



University of California

**Internal Audit Services
UC Davis**

**Local Report on Activities
Fiscal Year 2006**

September 2006

CONTENTS

I.	MISSION STATEMENT – SCOPE OF WORK	1
II.	EXECUTIVE SUMMARY – STATE OF CONTROL ENVIRONMENT	2
III.	SUMMARY OBSERVATIONS – AUDIT PROGRAM	3
IV.	INVESTIGATIONS	8
V.	EXTERNAL AUDIT RESULTS	10
VI.	COVERAGE OF CORE	11
VII.	MANAGEMENT CORRECTIVE ACTION	14
VIII.	LOCAL PROGRAM INITIATIVES	17
IX.	STAFFING/RESOURCES	17
APPENDICES		
	A: Internal Audits Issued – Fiscal Year 2006	18
	B: Advisory Services and Consultations – Fiscal Year 2006	19
	C: Investigations Completed – Fiscal Year 2006	20

I. MISSION STATEMENT – SCOPE OF WORK

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

OVERVIEW OF INTERNAL AUDIT SERVICES

Locally, UC Davis Internal Audit Services (IAS) proactively assists the University of California, Davis (UC Davis) Campus and Health System management in effectively discharging its administrative, legal, and fiscal responsibilities. To that end, IAS serves as an independent resource for conducting internal audits and assessments, and providing information and guidance on management of risk, cost effective controls and achievement of UC Davis's teaching and research objectives.

IAS reports administratively through the Vice Chancellor for Resource Management and Planning to the Chancellor, and functionally through the University Auditor to the Board of Regents and the University President.

The UC Davis Internal Audit Services operates offices on the Davis and Sacramento campuses and has 11 professional staff. Most staff have a professional accounting or auditing certification as Certified Public Accountants, Certified Internal Auditors, or Certified Information Systems Auditors.

IAS assists all management levels at the UC Davis Campus and Health System by providing independent reviews and appraisals of the University's activities and its components. Auditors present analyses, evaluations, and recommendations based on in-depth study of an operation or function. In making an evaluation, auditors focus on:

- ❑ Reviewing and appraising the soundness, adequacy, and application of accounting, financial, and other operating and administrative controls, as well as promoting effective control at reasonable cost.
- ❑ Determining the adequacy of policies to achieve organizational objectives.
- ❑ Ascertaining the extent of compliance with established policies, procedures, and plans.
- ❑ Determining the extent to which University assets are accounted for and safeguarded from losses of all kinds.
- ❑ Ascertaining the reliability of management data developed within the organization.
- ❑ Evaluating economy and efficiency in utilizing available resources.

- ❑ Consulting with management and reviewing operations to learn whether results are consistent with objectives and whether the operations are being carried out as planned.
- ❑ Advocating the inclusion of quality and continuity in the organization's control process.

Internal auditors have neither direct responsibility for, nor authority over, any of the activities they study. Therefore, the IAS review and appraisal process does not relieve other individuals of the responsibilities assigned to them.

IAS, in conjunction with senior campus management, develops an annual audit plan based on a risk assessment and ranking methodology adopted for use by internal audit operations at all UC campuses and laboratories. The annual audit plan program is reviewed and approved by the UC Davis Internal Audit Services Work Group and the Chancellor prior to submission to the Office of the President and the Board of Regents. The audit plan encompasses activities with the UC Davis Health System, Business and Administrative Services, Associated Students and administrative and academic units of the UC Davis campus.

II. EXECUTIVE SUMMARY – STATE OF CONTROL ENVIRONMENT

Based on internal audit and advisory service projects completed, control assessments arising from investigation activities, and representations made by management, the internal control structures over the financial and business activities of UC Davis provide reasonable assurance that:

- ❑ Resources are adequately protected.
- ❑ Financial, managerial, and operating information is accurate, reliable, and timely.
- ❑ Employees' actions are generally in compliance with policies, procedures, standards, and applicable laws and regulations.
- ❑ Resources are acquired economically and used efficiently.

In Fiscal Year 2006, from the work completed by IAS, we did not identify any material deficiencies in internal controls. Nevertheless, it should be recognized that IAS conclusion regarding the campus internal control system is not intended to imply that fraud or other irregularities do not exist. The scope of our work was not limited in any way by management or others, nor were there any instances where we considered our independence or objectivity impaired.

An effective system of internal controls at UC Davis is essential to achieving established goals and objectives and meeting the University's fiduciary responsibilities. UC Davis management is responsible for the campus internal control system and for setting the tone on the importance and need for controls in the organization. In Fiscal Year 2006, management demonstrated the recognized responsibility for the internal control system in a number of actions which included:

- Requiring departments, excluding those at the Medical Center, to use the GL Review function, which is part of the Davis Financial Information System, to perform the mandated monthly review of charges and credits to campus accounts. The GL Review function is not only a more efficient method of performing the mandated review but it also will allow management to monitor to ensure transaction reviews are completed.
- Implementing a new department financial control program for Medical Center departments for ensuring detail review of charges and credits to hospital accounts.
- Educating faculty and staff on critical research administration requirements that must be met on contracts and grants.
- Continuing to improve and strengthen the campus cyber-safety program to assure proper controls within our information systems.

III. SUMMARY OBSERVATIONS – AUDIT PROGRAM

For Fiscal Year 2006 the UCD Internal Audit Services completed 54% of its amended audit plan inclusive of both planned audits and advisory services. See Table 1 below for cumulative audit and advisory service project plans amended and completed.

Table 1

FISCAL YEAR 2006 COMPLETION OF AUDIT PLAN

Audits	
Total # of Audits Planned	40
Total # of Supplemental & Unplanned Carry forward	12
Total # of Planned Audits Dropped and/or Deferred	17
Total Audits in Plan as Amended	35
Total Audits Completed	19
Audits - Percentage Complete	54%

The Fiscal Year 2006 annual plan for the UCD audit program is comprised of a variety of assurance, advisory and investigative services with audit topics primarily identified through a risk based process. The Audit Plan strives to achieve an appropriate balance of breadth of coverage as well as depth. Four primary areas make up the audit plan for the year:

1. Risk Based Audits
2. CORE Audits (cycle based business system audits)
3. Departmental Administrative Audits (business practices audits)
4. Customer/Stakeholder requested/required audits and advisory service projects

The plan for the current year was developed using a weighted average of 10 FTEs that equated to 20,880 available hours. During the year, a delay in staff hiring and larger than expected amount of sick leave slightly reduced net available hours. The net

available hours were allocated with 51% for the audit program, 9% for advisory services, 23% for investigations, 3% for audit support activities, and 14% for administration including professional development.

The department did complete 54% of the audit plan as compared to 49% last year. Further completion of the plan was impacted by a significant increase in investigation hours, demand for additional hours to complete carryover projects, need to allocate resources for supplemental audits requested by the Chancellor and the Office of the President, and training of three new staff. Hours devoted to supplemental audit projects were significantly above the plan as they included three high profile projects concerning the Chancellor's Administrative Fund, Senior Management Group Compensation, and Senior Management Group Travel and Entertainment. The Fiscal Year 2006 audit plan included 30 projects that addressed high risk areas and during the year, two projects were added to cover high risk. Of the 32 projects, 18 were new planned projects, 2 were supplemental audits, and 12 were projects carried over from Fiscal Year 2005. Of the 32 projects, IAS completed 14 projects, 15 projects were incomplete at year end and were carried forward into the next fiscal year, and 3 projects were dropped because the areas were no longer considered high risk.

Advisory Services projects were within plan guidelines. Nearly 30% of the advisory service time was devoted to small consultation projects providing advice to management on policy development or revisions, or internal control matters.

Investigation hours totaled 3,864 or 55%, greater than planned, and 60% greater than Fiscal year 2005. IAS started 24 new investigations in Fiscal Year 2006 and this was six or 33% increase over the prior year. An analysis showed the significant increase in hours was primarily due to a 179% increase in the number of allegations investigated. IAS investigated 63 allegations on the 24 investigations completed during the year as compared to 23 allegations associated with 18 investigations in Fiscal Year 2005.

Eight of the nine planned carry forward audits completed during the year were high risk audit topics. IAS was not able to complete any of the high risk topics that were planned new audits in Fiscal Year 2006. Nevertheless, two of the projects were started during the year and five were included on the Fiscal Year 2007 audit plan. IAS efforts to address high risk was hindered by staff resources that had to be devoted to investigations, planned carry forward audits, and supplemental audits, especially those requested by the Chancellor or the Office of the President.

Following is Chart 1 showing actual hours by service area from Fiscal Year 2003 – Fiscal Year 2006. Table 2 provides a detailed analysis of the audit plan and variance to actual available hours.

Chart 1

**ACTUAL HOURS BY SERVICE AREA
AUDITS, ADVISORY SERVICES, INVESTIGATIONS
FISCAL YEARS 2003 – 2006**

Actual Hours by Service Area

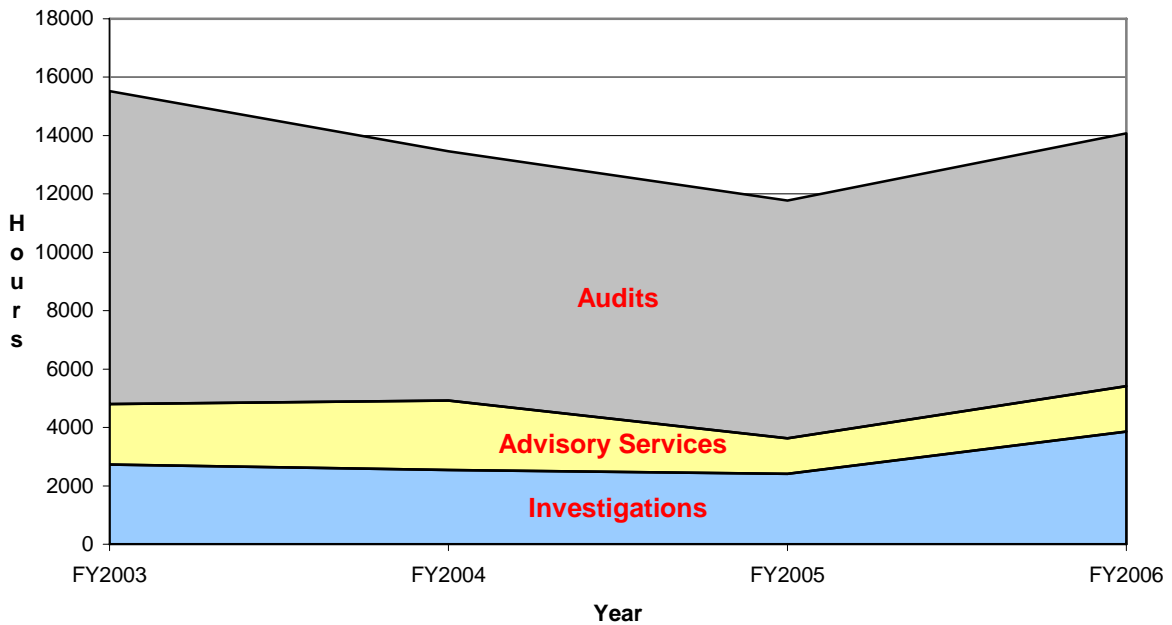


Table 2

**AUDIT PLAN TO ACTUAL HOURS
FISCAL YEAR 2006**

	Plan	Actual	Variance
Available Hour Based on Weighted 10.0 FTEs	20,880	20,546	334
Overtime	0	0	0
Admin. & Other	0	0	0
Gross Available Hours	20,880	20,546	334
Less: Non Controllable Hours	3,272	3,516	(244)
Total Net Available Hours	17,608	17,030	578
INDIRECT HOURS			
Administration	1,718	1,382	336
Professional Development	800	909	(109)
Other	36	24	12
Total Indirect Hours	2,554	2,315	239
DIRECT HOURS			
Audit Program			
Planned Carried Forward Audits	2,825	4,040	(1,215)
Planned New Audits	5,750	999	4,751
Supplemental Audits	530	2,406	(1,876)
Unplanned Carried Forward Audits	0	161	(161)
Audit Followup	850	1,052	(202)
Total Audit Program Hours	9,955	8,658	1,297
Advisory Services			
Consultations/Spec. Projects	1,278	1,216	62
External Audit Coordination	240	115	125
Internal Control & Accountability	40	75	(35)
IPA, COI & Other	0	0	0
Systems Dev., Reengineering Teams, etc.	410	143	267
Total Advisory Services Hours	1,968	1,549	419
Investigations Hours	2,500	3,864	(1,364)
Audit Support Activities	525	644	(119)
Total Direct Hours	14,948	14,715	233
Total Net Available Hours	17,502	17,030	472

See Appendices A and B for a listing of audits and advisory service projects completed during Fiscal Year 2006. A summary of some of the more noteworthy projects completed during the year are as follows:

Campus

- **Payroll Processing** - In 1996, UC Davis transitioned from a paper-based payroll system to on-line real-time transaction processing within the Payroll/Personnel System (PPS). PPS allows departments the ability to immediately update personnel and payroll information and also enter time reporting data. IAS performed a review of PPS to evaluate internal controls over the accuracy, efficiency and effectiveness of payroll processing by UC Davis departments, Human Resources, and the Payroll Services Division of Accounting and Financial Services at the Davis Campus. During our review, we performed transaction testing which disclosed a high level of errors. There appeared to be number of causes for the high error rate. UC Davis policies and procedures do not require review of timekeeping entries by department personnel, and training for individuals granted access to PPS needed to be improved. Additionally, individuals responsible for confirming the accuracy of transaction processing were not always fulfilling their responsibilities, and many of the department personnel with PPS access did not appear to have used the system to maintain the necessary knowledge and skills. Finally, there was a lack of accountability on the part of departments and individual PPS processors and reviewers who continually make errors and fail to comply with applicable policies and procedures. Accounting and Financial Services and Human Resources are working together to address the recommendations presented by IAS and improve internal controls over transaction processing.
- **School of Veterinary Medicine Pharmaceutical and Medical Supplies** - IAS performed a review of controlled substances and medical supplies at the School of Veterinary Medicine Teaching Hospital (VMTH) to evaluate internal controls which ensure compliance with applicable policies, procedures, laws and regulations, and the safeguarding of supplies. IAS determined that the VMTH Pharmacy had an extensive set of internal policies which if adhered to, provide for reasonable assurance for compliance with external laws and regulations, and promote sound internal controls over the handling and safeguarding of controlled substances and supplies. Recommendations were presented to VMTH management to strengthen practices for maintaining documentation for supply usage and for taking periodic audits of controlled substances.

Health System

- **Decedent Affairs** – A review was conducted of decedent affairs activities which included the release and disposition of remains from deceased patients at the UC Davis Medical Center. The purpose of the review was to evaluate whether existing procedures and controls were sufficient to ensure compliance with hospital and state regulations regarding both decedent affairs and specimen disposals, and the effectiveness and efficiency of internal operations. Recommendations were presented and accepted by hospital management for improving the security over the

holding area where remains were held and developing a system to ensure adequate records are maintained to document accountability of patient remains.

- Health Sciences Advancement – The department facilitates the cultivation of donors, development of community relations and the processing of gifts given to the UC Davis Health System (UCDHS). Health Sciences Advancement (HSA) processed gifts totaling approximately \$6.1 million in Fiscal Year 2006, which is 33% of the total gifts given to UCDHS. The audit identified several control weaknesses including inadequate custody and reconciliation of cash and checks; gifts that were not processed in a timely manner; lack of monthly reconciliation of departmental general ledgers and payroll reports, and improper custody of employee timecards. Management is taking appropriate action on all these matters.
- Laboratory Compliance Program - IAS, in collaboration with a contracted laboratory consultant, completed an assessment of the UC Davis Medical Center (UCDMC) Laboratory Compliance Program. The objective of the review was to determine if the compliance program established by the UCDMC Laboratory was effective and met the guidelines established by the Office of Inspector General for the Department of Health and Human Services. The audit found that the UCDMC Laboratory compliance program was substantial in compliance with federal guidelines. The review did identify potential opportunities to reduce costs and increase annual revenues. The UCDMC Laboratory needed to develop a front-end process to reduce unbilled services and potentially bill for \$1.4 million in additional services. Also, the laboratory was not billing for five services provided and if so, it would generate another \$300,000 in gross billings. All audit recommendations were accepted by UCDMC.

Additional information regarding these issues can be found in the body of the reports.

IV. INVESTIGATIONS

Investigations are coordinated and managed by a campus-wide Investigations Coordination Work Group (ICWG) that triages, assigns and tracks all allegations of misuse and improper governmental activities in accordance with the University Whistleblower policy. The ICWG meets monthly and is chaired by the Assistant Executive Vice Chancellor, who is the UC Davis Locally Designated Official.

Table 3 shows a significant increase in the number of investigations performed and the overall hours as compared to the prior year. IAS started 24 new investigations in Fiscal Year 2006 and this was six or 33% increase over last year. Investigation hours increased sharply to 3,864 and this was 1,450 hours or 60% greater than in Fiscal Year 2005. The significant increase in hours was primarily due to a 179% increase in the number of allegations investigated by IAS. In Fiscal Year 2006, IAS investigated 63 allegations on the 25 investigations completed during the year. In comparison, in Fiscal Year 2005, IAS investigated 23 allegations associated with 18 investigations completed.

Table 3

INVESTIGATIONS AS A PERCENTAGE OF TOTAL RESOURCES

Resources Dedicated to Investigations	Fiscal Year 2005	Fiscal Year 2006
Percent of Total Effort	16.6%	22.7%
Effort in Hours	2,414	3,864
Number of Investigations	23	29
Number Started During Fiscal Year	18	24

The next chart displays investigation trends according to the type of allegation received.

Table 4

**NUMBER OF ALLEGATIONS BY CATEGORY
FISCAL YEAR 2006**

UCD Allegation Category – Number of Allegations	Fiscal Year 2006	Percent of Total
Conflict of Interest		
Falsification of University Records	2	7%
Fraud	2	7%
Vendor/Third Party Fraud		
Abuse of Authority, Bribery, Kickbacks	3	10%
Theft	5	17%
Misuse of Property		
Payroll/Time Charge Abuse	5	17%
Misfeasance and Waste	5	17%
Improper Use of UC Resources	7	24%
Missing/Unaccountable Asset		
Total	29	100%

The most notable investigations completed during Fiscal Year 2006 involved:

- \$13,522 cash loss at the Shafter Research and Extension Center (SREC) located near Bakersfield and part of the Department of Plant Sciences.
- A practice established in the Department of Radiology to compensate residents for performing additional services.
- An investigation of allegations regarding improper approval and tracking of research projects involving recombinant DNA.

IAS investigated an allegation regarding the loss of petty cash funds at SREC between October 2000 and June 2005. The investigation substantiated that \$13,522 in University funds was unaccounted for or spent on unauthorized purchases by an employee, who had terminated employment with the University prior to the investigation. The IAS investigation included providing records and analysis to the Kern County Sheriffs Department, who used this information in a criminal investigation into the cash loss. The Kern County District Attorneys Office pursued the criminal case and the former employee pleaded guilty to Grand Theft and was sentenced to one year in prison.

IAS investigated a method used by the Department of Radiology to compensate residents for performing internal moonlighting services, which consisted of the residents monitoring patients for adverse reactions when imaging services were occurring. The residents were not compensated through the University payroll system but instead funds were being recorded to "book funds" in individual accounts within the University's general ledger system. By not compensating the residents through the Payroll System, funds for moonlighting were not being classified as supplemental wages and thus not subject to appropriate tax withholdings, and recorded as income on W-2s issued to the residents.

The investigation of allegations concerning the approval and tracking of recombinant DNA research resulted in IAS making eighteen recommendations to improve internal controls. The recommendations addressed improving communication between the campus Environmental Health and Safety (EH&S) Office and the Office of Sponsored Programs, improving policies, procedures, and guidance on EH&S requirements, and better information systems to monitor and track research projects using recombinant DNA.

See Appendix C for a listing of all investigations completed during Fiscal Year 2006.

V. EXTERNAL AUDIT RESULTS

As with past years, there is no formal policy in place at UC Davis regarding coordination of external audits. Current practice is for the Associate Vice Chancellor of Finance to coordinate the annual audit of UC Davis's financial statements. IAS, Accounting and Financial Services, and the affected departments share responsibility for coordination of other external audits, such as those performed by the Bureau of State Audits (BSA) and various federal agencies. Coordination responsibilities are specified on a case-by-case basis.

Some draft guidelines for coordination of external audits has been prepared and circulated for comment by members of the Committee on Research Integrity. During Fiscal year 2006, BSA performed a UC-wide compensation audit and IAS coordinated the BSA collection of records and interviews with selected staff. There were no other significant external audits during Fiscal Year 2006 at UC Davis.

VI. COVERAGE OF CORE

During the development of the UC-wide audit risk assessment methodology, it was recognized that while a risk based audit program provides the most effective use of internal audit's limited resources, cyclical audit coverage of fundamental or "core" business operations are a necessary expectation of management. However, these core business operations could fall outside of the top ten risks and not be selected for an internal audit. Accordingly, the University Auditor's Office, working with all the UC Audit Directors, identified four distinct core audit universes; Campus, Medical Center/Hospital, National Laboratory and Office of the President. In Fiscal Year 2006, there were 37 core topics covering general campus operations and 38 core topics for the Health System. The 75 core audit topics are anticipated to be completed within a 3-5 year cycle.

Core coverage at UC Davis over the past three years, and planned for Fiscal Year 2007, is depicted in the chart below. In Fiscal Year 2006, core audit coverage was impacted by the need to defer resources to completion of the special audits requested by the Chancellor and also by the Office of the President. This is reflected in the fact that thirteen campus core audits and six hospital core audits are planned to be completed in Fiscal Year 2007.

Table 5

CAMPUS CORE

Index #	Tier Label	2004 Past	2005 Past	2006 Current	2007 Future
A.d.03	Financial Aid (Tier 3)				1
A.d.06	Student Fees and Receivables (Tier 3)		1		
E.b – E.f	Research (Tier 2)				
E.b.01	IRB – Human Subjects	1			
E.b.02	IRB – Animal Subjects		1		
E.b.03	IRB - Clinical Trials	1			
E.c.01	ORU/Institutes				1
E.d	C&G Compliance				
E.d.01	C&G - Pre Award				
E.d.02	C&G - Post Award				1
E.e.01	Acctg - Extramural Fund Accounting				
E.f.01	Cost Dist - Disclosure Statements				
E.f.02	Cost Dist - Effort Reporting				
E.f.03	Cost Dist - Indirect Cost				
G	Information Technology				
G.a.02	Network Security/Management				
	Administrative Computing				
G.b.01	Software Acq, Dev, Maint				
G.b.02	Logical Security				1
G.b.03	Database Systems Management				
G.b.04	Data Center Operations				1
G.b.05	Backup and Recovery				1
G.b.06	Physical Security				1
G.a.01	Network Management				
H.b	Cash Management (Tier 2)				
H.b.01	Bank Account Admin and Rec				
H.b.02	Cashiering/Sub Cashiering		1		
	Disbursements (Tier 2)				
H.c.01	Accounts Payable				1
H.c.02	Check Requests				1
H.c.03	Entertainment				
H.c.04	Travel				
H.c.05	EFT				1
H.d	Financial Reporting/Accounting				
H.d.01	Balance Sheet Acc't Reconciliation				
	Payroll (Tier 2) - previously Tier 3				
H.e.01	Payroll Processing (Tier 3)			1	
H.e.02	Honoraria				
H.e.03	Employee Eligibility				
H.e.04	Time Reporting				
	Procurement (Tier 2)				
H.f.01	Business Contracts				
H.f.03	LVPO/Purchasing Cards				
H.f.04	Purchase Orders				
J.b.06	Human Resources & Benefits				1
K.a.01	Major Construction Projects (Tier 3)				1
L.a.05	Fund Raising and Gift Processing				1
	Total Number of Elements Covered	2	3	1	13

Table 5a
MEDICAL CENTER/HOSPITAL CORE

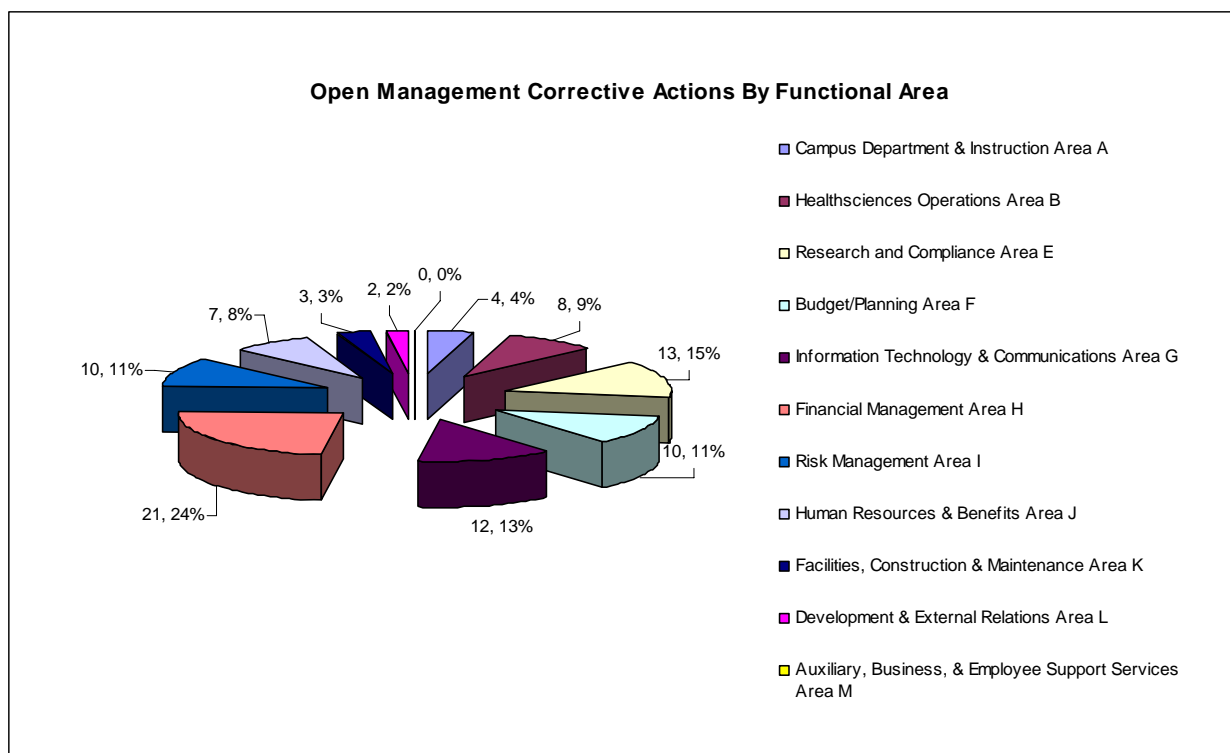
Index #	Tier Label	2004 Past	2005 Past	2006 Current	2007 Future
A.d.03	Financial Aid (Tier 3)				
B.i	Medical Billings & Receivables (Tier 2)				
B.i.01	Hospital Receivables	1			1
B.i.02	Medicare Cost Reports				
B.i.03	Physician Receivables	1			1
B.i.03	Pro Fee Compliance Review			1	
E.a	Healthcare Compliance Program		1		
E.a.01	Hospital / Facility				1
E.a.02	Home Health				
E.a.03	Laboratories	1		1	
E.a.04	Pro Fee Billing				
E.a.05	Clinical Research				
E.b – E.f	Research (Tier 2)				
E.b.01	IRB – Human Subjects Protection				
E.b.02	IRB – Animal				
E.b.03	IRB – Clinical Trials				
E.c	ORU / Institutes				
E.d.02	C&G – Post Award				1
G	Information Technology				
G.a.02	Network Security/Management				
G.b.01	Central Admin Computing				
G.b.02	Logical Security				1
G.b.03	Software Acq, Dev, Maint				
G.b.04	Data Center Operations				
G.b.05	Backup and Recovery			1	
G.b.06	Physical Security				
G.a.01	Network Management				
H.b	Cash Management (Tier 2)				
H.b.01	Bank Account Admin & Rec				
H.b.02	Cashiering/Sub Cashiering				
H.c	Disbursements (Tier 2)				
H.c.01	Accounts Payable				
H.c.02	Check Requests				
H.c.03	Entertainment				
H.c.04	Travel				
H.c.05	EFT				
H.d	Financial Reporting/Accounting				
H.d.01	Balance Sheet Account Reconciliation				
H.e	Payroll (Tier 2) - previously Tier 3				
H.e.01	Payroll Processing (Tier 3)				
H.e.02	Honoraria				
H.e.03	Employee Eligibility				
H.e.04	Time Reporting				
H.f	Procurement (Tier 2)				
H.f.01	Business Contracts				
H.f.03	LVPO/Purchase Cards				
H.f.04	Purchase Orders				
K.a.01	Major Construction Projects (Tier 3)				1
L.a.05	Fund Raising and Gift Processing (Tier 3)	1			
J.b.06	Executive Compensation & Benefits				
	Total Number of Elements Covered	4	1	3	6

VII. MANAGEMENT CORRECTIVE ACTION

During Fiscal Year 2006, IAS monitored the progress in completing agreed upon management corrective actions (MCA's) addressing management control weaknesses reported in our internal audit and advisory service reports. Timely correction of control weaknesses demonstrates management's commitment to operating in accordance with sound business practices.

Chart 2

OPEN MANAGEMENT CORRECTIVE ACTIONS BY FUNCTIONAL AREA



Not only is management's commitment to timely corrective action important, but functional areas are many times indicators of areas with increased inherent risk. Some MCA's are important enough that they are considered critical to the control environment. While all MCA's are tracked to their agreed corrective action date, prompt attention to "high risk" MCA's is critical to the University meeting its fiduciary responsibilities and being proactive in addressing significant gaps in respective systems of internal control. Below follows an aging report of all open MCA's followed by a table displaying a current year comparison of; Open, Past Due, High Risk and Past Due High Risk MCA's to the most recent quarter.

Table 6 below presents a summary of MCA activity for the year ending June 30, 2006.

Table 6

MCA ACTIVITY SUMMARY FOR YEAR ENDING JUNE 30, 2006

Open:	MCA's as of July 1, 2005	89
Additions:	MCA's Issued	133
Less:	MCA's Closed	<132>
Total:	MCA's as of June 30, 2006*	90

Chart 3

Aging Report - Open Management Corrective Actions (MCA)

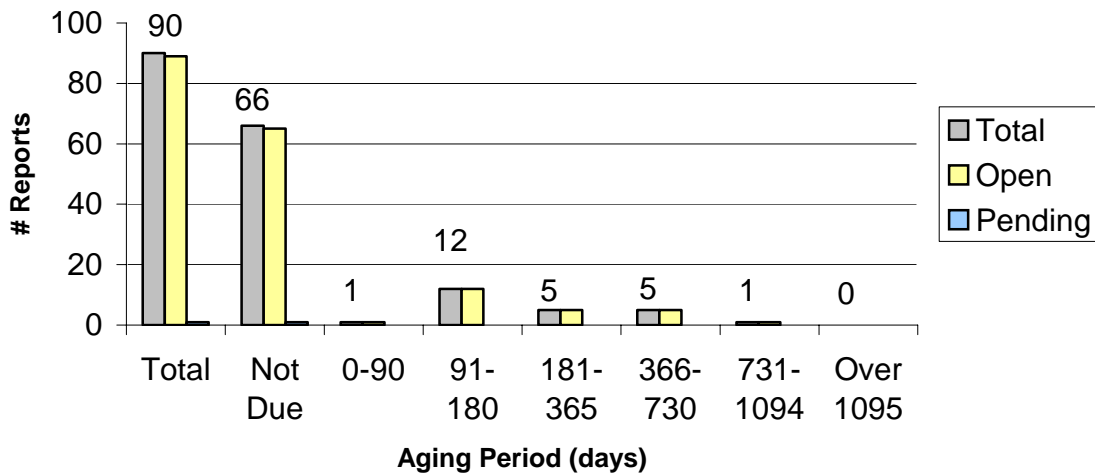


Table 7

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

MCA's	9/30/05	12/31/05	3/31/06	6/30/06
Open	98	50	43	90
Past Due	46	37	28	24
High Risk	32	15	14	20
Past Due – High Risk	32	15	14	4

The following is a summary of High Risk MCA's which are past due:

OPEN, PAST DUE, HIGH RISK MCA DETAIL

Report Number	Report Title	Report Issue Date	MCA Number	Months Past Due
04-25	Conflict of Interest/Conflict of Commitment	3/25/05	04-25.A.4.a	8
<p>MCA –The University Compliance Task Force is to develop a research compliance program which will require additional training at all levels of research. Status – Training of Conflict of Interest Administrative Advisory Committee (COIAAC) members will be held in October 2006. The Office of the Vice Chancellor for Research (OVCR) is relying on mandatory on-line ethics training being developed by UCOP for roll-out in November 2006 to provide training regarding conflict of interest to others in the research community.</p>				
04-25	Conflict of Interest/Conflict of Commitment	3/25/05	04-25.C.1	6
<p>MCA – UC Davis Policy and Procedure Manual (PPM) 230-05, Financial Disclosure Requirements, will be updated to address research related conflict of interest issues. Status – Revisions to PPM 230-05 are currently underway. IAS has communicated with OVCR regarding the elements that must be present in the revised policy in order to close the MCA, and is engaged in ongoing meetings with policy stakeholders to help facilitate completion of the policy revisions.</p>				
04-14	Donated Body Program	6/30/04	04-14.B.1	18
<p>MCA – The Department of Cell Biology and Human Anatomy will ensure appropriate system enhancements are made to prevent inventory record changes by employees who are involved in the custody and management of donated bodies or body parts. Status – An inventory database is being developed by UCOP, and closure of this MCA is dependent upon the successful roll-out and implementation of this database. Because this MCA requires action at the system-wide level, the University Auditor has determined that this MCA will become part of the outstanding MCA's for UCOP in lieu of UCD.</p>				
04-33	Gift Processing Identity Theft	1/1/06	04-33.B-02	6
<p>MCA – University Relations (UR) will work with the Internal Controls Division of Accounting and Financial Services (A&FS) to undergo an assessment of its credit card processing practices, including web based credit card transactions. Status – Conditional approval for use of an alternative credit card processing method (outside of the Campus gateway) was granted by the Vice Chancellor for Administration. UR is working with A&FS to resolve outstanding issues related to the conditional approval.</p>				

VIII. LOCAL PROGRAM INITIATIVES

During Fiscal Year 2006, IAS continued to present a training class offered through UC Davis Staff Development and Professional Services entitled, "How to Survive an Audit". The class focuses on both internal and external (primarily regulatory) audits, and provides participants with some practical guidance for preparing for and working with the auditors. The class also addresses some of the high-risk issues that can arise in regulatory audits, such as effort reporting, allowable versus unallowable costs, and other, similar topics. Reviews of the class by participants have been highly favorable to date.

IX. STAFFING/RESOURCES

IAS has authorized staffing of 11 FTE that is divided evenly between the general campus and the Health System. Starting in January 2006, the department was fully staffed for the first time since Fiscal Year 2003. As in prior years, the department has been challenged to have adequate staffing to meet the core audit requirements and at the same time, address all the areas which have been identified as high risk. We are working with the Office of Resource Management and Planning and Budget to evaluate the office staffing and anticipate making a proposal to augment the general campus staff over the next few years.

Appendix A: Internal Audits Issued – Fiscal Year 2006

Date Issued	Report Number	Title	Type	LOB
07/29/05	05-34	Campus Cashiering Review	Audit	Campus
12/6/2005	03-61	Graduate Extended Studies	Audit	Campus
3/24/2006	05-11	SOVM Pharmaceuticals and Medical Supplies	Audit	Campus
4/19/2006	04-66	Payroll Processing	Audit	Campus
5/15/2006	06-26	Select Agents	Audit	Campus
6/15/2006	04-46	Operations & Maintenance	Audit	Campus
6/23/2006	05-31	Ethics Policies	Audit	Campus
06/23/06	05-42	Division of Biological Sciences Admin. Review	Audit	Campus
6/28/2006	06-44	Compensation	Supplemental	Campus
7/27/2005	05-44	Decedent Affairs	Audit	Health System
8/31/2005	05-54	Hospital Census	Supplemental	Health System
09/30/05	05-21	UCDMC AP Controls Assessment	Supplemental	Health System
12/19/05	06-27	Cell Bio DaFIS Transactions	Supplemental	Health System
12/21/2005	06-28	HIPAA Security Program	Supplemental	Health System
03/02/06	05-40	Pro Fee Compliance Program Review	Audit	Health System
03/02/06	06-24	Corporate Compliance Annual Report Review	Audit	Health System
5/2/2006	05-56	Dept. of Radiology	Supplemental	Health System
06/23/06	04-64	Disaster Recovery Planning	Audit	Health System
6/27/2006	05-51	Laboratory Compliance	Audit	Health System
06/28/06	05-41	Health Sciences Advancement	Audit	Health System

Appendix B: Advisory Services and Consultations – Fiscal Year 2006

Date Issued	Report Number	Title	Type	LOB
7/6/2005	05-15	DaFIS Electronic G/L Review	Advisory	Campus
11/7/2005	06-37	Chancellor's Expenses	Advisory	Campus
3/2/2006	06-31	E-Mail Record Retention	Advisory	Campus
05/26/06	06-36	FIMAS Consultation	Advisory	Campus
6/7/2006	06-29	How to Survive an Audit	Advisory	Campus
06/22/06	06-11	Travel and Entertainment System Committee	Advisory	Campus
6/30/2006	06-46	Cyber Safety Assessment Validation	Advisory	Campus
07/26/05	05-63	Relay Health Contract	Advisory	Health System
10/31/05	06-18	UCDHS Entertainment Delegation	Advisory	Health System
12/21/05	06-22	Financial Guidance - Recognition Events	Advisory	Health System
03/29/06	06-16	SOM Resident Support	Advisory	Health System
06/30/06	06-15	UCDHS Access to University Resources	Advisory	Health System

Appendix C: Investigations Completed – Fiscal Year 2006

Date Issued	Report Number	Title	LOB
11/18/2005	06-20	Compensation & Immigration Practices	Campus
11/30/05	05-62	Shafter Research Center Cash Loss	Campus
12/14/2005	06-19	Grant Management	Campus
02/07/06	05-59	EH&S DNA	Campus
04/07/06	06-48	LANL Transactions	Campus
5/24/2006	06-42	Instructor Compensation	Campus
6/13/2006	06-52	Research Program Support Compensation	Campus
6/16/2006	06-62	Anthropology IGA	Campus
6/27/2006	06-65	Mechanical & Aeronautical Engineering	Campus
7/21/2005	05-57	Six Flags Contract	Health System
07/22/05	06-17	Clinical Trial Payments	Health System
9/19/2005	05-52	EMR Consultant	Health System
11/28/05	05-61	Radiology Travel	Health System
12/15/05	06-23	PCN Gratuities	Health System
2/24/2006	06-39	Holiday Party Funding	Health System
3/7/2006	06-49	Phone Misuse	Health System
03/15/06	06-25	ER Radiology Supervision	Health System
3/23/2006	06-34	Clinic Cashiering Controls	Health System
3/24/2006	06-53	OB-GYN Phone Misuse	Health System
04/04/06	06-21	Radiology Resident Compensation	Health System
4/7/2006	06-30	CIS Expense Review	Health System
05/02/06	06-38	Healthy Aging Entertainment	Health System
5/26/2006	06-50b	PCN Compensation	Health System
6/9/2006	06-56	Moving Expenses	Health System