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October 3, 2018

**DEPUTY CHIEF INFORMATION OFFICER RUSSI
EXECUTIVE DIRECTOR FISHEL**

RE: Final Report Project No. P18A001: UCPATH Center Controls

Attached is a copy of the final report for: Audit Services Project No. P18A001 UCPATH Center Controls. With the issuance of this final report, please destroy any previous draft versions. We very much appreciate the assistance provided to us by you and members of your staff during our review. If you should have any questions please feel free to contact me at 510-987-9646 (email: matthew.hicks@ucop.edu).

A handwritten signature in black ink, appearing to read "Matt Hicks".

Matt Hicks
Systemwide Deputy Audit Officer

Attachment

cc: Senior Vice President Bustamante
Director Allison
Systemwide Audit Manager Cataldo
Senior Manager Krattiger
Manager Barraza
Staff Accountant Ahmed
Contractor Weiss
Contractor Geib

UNIVERSITY OF CALIFORNIA
ETHICS, COMPLIANCE AND AUDIT SERVICES
OFFICE OF THE PRESIDENT
INTERNAL AUDIT SERVICES

UCPath Center Controls Audit
Audit No. P18A001
July 2018

Audit Conducted by:
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Executive Summary

Introduction

The UCPATH Center, located in Riverside California, is the transactional hub responsible for processing, centralizing, and standardizing the HR and payroll processes for the UC system. Once fully operational, the UCPATH Center will serve as the central location for human resources, payroll, benefits, general ledger, work force administration, and academic processes; and provide transaction processing services for nearly 200,000 employees across all UC locations.

The University of California Office of the President (UCOP) became the first location to launch UCPATH on November 30, 2015, and in January 2018, the pilot deployment consisting of UC Riverside, UC Merced, and The Associated Students of UC Los Angeles (ASUCLA) went live. The UCPATH Center plans to gradually onboard the remaining locations over the next year and a half, with all locations tentatively scheduled to be on-boarded by September 2019.

In June 2015, Internal Audit conducted an internal control design review at the UCPATH Center as part of the UCOP fiscal year 2014-2015 audit plan. As a follow up to the previous review performed, Internal Audit conducted an audit of select internal controls for operating effectiveness as part of the 2017-2018 audit plan. The purpose of this audit was to identify areas of risk around the operation of controls and opportunities for improvement in preparation for the launch of additional UC locations over the next 12 to 18 months.

Objectives and Scope

The primary objectives of the audit were to:

- Evaluate the operating effectiveness of internal controls within in-scope processes at the UCPATH Center.
- Evaluate activities in place to monitor internal control effectiveness at the UCPATH Center for potential improvement opportunities.

The following UCPATH processes were considered for this audit. Based on discussions with UCPATH leadership, the processes denoted with an (*) were deemed significant and were selected for further evaluation as part of this audit.

Absence Management	*Payroll
*Benefits	Records & Fulfillments
*Configuration Table Maintenance	Time and Attendance
Compensation	*Security Administration
*General Ledger	Workforce Administration

The audit scope included transactions during the period of April 1, 2017 to March 31, 2018.

In addition, Internal Audit inquired of the UCPATH Center Finance Department to gain an understanding of the current activities in place to monitor internal controls. Specifically, Internal Audit assessed the methodology (i.e., scope, sampling, etc.), frequency of the activities, individuals responsible for performing monitoring activities, monitoring and tracking of control deviations and remediation plans, and reporting of results to senior leadership.

Procedures Performed

To accomplish the audit objectives, Internal Audit performed the following:

1. Obtained and reviewed current state documentation, including risk and control matrices from the fiscal year 2014-2015 audit and UCPATH Center Reference Guides to gain an understanding of key processes.
2. Interviewed UCPATH Center Leadership including the Interim Director and Finance Manager to identify processes and related internal controls that should be considered in-scope for the audit. The following factors were identified to determine inclusion of in-scope processes and controls:
 - a. Complexity of transactions/process
 - b. History of ineffectiveness or other issues
 - c. Level of change within process (including personnel)
 - d. Volume of transactions
3. For each of the processes identified in step #2, obtained the current list of internal controls and interviewed process owners to a) validate the design of controls and b) identify controls deemed in-scope for testing based on the considerations above. As necessary, Internal Audit updated control descriptions to reflect current activities in place.
4. For each in-scope control identified in step #3, conducted internal control testing according to defined testing attributes and assessed each control for operating effectiveness. Observations identified were validated with process owners and documented.
5. Lastly, inquired with the Finance Manager to gain an understanding of activities in place to monitor internal control effectiveness within the UCPATH Center, including:
 - a. Methodology (scope, sampling, documentation, areas of focus) and frequency
 - b. People and organization
 - c. Policies and procedures
 - d. Monitoring and tracking of internal control deviations and remediation plans
 - e. Reporting to senior leadership (results, remediation status)

Based on the inquiry performed, Internal Audit identified opportunities to improve internal control audit activities at the UCPATH Center and results were documented within an observation log.

Conclusion

Based on the audit steps performed, process owners appear to have a detailed understanding of key business activities, seek to continuously improve the control environment, and adapt processes to meet transactional complexities. The UCPATH Center has established a defined set of internal controls for each business process, maintained current reference guides to support processing activities, and allocated resources to perform internal control and operational audits. In addition to the strengths identified, during the review of internal controls, Internal Audit noted instances of controls not operating effectively during the in-scope period and opportunities to

strengthen the design of internal controls. Specifically, of the 20 controls evaluated for operating effectiveness:

- We noted a number of internal controls that are ineffective due to one of the following reasons: a) lack of independent review or lack of evidence to support independent review, b) ineffective performance of the control, c) missing approvals, or d) lack of evidence to support performance of the control activity. Internal Audit did not identify any errors in review of transactions processed within the controls deemed not operating effectively.
- We identified control design enhancements to strengthen activities around the monitoring of AR Aging and system configuration changes.
- We identified control gaps around monitoring of developer changes in production and review of the Production Checklist by Payroll to verify completeness of all required tasks.

Additionally, Internal Audit identified a number of process improvements to improve internal control monitoring activities at the UCPath Center. These process improvements include, but are not limited to:

- a) establishing a defined methodology and approach for identifying and conducting audits;
- b) enhancing the tracking and monitoring of management action plans;
- c) improving UCPath leadership reporting on internal audit and management audit activities;
- d) increasing awareness amongst UCPath personnel around the objective, scope, and value of UCPath management audit activities to enhance buy-in and collaboration; and
- e) designing a monitoring function that is scalable to meet the increased transactional volume as additional campus locations are onboarded to UCPath.

Actions developed by the UCPath Center to address the observations identified by Internal Audit during this review will strengthen business processes and increase effectiveness of operations. In several instances, Internal Audit found business units were in the process of implementing action plans prior to the issuance of this report.

Opportunities for Improvement and Action Plans

Benefits Process

1. Lack of Evidence of Independent Review of Annual Benefits Base Rate (ABBR) Adjustments

Internal Audit noted 7 of 17 ABBR adjustments tested did not have evidence of independent review retained within the system. Per discussion with the Benefits Operations Supervisor, independent review of ABBR adjustments was not required until after September of 2017 and Internal Audit noted 6 of the 7 adjustments occurred prior to this time. For the remaining adjustment, the Benefits Operations Supervisor indicated the ABBR adjustment was reviewed independently by the Benefits Associate, however no evidence of review was documented in the

system. According to the Benefits Operations Supervisor, the current process for documenting evidence of review is manual and not a required field within the system; therefore opportunity exists for users to complete an adjustment without evidencing review. Without evidence to support an independent review of ABBR adjustments in the system, outside parties (e.g., auditors) will not be able to validate the review occurred.

Action Plan:

In the short term, the Benefits Operations Supervisor at UCPATH will a) re-train employees reviewing ABBR adjustments to document evidence of review within the system. This was completed May of 2018, the Benefits Processing Team was retrained by the BN Processing Supervisor on the ABBR process as well as provided the updated DRG and checklist; and b) review procedure documentation to verify steps include documenting evidence of review. Review of ABBR adjustments will be evidenced to substantiate that the adjustment was independently reviewed for accuracy. This was completed at the beginning of May 2018. BN processing Supervisor and the Transfer process SME updated BN.29, "BN Transfer of Benefits" DRG to include steps for documenting the verification of the updated ABBR's in case. When the DRG was updated, we also updated our Transfer process checklist to include a step to document the updated ABBR verification in case.

In the long term, the Benefits Operations Team will collaborate with Salesforce Administrator at UCPATH to explore opportunities to enhance functionality within the Salesforce system to track processor input and review / approval for ABBR adjustments via task query. This query will allow Benefits team members the opportunity to record review directly within the system. The Benefits Team will run system audit queries and monitor for appropriate approval of ABBR adjustments in a more efficient manner. This query has been created and implemented in the Benefits Processing Team effective September 2018. In addition, the Benefits Processing Team has performed an audit of all ABBR tasks from January 2018 through current, and will continue performing the audit moving forward.

Target Date: *The Completion of Short Term solution was achieved in May 2018. The Long Term solution was implemented in September of 2018 and a retroactive audit was done back to January of 2018.*

Payroll Process

2. Insufficient Review Procedures for Vendor Additions

Our review of the February 2018 Vendor Master File noted that the Vendor Master File did not detect all vendor changes that occurred in the month. Specifically, one new vendor was not identified during review of the Vendor Master File. Per discussion with the Banking Supervisor, new vendors are isolated by identifying the last vendor from the previous month's file and reviewing all vendors that appear on the current month's file, however, the missed vendor did not appear at the end of the February Vendor Master File listing and was overlooked as a new vendor. Although the missed vendor was deemed to be an appropriate vendor, it was not detected as a new vendor during review. There is a risk new vendors or changes to existing vendors may not be identified, resulting in fraudulent or unauthorized vendors.

Action Plan:

In the short term, the Banking Supervisor will coordinate with the UCPATH Center Reporting Team to add a field to the Vendor Master File Report indicating the date the vendor was modified. The Banking Supervisor will then use this field to identify changes / additions to the Vendor Master File by filtering this column for dates that occurred during the month being reviewed.

In the long term, there is an initiative underway (PMO-4234 Update E-388) to turn on the database auditing functionality for vendor changes. This will allow the Banking Supervisor to generate a report detailing any change / addition / removal of vendors that occurred during the period in which the report was generated. The UCPATH Center Reporting Team will be responsible for validating and testing the Vendor Audit Report for completeness and accuracy of data before placing the report into production.

Target Date: August 1, 2018 completion date - report created and implemented.

3. Final Review of the Payroll Process Checklist for Completeness was Lacking

Internal Audit noted 4 of 5 pay runs tested had a Payroll Processing Checklist with payroll validation tasks missing evidence to support the task was completed prior to payroll processing. Per discussion with the Payroll Supervisor, it was noted there is not a documented control in place to review and validate all tasks were completed on the final checklist. Without a final review of the Payroll Processing Checklist, there is a risk steps required to validate completeness and accuracy of the payroll data may not be performed, and incorrect or incomplete payroll information may be processed.

Action Plan:

The Payroll Supervisor will perform a final review of the Payroll Checklist for each pay run to verify 1) all steps were completed, 2) all hard errors were resolved, and 3) evidence of completion for key activities was documented. The Payroll Supervisor will ensure that all items not applicable on the checklist are noted via "N/A" and include explanation as to why the step was not performed. The Payroll Supervisor will complete the review within one business day subsequent to completion of the checklist to ensure timely review, and will evidence review via sign-off and date on the checklist.

Target Date: Action completed in April 2018 prior to issuance of the report. The Payroll Checklist was updated on 4/16/2018 to reflect a final audit to be completed by the supervisor the day after payroll confirmation. All secondary reviews, including final checklist audit are highlighted in pink on the checklist.

On 7/20/18, the master checklist was moved into a secured folder on Sharepoint. This allows all changes made to the checklist to be audited and documented, and now is only accessible by staff with the security role of PY Assistant, PY Associate, PY Supervisor or Production Manager.

4. Lack of Independent Review of Final Pays and Off-Cycle Checks

Internal Audit noted 6 of 39 FR-025 forms used to process final pays and off-cycle checks did not have an independent preparer and reviewer. For the 6 FR-025 forms missing independent review, all were dated prior to August 2017. Per discussion with the Business Analyst, an independent

review was not in place prior to August 2017 due to insufficient staff to support a review process. Without an independent review of the FR-025 form, there is a risk that an employee's final paycheck or off-cycle paycheck may be incorrectly processed, potentially resulting in over or under-payment to the employee.

Action Plan:

The Payroll Manager confirmed an independent review of the FR-025 form was required as of August 2017. Further, Internal Audit did not identify any issues with samples dated during the period September 2017 - March 31, 2018. To further reduce the risk, the Payroll Processing Team will update the FR-025 form to include a "prepared by" and "reviewed and processed by" field to clearly evidence transactions are independently reviewed.

Target Date: *Independent review of FR-025 forms was implemented in August 2017, and the update to the FR-025 form was implemented in April 2018, prior to the issuance of this report. The field "prepared by" was added to the FR-025 form on 1/30/18. On 4/24/18 the FR-025 form was updated to include the field "QC validation by" to clearly evidence transactions are reviewed independently.*

5. Untimely Review of Payroll Adjustments

For 10 of 46 payroll adjustments tested during the audit period, Internal Audit noted the following:

- 8 Adjustment Confirmation Pages reviewed did not have sign-off from the Payroll Supervisor evidencing review of the adjustment.
- 2 payroll adjustments tested were missing the confirmation page evidencing review.

The payroll adjustments tested had not been reviewed as of the audit date (April 2018). Further, Internal Audit noted a back-log in review of adjustments; which resulted from increased transaction volume from the additional locations on-boarded to UCPath in January 2018. Internal Audit noted the payroll adjustments with exceptions were processed during the months of February and March 2018 and were more than 30 days aged as of the audit date, indicating a lack of timely review. Without timely review of payroll adjustments, there is a risk adjustments are not accurately processed, potentially resulting in over or underpayment to the employee or incorrect withholdings for benefits and taxes.

Action Plan:

As there are currently two levels of review (initial review by the Adjustments Supervisor and a final review by the Payroll Manager), the Payroll Manager will provide additional training to the Adjustments Supervisor on required review procedures to effectively detect issues during review of payroll adjustments. The Payroll Manager will then perform a review of a sample of adjustments to verify effectiveness of the Payroll Supervisors review and evidence review accordingly on the Adjustment Confirmation Page.

Additionally, in the long term, the Reconciliation team and the Payroll Manager will conduct a quarterly spot check. The actual process has established and. Payroll plans on determining the selection count to review by 10/31/18.

Target Date: *August 1, 2018 completion date for training and transitioning to the supervisor with manager spot checks.*

6. No Evidence of Review of Monthly AR Aging Report

Internal Audit reviewed the AR Aging Report for three months and noted no evidence was available to support review by the Payroll Manager and Operations Director for each of the three months tested. Per discussion with the Banking Supervisor, the Payroll Manager and Operations Director met to discuss each of the aged balances in person, however, evidence that this discussion occurred was not formally documented and further, evidence of review was not included in the control activity design. Due to a lack of evidence of review within the design of the control, there is a risk outside parties (e.g., auditors) will not be able to substantiate the review occurred.

Action Plan:

The Payroll Manager and Operations Director will meet once a month to review the AR Aging Report. The Payroll Manager and Operations Director will sign and date the report to evidence review was performed. The review will occur within one month following the end of the month being reviewed to ensure timeliness.

Target Date: *August 1, 2018 completion date - review and summary sign off have been implemented.*

Configuration Table Maintenance Process

7. Insufficient Evidence to Support Approval of Configuration Changes

Internal Audit noted 5 of 25 configurations changes tested did not include documented evidence of approval. According to the Senior Functional Manager, approvals may be verbal (usually when changes are time sensitive), may be documented via e-mail, or may be documented in comments within the JIRA ticketing system. However, as UCPath management was unable to locate additional support or provide evidence of approval, Internal Audit was unable to validate approval was obtained for the configuration change. There is a risk configuration changes may not be approved prior to implementation and / or evidence may not exist to substantiate an approval occurred.

Action Plan:

The Senior Functional Manager will re-instruct ITSS employees to ensure appropriate approval is documented in the JIRA system prior to implementing a configuration change. In addition, the ITSS Department will require entry of configuration changes in JIRA and approval by the Manager – COE and Production Operations Director (or delegate) as evidenced via comments in the JIRA system. Additionally, the Senior Functional Manager will update procedure documents to reflect that the ITSS Team will validate appropriate approval and evidence of approval prior to implementing the change in production.

Documentation will be updated and distributed by 8/31/18. A follow up meeting will be held to clarify any questions by 9/30/18.

Target Date: *The configuration change management documentation has been updated and reviewed with COE, Production and ITSS team leads responsible for managing/approving all*

configuration changes. We will schedule an additional follow-up to review progress and assess compliance by 9/30/18.

8. Insufficient Evidence to Support Review and Testing of Configurations Changes Prior to Production Release

Internal Audit noted 10 of 25 configuration changes selected for testing did not include sufficient evidence (testing or approval) to substantiate timely review of the configuration change by an appropriate individual prior to releasing the change into production. Specifically:

- 6 of 10 configuration changes were missing evidence to support review of pre-production configuration testing prior to release.
- 2 of 10 configuration changes did not include documentation to support testing of the configuration change pre-production (Internal Audit noted there were comments in the JIRA system stating that testing occurred).
- 2 of 10 configuration changes did not include evidence of the user who performed pre-production testing of the configuration change to ensure appropriate level of review (Internal Audit was able to obtain supporting documentation demonstrating that testing occurred).

There is a risk configuration changes may not be adequately tested prior to production release and / or changes released into production may not have the desired effect or outcome due to inadequate testing. Further, there is a risk UCPATH may be unable to substantiate testing and approval of pre-production changes due to insufficient evidence.

Action Plan:

The Senior Functional Manager will re-instruct ITSS employees on requirements for testing of configuration changes prior to implementing the change into production. Specifically, evidence of testing performed will be documented in comments within JIRA, including tester name and User Acceptance Testing (UAT) approvals. Documentation supporting pre and post production testing will also be attached to configuration change incident within JIRA. ITSS employees will be responsible for ensuring the above requirements are met and all required evidence of review and approval are documented within the JIRA system prior to implementing the change within production. The Senior Functional Manager will update procedures documents to reflect the pre-production testing requirements for configuration changes.

Documentation will be updated and distributed by 8/31/18. A follow up meeting will be held to clarify any questions by 9/30/18.

Target Date: *The configuration change management documentation has been updated and reviewed with COE, Production and ITSS team leads responsible for managing/approving all configuration changes. We will schedule an additional follow-up to review progress and assess compliance by 9/30/18.*

9. Insufficient Evidence to Support Review of Configuration Changes Subsequent to Production Release

Internal Audit noted 15 of 25 configuration changes selected for testing did not have evidence of post-production review. There is a risk configuration changes may not be adequately tested prior to production release and / or changes released into production may not have the desired effect or outcome due to inadequate testing. Further, there is a risk UCPATH may be unable to substantiate review of post-production changes due to insufficient evidence.

Action Plan:

The Senior Functional Manager will re-instruct the ITSS Team to ensure the UCPATH Center Production Team validates configuration change functions in accordance with the intent of the original configuration change request after the change is implemented into production. The ITSS Team will ensure the UCPATH Center Production Team evidences the production validation review via comments within the JIRA system. The Senior Functional Manager will update procedure documents to reflect the requirements for validating the change after it is implemented into production.

Documentation will be updated and distributed by 8/31/18. A follow up meeting will be held to clarify any questions by 9/30/18.

Target Date: *The configuration change management documentation has been updated and reviewed with COE, Production and ITSS team leads responsible for managing/approving all configuration changes. We will schedule an additional follow-up to review progress and assess compliance by 9/30/18.*

10. Lack of Defined Policy on Appropriate Approvers for Configuration Changes

Per review of the Configuration Maintenance Matrix, which documents the approvals required for each type of configuration change, Internal Audit noted the matrix only designates which departments/locations are required to approve the change and does not distinguish specific job titles or individuals who would be appropriate approvers. As the Configuration Maintenance Matrix is not at a level of detail to identify appropriate individuals who can approve each type of configuration change, Internal Audit was unable to conclude if the configuration changes were appropriately approved. Further, without a detailed authorization matrix for configuration changes, there is a risk the changes may not be appropriately authorized.

Action Plan:

The Senior Functional Manager indicated that all configuration changes will require approval from the Center of Excellence (COE) and UCPATH Production Team. The Manager – COE, will be designated as the authorized approver on behalf of the COE and will be responsible for obtaining any additional approval at the COE deemed necessary. The UCPATH Production Operations Director will be designated as the authorized approver on behalf of the UCPATH Production Team and will have the authority to appoint a delegate approver in their absence (i.e., the Benefits Manager or WFA Manager). The Senior Functional Manager will update the Configuration Maintenance Matrix to reflect the appropriate individuals authorized to approve configuration changes. In addition, the UCPATH Center will consider enhancing the configuration change matrix to identify configuration changes that do not require approval. The Senior Functional Manager will re-train ITSS employees to ensure appropriate approval as noted above is documented in the JIRA system comments prior to implementing the configuration change.

Target Date: *This process has been in place since June of 2018.*

Security Administration

11. Establish Monitoring Controls of Developer Changes Made in the Production Environment

Our review of PeopleSoft user access listings, Internal Audit initially identified 57 users with Application Designer access to the production and development environments. Per discussion with the Interim Executive Director of the UCPath Center, Internal Audit noted developers have access to both environments to enable changes within the system quickly during hyper-care. Although a valid business justification exists for developers to have access to both environments, there is a risk of unauthorized or inappropriate changes within production. Internal Audit noted there is no control in place to monitor the activity of developers with access to both environments to ensure changes made in production have a valid business purpose, are authorized, and tested.

***Action Plan:** The Senior Manager – IT's designate will review each of the 57 individuals with access to the production and development environments to validate access is appropriate and necessary. On July 19, 2018 that access to both environments has been reduced to 11 users.*

Based on review performed, UCPC ITSS PeopleSoft Administrator will modify access in order to limit number of users with Application Designer to both environments and reduce the risk of unauthorized or inappropriate changes in production. Further, the Senior Manager – IT and ITSS will determine feasibility to implement a control to monitor changes made by developers in the production environment to ensure only authorized and appropriate changes are made. Additional research is required by the Senior Manager – IT and ITSS to design an effective monitoring control.

***Target Date:** Application Designer (developer) access was removed from all but 6 accounts on 8/24.*

The remaining accounts are for individuals on the UCOP TDS Release Team who need the access to move objects into the production environment. The Release Team requires a request with approval via their ticketing system, called STAT, in order to initiate and track migrations into production.

A query is being designed to monitor the activities by the Release Team. Estimated completion date for the query is October 31, 2018.

Internal Control Monitoring Process

12. Lack of Formal Risk Assessment Methodology for Transaction Review

Per inquiry with the Finance Manager and review of the Service Partnership Agreement (SPA) FY17 – 18 Audit Strategy, Internal Audit noted there was no formal risk assessment approach or methodology in place to identify transactions for monitoring and review. Internal Audit recommends the Finance Department establish a formal process and risk assessment methodology to assess transactional risk within the UCPath Center. The risk assessment results should be used to determine the transaction reviews required for the annual audit work program. The risk assessment methodology should outline a defined approach for assessing the risk of in-scope business processes and the key risk factors such as: volume of transactions, process or process owner changes, history of issues or non-compliance, complexity of transactions, impact to employee, and timing since last transaction review. A formal risk assessment methodology will

improve consistency in defining the annual audit work program and provide UCPATH Leadership and process owner's insight into how annual transactions for review were identified to ensure the highest risk processes / controls are being covered.

Action Plan:

The Finance Department will update the Audit Strategy for the risk assessment methodology and factors used in determining the risk level of each control. The updates will include the following:

- 1. A methodology will be established for assessing the risk level of each internal control as high, medium, or low.*
- 2. A column will be added to the UCPATH Center Control Matrices to record the risk level determined for each control.*
- 3. The risk rating will be utilized to identify the controls for review, and to assist in prioritization of remediation efforts when observations are identified.*

The Finance Department will follow Internal Audit's approach by using the Risk & Control Matrices (developed with the help of Internal Audit in FY2016) to make selections. High risk internal controls will be selected for testing.

Target Date: January 31, 2019

13. Lack of Documented Testing Methodology for Transaction Reviews

Per inquiry with the Finance Manager and review of the SPA FY17 – 18 Audit Strategy, Internal Audit noted there was no formal documentation to govern the testing methodology followed in executing the annual transaction review. Internal Audit recommends the Finance Department create and document a testing methodology for the annual transactional reviews performed. The testing methodology should clearly define the testing techniques utilized in the review (e.g., observation, inspection/examination, re-performance, and inquiry), sampling methodology, procedures for evaluating and determining the risk level of observations identified, and documentation requirements (e.g., test sheets, workpapers, etc.). The sampling methodology should consider the frequency of the control activity and risk level of the transaction as the current sampling approach in place (20% of all transactions) may not be sustainable as the UCPATH Center grows and new locations are on-boarded. The Finance Department should review the testing methodology with individuals tasked with drafting and approving the annual SPA to verify the testing approach, including sampling methodology, meet the audit requirements of the agreement. A formal testing methodology for the annual transaction reviews will promote consistency in the testing approach going forward, help inform upper management and process owners on how transactions will be evaluated, and demonstrate audit practices in place follow a defined approach in accordance with the SPA audit requirement.

Action Plan:

The UCPATH SPA is in the process of being re-written and will only contain high-level audit processes (i.e. audit frequency, publication of audit results, etc.).

The Finance Department will:

- 1. Update the annual Audit Strategy to include details around testing techniques and sampling methodology utilized in the transaction reviews.*
- 2. Re-assess its current sampling methodology (20% of all transactions from the testing period) and will utilize a risk based approach to determine sample sizes.*

The Audit scope and sampling will be identified based on the volume with each deployment. The Finance Department will follow Internal Audit's approach by using the Risk & Control Matrices (developed with the help of Internal Audit in FY2016) to make selections. High risk internal controls will be selected for testing using the Formal Risk Assessment Methodology for Transaction Review.

Target Date: January 31, 2019

14. A Formal Process to Track, Monitor, and Report on Observations and Remediation is Not in Place

Internal Audit noted that the Finance Department does not have a centralized mechanism for tracking status of observations identified during the management audits and transaction reviews performed. Without a formal observation log, the Finance Department may not be able to effectively and efficiently follow up on remediation status, report to UCPATH Leadership on remediation progress, communicate effectively with process owners on observations and remediation plans, and effectively support the organization in risk mitigation going forward. Internal Audit recommends the Finance Department maintain a Master Observation Log of all findings from the audits performed; including audits conducted by external parties and observations self-identified by management. The log should include a description of each observation, the risk associated with the observation, the responsible process owner(s), date the observation was identified, remediation plan, planned remediation date, and remediation status. The Finance Department should utilize the log to periodically follow-up on open observations to verify timely completion of remediation. Additionally, the Finance Department should consider assigning a risk rating to each observation to facilitate process owner prioritization and action around higher risk issues. The Finance Department should leverage the observation log for reporting on observations and remediation status to UCPATH Center Management.

Action Plan:

- 1. The Finance Department will leverage the Observation Log prepared by Internal Audit to document the results of the internal controls audit and continue to add observations identified in the bi-annual transaction review or other audits performed.*
- 2. The Observation Log will track workstream audit observations, remediation plans and target dates.*
- 3. The Observation Log will be used as tool for reporting on the status of the internal control environment to the UCPATH Center Leadership Team.*

Target Date: January 31, 2019

15. Lack of Root Cause and Impact Analysis within Observations from Management Audit Activities

Internal Audit reviewed the SPA Final Audit Report for the period of December 1, 2015 through June 30, 2017 prepared by the Finance Department and noted observations documented did not include insight into the root cause of the issues identified (i.e., why did the finding occur), impact of the issue on the process or employee, or severity of the issue. Without insight into the root cause of issues identified, the Finance Department and process owners may be unable to assess whether remediation plans will adequately address and resolve the issues. Furthermore, without identifying impact and severity of the observation, management and process owners may not be able to 1) effectively prioritize remediation, 2) design a remediation plan that sufficiently addresses the issue, and 3) may not be more informed around what could go wrong if the observation is not remediated. Internal Audit recommends the Finance Department improve the clarity of observations documented to include the following information: 1) what was observed, 2) what should have occurred, 3) the root cause, and 4) impact of the issue identified. In addition, Internal Audit recommends linking observations to control activities to help process owners and UCPATH Center Management understand where improvement opportunities exist in the control environment and where breakdown in control activities may exist.

Action Plan:

The UCPATH SPA is in the process of being re-written and will only contain high-level audit processes (i.e. audit frequency, publication of audit results, etc.). The Finance Department will incorporate additional detail into the observations documented within the future Audit Reports as follows:

- 1. The Finance Department will include the root cause of the issue identified, the impact of the issue on the process or employee, and severity/risk level of the issue.*
- 2. Each finding will be linked to the related control to assist management in understanding where breakdown in control activities may exist. These findings will be added to the Master Observation Log mentioned in Item #14.*

Target Date: *The Finance Department will incorporate the changes in their future Audit Report, which is planned to be finalized by May 31, 2019. However, due to the on-boarding of new locations at the UCPATH Center, the timing of next report is subject to change.*

Additional Recommendations

Internal Audit recommends management consider the following additional improvement opportunities to better align with leading operational practices.

1. Consider Scalability and Resource Needs for Management Audit Function

Internal Audit noted individuals responsible for audit activities include one Staff Accountant and the Finance Manager. Internal Audit recommends the UCPATH Center consider the scalability of audit activities and resource needs as transaction volume within the UCPATH Center continues to grow. As new locations are on-boarded, transaction volume will increase, processes will become more complex, and areas of risk around processing activities will change. The UCPATH Center should determine if the audit function is adequately staffed to meet current and future SPA audit requirements based on the current workload of Finance Department personnel that have been

tasked with audit responsibilities, anticipated increase in transaction volume as new locations are on-boarded, and skillset needed to have an effective audit function. An assessment of resource needs should be conducted by the Finance Department and UCPATH Center Management of the audit function and appropriate budget be allocated to address potential resource shortages, if determined.

2. Establish Periodic Meetings with Leadership Team (LT)

Internal Audit noted the Finance Manager or an individual responsible for audit activities within the UCPATH Center, does not provide regular updates on audit activities to the LT. Internal Audit recommends a representative from the Finance Department attend the LT meetings to provide updates on audit activities; as the current practice appears to be ad hoc and at the request of the LT or Finance Department. The Finance Department should update the LT on risk assessment results, scope, and plan for the annual transactional review, scope and timing of any additional internal audits, results from the annual transaction review and other audits, and remediation status of observations identified in prior transaction reviews or audits. Establishing a more consistent reporting schedule with the LT will enhance oversight and awareness around audit activities, inform leadership on the state of the internal control environment, and provide insight on areas of risk that may require action, resources, or increased monitoring.

3. Enhance Collaboration and Communication between UCPATH Center Process Owners / Key Stakeholders and Finance Department around Management Audit Activities

Internal Audit noted a lack of understanding and awareness amongst UCPATH Center Process Owners around the purpose of management audit activities, audit approach, and overall responsibility of Finance Department personnel around audit; resulting in confusion, lack of support, and inefficiencies during audit reviews. Internal Audit recommends a communication plan be established to educate process owners and key stakeholders around the audit activities being performed by the Finance Department. This communication plan may include, but may not be limited to, 1) lunch and learn trainings with process owners and processors around audit approach, scope, timing, and overall value to be gained from audit activities, 2) establishing an internal website for employees to access information about audit activities, or 3), quarterly email audit bulletins. Communication from a representative of the LT (e.g. Executive Director) should also be provided to UCPATH Center personnel to set the right tone for collaboration and cooperation between the Finance Department and process owners around audit activities. In addition, establishment of an audit charter, as recommended in Additional Finding #1 above, that outlines the role, responsibility, purpose, objective, and structure of audit activities within the UCPATH Center would strengthen overall governance around audit activities and increase the credibility of Finance Department personnel in their interaction with process owners and key stakeholders.