

# AUDIT & MANAGEMENT ADVISORY SERVICES

## *WHAT TO EXPECT IN AN **EXTERNAL** AUDIT OR INVESTIGATION*

An Overview of External Audit and Investigative Processes Performed by **Outside Entities** at UCSD

Updated February 2025

# WHAT TO EXPECT IN AN EXTERNAL AUDIT OR INVESTIGATION

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# INTRODUCTION

- UCSD is subject to the scrutiny of several different audit entities.
- Audit & Management Advisory Services (AMAS) is responsible for the oversight of external audit activities at UCSD and serves as the entry point for external audit agencies, with the exception of the Regents' auditor for the annual financial statement audit and Single Audit. Liaison for the Regents' auditor is handled by the Controller.
- External audit notifications received directly by UCSD personnel are to be referred to AMAS.
- It is the policy of UCSD to fully comply with all financial, administrative, and audit requirements that arise from its role as a recipient of public and other extramural funds; and to cooperate fully with external agencies.
- External reviews generally fall into the category of audits or investigations. External agencies may also use other terms such as appraisal or survey to describe their projects. The protocol followed by UCSD may differ on a case-by-case basis depending on the type of review the external agency is conducting.

# IS IT AN AUDIT OR INVESTIGATION?

- Audits: External Audits can be broadly grouped into two categories per federal government auditing standards. Both may include the evaluation of systems of internal control:
  - Financial Audits determine the reliability and accuracy of financial records
  - Performance Audits determine the economy and efficiency of resources
- Investigations: External investigations may be conducted by federal or state agencies. These are typically the result of an allegation of non-compliance made to the agency. In these reviews the external agency's goal is to evaluate alleged incidents of waste, fraud, and abuse.

# EXTERNAL AGENCIES

- External agencies which may conduct audits of UCSD include:

## Federal

- Department of Health and Human Services (DHHS)
- National Institutes of Health (NIH)
- Defense Contract Audit Agency (DCAA)
- National Aeronautics and Space Administration (NASA)
- Office of Inspector General (OIG)
- General Accounting Office (GAO)
- National Science Foundation (NSF)
- Office of Naval Research (ONR)
- Any many more...

## State

- California State Auditor
- Board of Equalization
- Franchise Tax Board
- State Controller's Office
- Office of Traffic Safety
- California Institute for Regenerative Medicine

## Other

- County of San Diego
- European Commission
- National Laboratories (LLNL, LANL, Sandia)
- Patient-Centered Outcomes Research Institute (PCORI)
- Other Non-profit research sponsors

# THE EXTERNAL AUDIT PROCESS

While each agency's audit process is specific to its own environment, most audit processes are similar to those listed in the following steps<sup>1</sup>



1) This process does not apply to external investigations.

# THE EXTERNAL AUDIT PROCESS

- Field Work is performed to:
  - Collect detail information based upon audit scope
  - Record findings in audit workpapers
  - Interview UCSD personnel as appropriate
  - Review departmental files and support documents
  - Review of applicable policies and procedures & regulatory requirements
  - Conduct sample selection and testing of transactions
- Interim Findings or Draft Report published by an external entity is based on field work conducted, and usually contains the following:
  - An evaluation of the effectiveness and appropriateness of UCSD control systems
  - Compliance with established policies and procedures and / or applicable regulatory requirements
  - Adequacy of the documentation used to support amounts billed/invoiced to the agency and any financial disallowances.

## A WORD ABOUT DOCUMENTATION...

- During an external audit, it is very common for an auditor to request copies of UCSD documentation. The collection of data is a normal part of an auditor's fieldwork and supports the opinions that he/she will render.
- Provision of documentation may be subject to negotiation between UCSD and the audit agency. AMAS should be involved in this discussion.
- Management should be informed of and approve release of any documents requested by the auditor.
- Copies of documents should be retained by AMAS if determined appropriate.
- Do not send supporting documentation to an external agency without first consulting with AMAS; and do not send documents to an external audit agency that are not part of an official approved audit.

# EXTERNAL INVESTIGATIONS

- External investigations are conducted by Federal or State agencies to evaluate reports of suspected fraud, waste, or abuse. The timeline and scope of the external investigations are generally outside of UCSD's control.
- AMAS will maintain communication with appropriate University officials on the status and scope of the external investigations to the extent possible. However, employees should keep in mind that AMAS cannot direct the activities of an external agency. Frequently, AMAS is not provided with specific information from the investigating agency to know the full scope of the concern under review.
- As with external audits, it is AMAS' role to coordinate the University's response to a notice of investigation, and the provision of any materials to the external agency. In these instances, AMAS' role is to act in the best interest of the institution as a whole.

## EXTERNAL INVESTIGATIONS

- AMAS will make every effort to involve the appropriate University officials in the investigative process, while at the same time maintaining confidentiality to the extent possible within the limitations of law and policy. AMAS will coordinate with administrators as needed on a case-by-case basis, based on the agency concern, the information requested, and the sensitivity of the review.
- When draft reports are provided, AMAS will coordinate the management responses to the draft reports and forward a response for the institution as a whole to the external investigative agency. AMAS will also coordinate any request for extension with the external investigative agency.
- Principal Investigators are advised to consult with their Department Chair and/or Dean should circumstances arise for which additional consultation from a faculty perspective is desired.

## RELEVANT POLICIES & REFERENCES

- University of California Internal Audit Charter – <https://www.ucop.edu/ethics-compliance-audit-services/audit/internal-audit-charter.html>
- UC San Diego Policy & Procedure Manual (PPM) 10-11 – UC San Diego Audit & Management Advisory Services <https://adminrecords.ucsd.edu/ppm/docs/10-11.html>
- UC San Diego PPM 300-5 – Audits & Investigations by External Agencies <https://adminrecords.ucsd.edu/ppm/docs/300-5.html>

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