

UC MERCED INTERNAL AUDIT ANNUAL REPORT

Fiscal Year 2014–2015 in Review

Contents of Annual Report

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Internal Audit's Mission

The mission of UC Merced Internal Audit is to help UC Merced fulfill its mission of teaching, research, and service, by:

- Providing value added services that assist management in meeting their responsibilities and achieving established goals;
- Collaborating with internal customers so that services strengthen controls in order to mitigate risks and improve process efficiency and effectiveness; and,
- Ensuring compliance with University policies and external regulations.

Overview of FY 2014 - 2015

During FY 2014-2015,:

- Internal Audit completed 10 audit reports and 4 advisory services projects
- New annual risk assessment procedures were put in place so Internal Audit now closely collaborates with Compliance and Risk Services to identify and mitigate risks.
- A significant portion of hours worked by Internal Audit included working with other departments to complete various investigations
- Internal Audit worked with employees during audits and advisory services to identify distinct actions to strengthen internal controls and to improve the efficiency of processes. Management corrective actions were set up to be tracked until completion.

Issued Audit Reports

Based upon the Audit Risk Assessment, systemwide requirements, and special requests, the following audits were completed (reports are available upon request):

- Review of Travel and Entertainment Card Program
- Vice Chancellor for Student Affairs Transition Review
- Housing and Residence Life Hiring Practices
- Facilities Management Hiring Practices
- Executive Compensation
- Science and Engineering 2 Building Construction Project
- Campus-wide Hiring Practices
- Yosemite Field Station
- Payroll Processes
- IT Disaster Recovery Planning Audit

Issued Advisory Service Reports

Advisory Service projects are different from traditional audits as they focus on improving processes rather than just evaluating internal controls. As a result of the annual risk assessment and from special requests from campus leadership, reports were issued for the following advisory services (reports are available upon request):

- Student Employment
- Business Officer Responsibilities
- Building Inspections
- Early Childhood Education Center

Significant and Recurrent Issues

From audits, advisory services, the annual audit risk assessment, and discussions with employees, significant and recurrent issues were noted in the following areas:

1. Loss of critical IT systems
2. Decentralized Human Resources practices have resulted in discriminatory hiring practices
3. IT Security
4. Insufficient tracking and control of chemicals and hazardous materials used in laboratories
5. Poor oversight in Human Resources related areas

Common Themes in Significant and Recurrent Issues

Based upon significant and recurrent issues noted by Internal Audit during the last four years, the following difficult areas for UC Merced show up as significant areas during multiple years:

- IT Governance and IT Security
- Hiring practices and other Human Resources areas
- Laboratory Safety practices

Recent changes in these areas (New leadership, Reporting structures, etc.) and Internal Audit's involvement in these areas are presented on the following slides.

Significant and Recurrent Issues

Recurring Issue - IT Governance and IT Security

Actions taken to improve this area

- The current CIO arrived during 2014. The new full-time CISO took over the position during FY 2015.
- Long term steps and investment are being taken by Central IT to improve governance and IT Security.
- There will be a systemwide audit of IT Security during FY 2016.

Significant and Recurrent Issues

Recurring Issue – Hiring Practices and other Human Resources Areas

Actions taken to improve this area

- The new AVC – Human Resources was hired during FY 2015.
- Campuswide audits of Hiring Practices were completed to identify risks and needed improvements.
- The management of workers compensation claims and employee leaves were moved out of Human Resources to other areas.
- An audit of workers compensation claim processes and employee leaves will be completed during FY 2016 in order to identify past difficulties and recommend improvements.

Significant and Recurrent Issues

Recurring Issue – Laboratory Safety Practices

Actions taken to improve this area

- Environmental Health and Safety was moved under the new AVC – Campus Safety during August 2015.
- The testing and fieldwork for the Laboratory and Field Safety Audit was completed during FY 2015. The issues noted and recommendations for improvement will be presented to the new AVC – Campus Safety and the final report will be issued with management corrective actions.

Benefits from Internal Audit

The following were some benefits from Internal Audit's work during FY 2015:

Identified processes needing improvement

Examples included:

- Hiring practices by departments
- IT Disaster Recovery Planning
- Recharges and charges for stays at Yosemite Field Station

Improved governance through changes to reporting structures

Examples included Building inspectors moved from Design and Construction to Campus Safety

Completed Investigations and fact finding for Whistleblower claims

Examples included:

- Title IX
- Various departments

Benefits from Internal Audit

The following were some benefits from Internal Audit's work during FY 2015 (continued):

Provided objective evaluation of processes and operations

Examples included Early Childhood Education Center

Put together a more comprehensive approach to managing campus risks by working closely with the Ethics and Compliance Program, Compliance, and Risk Services

This includes participating on committees at various levels of the Ethics and Compliance Program

Improved Internal Controls by training employees

Examples include:

- Financial Management Certification Program presentations
- Monthly presentations to Business Officers
- Internal Audit Mentorship projects

Utilization of Employee Time

The following is a high level overview of how employee time was utilized by UC Merced Internal Audit during FY 2015.

	FY 2015 Hours	% of Time FY 2015	% of Time FY 2014
Time spent on Audits	1,667	44%	36%
Time spent on Advisory Service Projects	714	19%	40%
Time spent on Investigations	232	6%	0%
Time spent on Audit Support Activities (e.g. Audit Risk Assessment, Quality Assurance Review, etc.)	<u>171</u>	<u>5%</u>	<u>5%</u>
Total Direct Time	2,784	74%	81%
Administrative, Professional Development, Training Employees, and other Indirect Hours	1,004	26%	19%
Total hours available	3,788	100%	100%