements requiring over 40 hours,*** assignment sheet/workplan with scope, objectives, purpose, timing, budget, and client contacts, signed by the Associate Director/Manager and Director

8300 Conducting an Advisory Services Engagement

Policy

.01 Internal Audit maintains adequate workpaper documentation to support the advisory services conclusions reached.

Every engagement is properly supervised to ensure that consulting audit staff are adequately guided and have the requisite knowledge and skills to meet the engagement objectives.

Application of UC Policy for Conducting an Advisory Services Engagement

.02 Conducting advisory services involves examining, evaluating and documenting the information pertinent to the area under review in order to support review results.

Supervision and workpaper documentation and review throughout the advisory services process ensures goals, objectives, risks and observations are addressed and resolved. Due professional care is exercised by considering the:

- Expressed expectations of engagements clients, including the nature, timing, and communication of engagement results
- Relative complexity and extent of work needed to achieve the engagement's objectives
- Cost of the advisory services engagement in relation to the potential benefits.

Supervision

Communication – The supervisor should communicate the goals and objectives, risks and other relevant information to the consulting auditor-in-charge in order to provide the guidance and understanding necessary to conduct a high quality engagement. Advisory services objectives and other relevant information should be documented.

The Supervisor and staff should maintain regular communication throughout the advisory services engagement to ensure risks, observations, and conclusions are adequately addressed and resolved.

Workpaper Documentation

Purpose - The workpaper file documents the work the consulting auditor has done. The workpapers serve as the connecting link between the work performed by the consulting auditor and the final report. Workpapers contain the work plan, fieldwork and other documents relating to the review.

8300 Conducting an Advisory Services Engagement

Workpaper Documentation (con't)

Contents - Workpapers may include the work plan along with documentation supporting interviews, analyses and conclusions reached. All changes to the scope or advisory services work plan should be documented and approved by the Associate Director/Manager and/or Director.

Format – Advisory services engagement workpapers may be in any form prescribed by audit management (paper, tapes, diskettes, etc.). If workpapers are in a form other than paper, appropriate backup procedures should be developed and followed.

Policies and Procedures for Electronic Workpapers are included in Section 6500.

Workpaper Review

All workpapers should be independently reviewed to ensure there is sufficient evidence to support conclusions and that advisory services objectives have been met. Responsibilities for workpaper review are summarized as follows:

Manager's Responsibilities - The supervisor of the consulting auditor-in-charge should perform a detailed review of the workpapers. The Associate Director/Manager should also review and approve all changes to the scope of the engagement and the approved advisory services work plan.

Director's Responsibilities - For each ***larger advisory services engagement***, the Director should perform at least a summary review. A summary review consists of a review of planning documents, the work plan, and the summary of observations and conclusions. The Director should perform a detailed review of any workpapers that have not been subjected to a detailed review by the Associate Director/Manager or have been prepared by the Associate Director/Manager. The Director should review and approve significant changes to the scope of the engagement and to the approved advisory services work plan.

8300 Conducting an Advisory Services Engagement

Workpaper Review (con't)

If a detailed review of the workpapers has not been performed (as in the case where the consulting auditor-in-charge reports directly to the Director), the Director performs the detailed review and no summary review is required.

If the Director prepares the workpapers, the Associate Director/Manager or, if there is no Associate Director/Manager, another experienced member of the staff should review the workpapers.

Timing and extent of review - The level and frequency of review and communication during an advisory services engagement depends upon the experience of the assigned staff and the risk associated with the review.

Workpapers should be signed off and dated by the preparer and the reviewer.

8400 Reporting Results of an Advisory Services Engagement

Policy

.01 Internal Audit maintains a process for communicating the results and recommendations for all advisory services engagements to the management requesting the services.

Application of UC Policy for Reporting Results

.02 Communication of the progress and results of advisory services engagements should be tailored to meet the needs of engagement clients. The form and content of such reports may vary depending on the nature of the engagement and the services requested. The process for reporting results generally includes draft report preparation and reviews, quality assurance reviews and final report issuance and distribution.

Written Report Elements

Reports can be issued in a variety of formats. In drafting an advisory services report, the consulting auditor should consider whether the inclusion of any and all traditional audit report elements such as purpose, scope, background, summary, and observation statements would be useful to management. All results should be reviewed with management prior to being placed in final format to assure that management's needs and expectations have been met.

Oral Report Elements

In some circumstances, with the agreement of the Audit Director/Manager, advisory services results may be communicated orally. In these cases, presentations should be reviewed in advance with the Audit Director/Manager. In these cases, the workpapers should contain a record of communications with the client.

Advisory Services Report Quality Assurance

For ***larger advisory services projects***, a pre-issuance quality assurance review of draft and final written reports should normally be performed by the consulting auditor-in-charge of the engagement or an independent party and be reviewed by the Associate Director/Manager or Director. The Director should review and approve the final report prior to issuance.

Policies and Procedures for Quality Assurance report reviews are included in Section 6500.

Report Timeliness

Written and oral reports should be issued as soon as practical following the completion of advisory services work.

Management Responses

A management response to an advisory services engagement is not required.

8400 Reporting Results of an Advisory Services Engagement

Report Distribution

Written advisory services reports should be addressed to the management requesting the services. In addition:

- Information copies should be provided to the University Auditor as well as the person to whom the Audit Director/Manager reports locally.
- Other University and Laboratory officials should receive reports on a need-to-know basis, as determined by the Audit Director.
- Other University personnel may receive a report copy, at the discretion of the Audit Director in consultation with client management and other University/laboratory officials as deemed appropriate.

When reports are distributed by electronic means, a hard copy version signed by the director should be kept on file.

Significant Internal Control Concerns

Significant internal control concerns coming to the attention of the consulting auditor during the course of the advisory services engagement should be communicated in writing by Internal Audit to appropriate laboratory/campus personnel who can ensure that the results re given due consideration. These concerns should also be communicated to the University Auditor.

8500 Performing Follow-up for Advisory Services

Follow-Up Policy and Procedures

The consulting auditor should conduct follow-up only in instances where the advisory services client requests that follow-up be performed, or where significant internal control concerns have come to the attention of the consulting auditor during the course of the engagement. In these cases, normal follow-up procedures described in Section 6400 should be followed.

8600 Other Advisory Services Matters

Policy

.01 Internal Audit maintains policies for managing administrative and other matters related to the advisory service process in order to facilitate the continuing effective and efficient operation of its function.

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Application of UC Policy for Other Advisory Services Matters

.02 Policies for the following other advisory services matters are described in this section: records retention and client satisfaction surveys.

Records Retention

Advisory service projects are considered audit work products for records retention purposes.

See related information on records retention in Section 6500.

Client Surveys

For advisory services projects requiring over forty hours to complete, client surveys should be processed.

See related information on client surveys in Section 6500.

9000 QUALITY ASSURANCE

Section Overview

.01 This Section of the manual describes the quality assurance processes practiced by Internal Audit at the University of California to ensure that audit work conforms to IIA and University standards. It includes standards for local as well as system-wide quality assurance processes.

9100 Quality Assurance Processes at the Local Level

Policy

.01 Each local Internal Audit department maintains a quality assurance program in order to assist in effectively performing its appraisal function and in controlling audit risk. The local quality assurance program provides reasonable assurance that audit work conforms to IIA and University standards.

Policies and Procedures for the system-wide Quality Assurance Program are included in Section 9200.

Application of UC Policy for Local Quality Assurance

.02 The local quality assurance program consists of supervisory procedures and internal reviews. These elements of quality assurance are embedded into Internal Audit's processes rather than existing as separate processes.

Supervision

Supervision ensures that staff members receive the appropriate guidance to perform the audit work in a quality manner. Supervision is performed throughout the audit process.

Supervision Policies and Procedures are included in Section 6200.

Internal Reviews

Pre-report issuance internal reviews ensure that audit work has been performed completely, accurately, in accordance with the audit program and that findings are adequately supported by evidence included in the workpapers.

Pre-report issuance quality assurance requirements are embedded within the audit process policies included in Section 6000.

The **post-report issuance internal review** provides assurance that workpapers are complete and meet Internal Audit Department policies. The internal auditor should complete the Pre-filing Checklist included as an appendix to this section or a locally-developed equivalent to evidence compliance with this policy.

Client Satisfaction Surveys are another element of the Internal Audit Department's post-report issuance quality assurance program. They seek the client's perspective on the quality of services delivered by members of the audit department.

Policies and Procedures for Client Satisfaction Surveys are included at Section 6500.

9100 Quality Assurance Processes at the Local Level

UNIVERSITY OF CALIFORNIA
INTERNAL AUDIT DEPARTMENT
PRE-FILING REVIEW CHECKLIST

Audit _____

Pre-filing review conducted by _____ Date _____

	Standard W/P Ref.	Yes	N/A
1. Workpapers contain the following:			
• Audit assignment sheet with time budget and milestone dates			
• Audit announcement letter			
• Entrance conference notes			
• Risk assessment/audit survey results			
• Audit programs approved by the manager and/or director			
• Exit conference notes			
• Budget to actual variance analysis for material time and milestone variances			
• Summary of findings			
• Final report, cross-reference to findings			
• Attestation statements signed by the:			
– auditor			
– manager			
– director			
2. Workpapers were:			
• Cross-referenced from the audit program.			
• Signed off by the preparer and reviewer.			
3. All versions of draft audit reports have been removed from the workpapers.			
4. Coaching notes have been removed from the workpapers.			
5. Extraneous materials have been removed from the workpapers.			

9200 System-wide Quality Assurance Program

Policy

.01 Internal Audit maintains a system-wide Quality Assurance Program in order to assist in effectively performing its appraisal function and in controlling audit risk. The Quality Assurance Program provides reasonable assurance that audit work conforms to both IIA and University standards.

Policies and Procedure for local quality assurance activities are included in Section 9100.

Application of UC Policy for System-wide Quality Assurance

.02 The system-wide Quality Assurance Program consists of peer reviews and external quality assurance reviews.

Peer Review Program

The Peer Review Program reviews all local campus/lab audit organizations over a three to five year period. Peer review teams are comprised of Directors from other campuses/labs. The review is performed in accordance with the UC Quality Assurance Manual.

The UC Quality Assurance Manual is included (tbd).

The three UC labs are operated under contract with the Department of Energy (DOE), which requires that they participate in the DOE Management and Operating Contractor Peer Review Program. Under this Program, the Internal Audit Departments at each of the UC labs must undergo a peer review on a three-year cycle. Peer review teams for the labs are comprised of at least one Director from another UC lab and auditors from other DOE contractors, as needed to staff the review team.

External Quality Assurance Review

An External Quality Assurance Review is conducted once every five to seven years by a team of audit professionals from outside the University. The team reviews the overall system-wide University audit program.

9300 Quality Assurance Review Manual

Policy

.01 Internal Audit maintains a system-wide Quality Assurance Review Manual. The Manual serves as the basis for the work performed by peer review teams in connection with the System-wide Peer Review Program.