UNIVERSITY OF CALIFORNIA
SYSTEMWIDE REVIEW – ASSESSMENT OF FRAUD RISK MANAGEMENT
JUNE 27, 2011

In accordance with the annual audit plan, the University of California (UC) Internal Audit conducted a system-wide assessment of fraud risk management.

Each location has issued a report covering their local observations, and any applicable associated corrective actions planned by management. The purpose of this summary report is to provide an overview of the systemwide observations and communicate any issues that should be addressed from a systemwide perspective.

I. PURPOSE

The purpose of this assessment was to document the methods by which local UC management addresses fraud risk, to assess the comprehensiveness of the program, and to evaluate the effectiveness of the program as a whole. Testing of the effectiveness of individual transactional or process controls which may be included in fraud risk management efforts was beyond the scope of this review.

II. BACKGROUND

Effective January 1, 2009, the Institute of Internal Auditors revised its *International Standards for the Professional Practice of Internal Auditing* to include the following new Standard:

> **2120.A2 Risk Management –** The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

The systemwide audit program was developed to guide UC auditors in the conduct of an assessment of local fraud risk management programs to demonstrate compliance with this standard.

III. SCOPE

The scope of this review encompassed fraud risk management in the campus, lab and UC Office of the President environments. A separate review of fraud risk management in the health sciences environment is planned to be be conducted by the campuses with academic medical centers in the future. UC Merced was excluded from this review.

The scope of the review was limited to a review of policy and procedures, observation and interviews or surveys with management. Testing of the effectiveness of individual transactional or process controls which may be included in fraud risk management efforts was beyond the scope of this review.

The scope of the review included review of the following fraud risk management components:

- Control environment
- Risk Assessment
- Control Activities
- Information and communication
- Monitoring

IV. OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT CORRECTIVE ACTIONS

Observation	Detail	Management Actions
1. Formal fraud risk management programs have not been established	All campuses reported the lack of a formal fraud risk management program, citing that: • Roles and responsibilities for fraud risk management are not formally assigned • Fraud is covered through many different functions within the campus so formal program not needed • Policies and procedures are not defined • Training needs enhancement to include fraud schemes and red flags	At the system-wide level, guidance will be issued by the Office of Ethics and Compliance Services addressing the importance of fraud risk management and providing recommendations on how roles and responsibilities for fraud risk management at the campus level might be addressed. The following actions are being taken at the local level to enhance campus fraud risk management programs: • Assignment of fraud risk management responsibilities • Enhancement of local policies and procedures to provide guidance specific to managing fraud risk • Establishment and/or enhancement of local training programs to include specific reference to fraud schemes and red flags for fraud
2. Fraud Risk Assessments have not been performed	While not required by law or UC requirement other than IIA standards, entity-wide fraud risk assessments are not performed using a repeatable and consistent process at the local level.	At three campuses, there are plans to implement entity-wide fraud risk assessments using a repeatable and consistent process.
3. Control activities to mitigate fraud risk need enhancing	Several campuses reported that control activities to mitigate fraud risk require enhancing. The following issues were noted at multiple campuses: • Exit Interviews are not required or do not include fraud-specific questions (4 campuses) • Automated continuous monitoring of high risk transactions is not performed or could be expanded (4 campuses) • Employees, contractors and business partners are not required to acknowledge awareness and compliance with UC ethics, code of conduct and whistleblower policies (5 campuses) • Conflict of interest disclosure policies and procedures need enhancement (2 campuses)	Fraud-related control activities are being added or enhanced at the local level to address the specific control issues noted. At the systemwide level, UC Strategic Sourcing will incorporate a reference to the Whistleblower Policy in the standard request for proposal template, contract documents, and Business and Finance Bulletin (BFB) B 43 – Materiel Management.