UNIVERSITY OF MINNESOTA
BOARD OF REGENTS
Audit Committee
Wednesday, July 6, 2011
9:15 - 10:00 a.m.
600 McNamara Alumni Center, East Committee Room

Committee Members
Richard Beeson, Chair
David Larson, Vice Chair
Clyde Allen
Laura Brod
John Frobenius
Maureen Ramirez

Student Representatives
Terrance Paape
James Rook

AGENDA

1. Internal Audit Plan - G. Klatt (pp. 2-20)

2. 2011-12 Committee Work Plan Preliminary Discussion - R. Beeson/G. Klatt (pp. 21-22)
Audit Committee

July 6, 2011

Agenda Item: Internal Audit Plan

☐ review  ☐ review/action  ☐ action  ☒ discussion

Presenters: Associate Vice President Gail Klatt

Purpose:

☐ policy  ☐ background/context  ☒ oversight  ☐ strategic positioning

The Audit Committee is delegated the responsibility, via its Charter, to review the annual Internal Audit plan on behalf of the Board of Regents.

Outline of Key Points/Policy Issues:

The recommended 2011-2012 Internal Audit plan is risk-based and continues to reflect the principles of the Integrated Framework of Internal Control. The plan includes 30 audits of University processes, units, and information systems and focuses on high-risk activities and areas of strategic focus. It includes specific audit coverage related to significant institutional revenue streams, research activities and technology transfer, and emerging technology and its impact on the University’s educational and research mission.

Background Information:

The Audit Committee charter states the Audit Committee shall review the annual internal audit plan and the extent to which it addresses high risk areas.
PURPOSE OF THE ANNUAL PLAN

The annual internal audit plan is intended to demonstrate:

• the breadth and depth of audit activities addressing financial, operational, compliance, and strategic risks of the University;
• accountability for our resources; and
• the progress in our efforts to continually improve the University's Internal Audit program.

It is our intent to convey a current sense of the University's internal control environment and the extent to which institutional risk mitigation is being assessed by regular audit activities, addressed proactively through advisory services, or investigated as a result of issues raised.

DEVELOPMENT OF THE ANNUAL PLAN

The development of the annual audit plan is based on information gathered through broad consultation across the University and a formal assessment of existing and emerging risks.

Internal Risk Assessment

As part of the planning process, discussions were held with 82 institutional officials from 43 units to solicit input on the University's institutional risks and any specific areas of concern. We also used these meetings as an opportunity to obtain feedback on the quality of audit services we provide. Common themes expressed in these discussions this year were:

• The impact of declining state support for higher education
• The recent, or planned, departures of several key institutional leaders

External Risk Assessment

To aid in our planning efforts we surveyed other research universities regarding the assessment of risks within their institutions. All of the public universities surveyed reported declining trends in state support as their #1 concern. Also commonly cited were: uncertainty of research funding levels and increasing regulatory compliance burden; the costs and risks associated with information technology; and, information security and privacy regulations. Several institutions identified the challenges of moving towards a "shared services" administrative model as a major impact on their audit resources for the upcoming year. Interestingly, only one institution identified international activities or globalization as a risk this year, a major shift from the 2010 survey in which this was identified by the majority of respondents.
Operational Risk Assessment

Finally, our annual planning process includes re-examining the audit universe to ensure that all university activities are considered when determining how audit resources will be allocated. We also consider new regulatory developments, new business processes, and institutional priorities and strategic initiatives.

The Office of Internal Audit continues to utilize a formalized risk assessment methodology in selecting processes/units/systems for inclusion in the annual audit plan. Relative risk assessment is necessary to provide a basis for the rational deployment of our limited resources across the institution. For FY 2012 we are proposing a plan that emphasizes the review of institutional processes versus a unit-based audit plan. We believe this will provide more comprehensive and efficient audit coverage of key institutional risks. Taking a more process-focused approach did require recasting of our existing risk model which was primarily unit-based. The risk factors that we considered in prioritizing institutional activities in the restructured model, however, are consistent with those used in prior years:

- Impact on the University’s mission
- Impact on University finances
- Assessment of the activity’s control environment
- Level of compliance concerns
- Impact of information technology
- Complexity and/or diversity of the activity
- Changes in the organization or leadership

Our operational risk assessment resulted in a risk ranking of 162 individual auditable activities of which 23 are considered to be high risk, 95 moderate risk, and 44 low risk. A rating of “high-risk” does not mean that the activity is perceived to have control problems, but rather reflects the criticality or centrality of the activity to the University’s mission.

OVERALL RISK ASSESSMENT

Taking into account the information we obtained in our risk assessment process, the proposed 2012 audit plan focuses on significant institutional revenue streams, research activities and technology transfer, and emerging technology and its impact on the University’s educational and research mission. Several of the activities included in the annual plan also play critical roles in fostering the safety of our campuses. 40% of the audits included in the plan will also include assessments of financial management risks.

RATIONALE FOR MODIFYING OUR AUDIT APPROACH

In his *Transforming the U: Progress and Impact* report (Winter 2011), President Bruininks stated that: “.... We must remain consciously committed to the principle that we will not abandon any of our core responsibilities.....this will require us all to be disciplined and entrepreneurial within our own units.....in order to refine and focus our endeavors so that we deliver on our mission strategically, where and when we are most needed.”

Over the last several years it has become increasingly difficult to maintain appropriate audit coverage of the University using our current audit methodology (and established audit cycles) given the growth in both the size and complexity of the University over the last ten years.
coupled with a 17% reduction in internal audit staff resources. The time period necessary for performing enough unit-based audits to obtain sufficient audit evidence to draw conclusions on the effectiveness and efficiency of the University’s risk and internal control processes at an institutional level is becoming elongated. The effort required to meet established audit cycles as closely as possible also severely limits our flexibility to address emerging areas of concern.

Changing our audit “optic” to be more process-focused will enable the Office of Internal Audit to be more strategic in the deployment of audit resources, “delivering on our mission more strategically, where and when we are most needed”. We believe this approach will produce better evidence for providing senior leadership and the Board of Regents assurance as to the University’s overall risk and control effectiveness. Indicators of systemic problems will be more immediately identifiable, resulting in more timely remediation. We also believe this approach will better support the administration’s strategic risk management initiative as it would provide more tangible evidence regarding the effectiveness of existing policies in mitigating risks at the appropriate level. It also will be more effective at identifying best practices within the institution, as well as areas that might benefit from process improvement. Finally, this approach offers us more opportunity to leverage the capabilities offered by EFS by incorporating the broader use of technology to enhance our audit coverage.

A more comprehensive discussion of the rationale for modifying our audit approach is included as Appendix A.

**ALLOCATION OF AUDIT RESOURCES**

The audit plan is based on a planned staffing complement of 14.5 FTE professionals, consistent with 14.75 in FY 2011. This results in similar hours available for internal audit work. Approximately 62% of the Office of Internal Audit’s resources are committed to the completion of planned audit projects. This year 12% of those resources will be needed to complete carry-over work from our FY 2011 audit plan. Ten audit projects are currently in process and will be completed in 2012.

The remainder of our FY 2012 audit resources are reserved as follows:

- 10% has been reserved to accommodate requests from the President, the Board, or executive committee members. This has been supported by the Audit Committee. The number of hours remains consistent from previous years.
- 6% has been reserved for investigations. The number of hours remains consistent from previous years.
- 5% has been reserved for follow-up procedures performed on behalf of the Audit Committee. The number of hours remains consistent from previous years.
- 17% has been set aside for internal administrative functions, including our continuous improvement efforts.
FY 2012 PLANNED ALLOCATION OF AUDIT RESOURCES

- Scheduled Audits: 62%
- Investigations: 6%
- Presidential/Executive Requests: 10%
- Follow Up: 5%
- Administration: 17%
COMPARISON OF AUDIT RESOURCES FOR FY 2011 AND FY 2012
Percent of Available Time

- Scheduled Audits: 56/59/62
- Investigations: 6/6/8
- Special Projects: 11/7/10
- Follow Up: 6/5/5
- Administration: 21/21/17

Legend:
- Green: 10/11 Budget
- Blue: 10/11 Actual
- Red: 11/12 Budget
FY 2011-2012 AUDIT PLAN

Taking into consideration the risks identified externally as well as internally, and balancing all of the above with our available resources, the audit plan recommended for FY 2012 includes the following:

<table>
<thead>
<tr>
<th>Audits</th>
<th>Process Owner and/or VP</th>
<th>System, Process or Unit Audit</th>
<th>Testing Done in Units During Process Audit?</th>
<th>Risk Area(s) Covered</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High Risk Audits:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Registration/FERPA</td>
<td>Provost</td>
<td>Process</td>
<td>Yes</td>
<td>Student Experience, Compliance</td>
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<tr>
<td>Vendor Payment &amp; Imaging Process</td>
<td>VP-CFO</td>
<td>Process</td>
<td>Yes</td>
<td>Financial Management</td>
</tr>
<tr>
<td>Revenue Generating Affiliation Agreements</td>
<td>VP-AHC</td>
<td>Process</td>
<td>Yes</td>
<td>AHC, Financial Management</td>
</tr>
<tr>
<td>Bursar</td>
<td>VP-CFO</td>
<td>Unit</td>
<td></td>
<td>Financial Management</td>
</tr>
<tr>
<td>Clinical Trials - Research</td>
<td>OVPR &amp; VP-AHC</td>
<td>Process</td>
<td>Yes</td>
<td>AHC, Research, Compliance, Financial Management</td>
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<tr>
<td>Conflict of Interest</td>
<td>President</td>
<td>Process</td>
<td>Yes</td>
<td>Compliance, Governance</td>
</tr>
<tr>
<td>Cloud Technology Due Diligence</td>
<td>VP - CIO</td>
<td>Process</td>
<td>Yes</td>
<td>Technology</td>
</tr>
<tr>
<td>Information Privacy &amp; Compliance</td>
<td>VP - CIO, CFO, OVPR, Provo</td>
<td>Process</td>
<td>Yes</td>
<td>Technology</td>
</tr>
<tr>
<td>CTSI System/Informatics</td>
<td>VP - CIO, VP - AHC, OVPR</td>
<td>System</td>
<td></td>
<td>AHC, Technology, Compliance</td>
</tr>
<tr>
<td>Research Data Electronic Storage</td>
<td>VP - CIO, OVPR &amp; Provost</td>
<td>Process</td>
<td>Yes</td>
<td>Technology, Research</td>
</tr>
<tr>
<td>Identity Management</td>
<td>VP - CIO</td>
<td>Process</td>
<td></td>
<td>Technology</td>
</tr>
<tr>
<td><strong>Medium Risk Audits:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UMD Health Service</td>
<td>UMD Chancellor</td>
<td>Unit</td>
<td></td>
<td>Student Experience, Campus Safety, Financial Management</td>
</tr>
<tr>
<td>UMD Food Service</td>
<td>UMD Chancellor</td>
<td>Unit</td>
<td></td>
<td>Student Experience, Campus Safety, Financial Management</td>
</tr>
<tr>
<td>Housing - Twin Cities</td>
<td>VP - University Services</td>
<td>Unit</td>
<td></td>
<td>Student Experience, Campus Safety, Financial Management</td>
</tr>
<tr>
<td>Human Research Subjects/IRB</td>
<td>OVPR</td>
<td>Process</td>
<td>Yes</td>
<td>Research Compliance</td>
</tr>
<tr>
<td>H/R Administrative Processes</td>
<td>VP - Human Resources</td>
<td>Process</td>
<td>Yes</td>
<td>Quality of Faculty and Staff</td>
</tr>
<tr>
<td>UMPD</td>
<td>VP - University Services</td>
<td>Unit</td>
<td></td>
<td>Campus Safety</td>
</tr>
<tr>
<td>Office of Technology Commercialization</td>
<td>OVPR</td>
<td>Unit</td>
<td></td>
<td>Technology Transfer, Research, Financing, Financial Mgmt</td>
</tr>
<tr>
<td>Laboratory Safety Oversight &amp; Monitoring</td>
<td>VP - AHC &amp; Provost</td>
<td>Process</td>
<td>Yes</td>
<td>Research, Campus Safety</td>
</tr>
<tr>
<td>Family Medicine</td>
<td>VP - AHC</td>
<td>Unit</td>
<td></td>
<td>AHC, Financial Management</td>
</tr>
<tr>
<td>Coordination of 3rd Party Research</td>
<td>VP - OVPR</td>
<td>Process</td>
<td>Yes</td>
<td>Research</td>
</tr>
<tr>
<td>Academic Accreditation Reviews</td>
<td>Provost</td>
<td>Process</td>
<td>Yes</td>
<td>Academic Quality</td>
</tr>
<tr>
<td>Help Desk Activities</td>
<td>VP - CIO</td>
<td>Process Owner and/or VP</td>
<td>Unit Audit</td>
<td>Process</td>
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</tr>
<tr>
<td>Audits</td>
<td></td>
<td>Process Owner and/or VP</td>
<td>Unit Audit</td>
<td>Process</td>
</tr>
<tr>
<td>Collaborative Academic Tech Innovation</td>
<td>VP - CIO &amp; Provost</td>
<td>Process</td>
<td>Yes</td>
<td>Technology, Academic Quality</td>
</tr>
<tr>
<td>Private Networks</td>
<td>VP - CIO</td>
<td>Process</td>
<td>Yes</td>
<td>Technology</td>
</tr>
<tr>
<td>Moodle</td>
<td>VP - CIO &amp; Provost</td>
<td>System</td>
<td></td>
<td>Technology, Academic Quality</td>
</tr>
<tr>
<td>Low Risk Audits:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UMD Library</td>
<td>UMD Chancellor</td>
<td>Unit</td>
<td></td>
<td>Financial Management, Academic Quality</td>
</tr>
<tr>
<td>NCAA Sport</td>
<td>President</td>
<td>Unit</td>
<td></td>
<td>Athletics, Compliance</td>
</tr>
<tr>
<td>Course fees</td>
<td>Provost</td>
<td>Process</td>
<td>Yes</td>
<td>Financial Management, Student Experience</td>
</tr>
</tbody>
</table>
The proposed audit plan is comprised of 19 process audits (63%), 9 unit-based audits (30%), and 2 system audits (7%). 16 (84%) of the process audits will involve unit-level audit testing. 40% of the audits will include an evaluation of financial management practices. We do not know at this time in which specific units audit testing will occur as part of process audits, but we will be accumulating this information so that we can report this in future years. The proposed audit plan also includes significant coverage of the risks included on the Institutional Risk Profile (see appendix B).

The FY 2012 plan continues to provide well-balanced coverage across the University. The following chart shows the distribution of audit coverage by University component for FY 2012.
To date for FY 2011, we issued 22 audit reports which were the result of planned reviews and requests from management (See Appendix C).

In addition,

- Three audits are in the final stages of completion and reports will be issued in the next two months.
- Seven audits are currently in the planning or fieldwork stages and will be completed in FY 2012.
- Eight audits were either deferred to FY 2012 or not completed.
During the past fiscal year we completed and closed out seven investigations from FY 2009 and FY 2010. We also conducted 11 new investigations in response to allegations of financial or operational misconduct, 9 of which have been closed out. Where appropriate, we have partnered with the University Police or the Office of the General Counsel to complete these reviews. Five of the investigations have been referred to the University of Minnesota Police for possible prosecution. We have also been involved in several large special projects performed at the request of University or collegiate leadership.

COORDINATION WITH EXTERNAL AUDITORS

The Office of Internal Audit continues to coordinate its audit plan with the University’s external auditors to ensure appropriate coverage is achieved through the internal and external audit plans and to leverage the collective efforts of both organizations. The Office of Internal Audit meets the professional standards required by external auditors to place reliance on internal audit work. We also rely on the work performed by Deloitte and Touche, LLP in the areas of investments and RUMINCO, the University’s captive insurance company.
COORDINATION WITH OTHER INTERNAL RESOURCES

The Office of Internal Audit coordinates its work with other internal units to maximize the quality of audit coverage provided as well as to promote prompt attention when University-wide trends are identified. We have established strong working relationships with the University’s Compliance Officer, the Office of Research Integrity, the Office of Oversight, Analysis and Reporting, the Office of Regulatory Affairs, the Institutional Review Board, and the Department of Environmental Health and Safety, each of which work closely with us during audits involving complex regulatory issues.

The Office of Internal Audit interfaces regularly with the Institutional Compliance Officer and we serve on the Executive Compliance Oversight Committee and the Research Compliance Committee. Input from the Compliance Officer is solicited during our annual audit planning. In addition, throughout the year we report to and collaborate with the Compliance Officer on issues identified during our audits. We also share the results of employee surveys with the Compliance Officer. During fiscal year 2011, a total of 1,941 employee and internal customer surveys were sent out as part of our audit process, with a 48% response rate. Along with the Institutional Compliance Office, we serve as a triage office for managing U Report, the University’s confidential reporting line.

Audit results are also shared with central support units such as the Office of Information Technology, Sponsored Projects Administration, Payroll, Purchasing, Training Services, and Human Resources, when policy non-compliance or when the need for process enhancements are identified. Best practices identified in local unit audits are also shared with these central unit process owners for consideration of broader adoption.

STAFF DEVELOPMENT AND QUALIFICATIONS AND PROFESSIONAL INVOLVEMENT

The Office of Internal Audit is committed to providing educational opportunities to our staff in order to enhance our audit knowledge and abilities and to achieve our professional best. Ever-changing government regulations, new technologies, and new developments in auditing principles and methods dramatically affect not only what we audit, but also how we audit. We constantly strive to stay abreast of new developments and improve our audit proficiency in order to enhance the overall quality of our audits. To accomplish this, we pursued a variety of methods to continue our staff’s professional education.

Our departmental memberships with the Institute of Internal Auditors (IIA), the Association of College and University Auditors (ACUA), the Association of Certified Fraud Examiners (ACFE), the American Institute of Certified Public Accountants (AICPA), and the Information Systems Audit and Control Association (ISACA) provided staff members the opportunity to attend seminars and conferences that specifically address current issues and techniques in internal auditing. The interaction of our staff members with their peers through these professional organizations helps to keep us up-to-date on the latest auditing trends and issues affecting higher education.

Of the current fifteen professional staff:

- thirteen have professional certifications of Certified Internal Auditors, Certified Public Accountants, Certified Information Systems Auditors, and/or Certified Fraud Examiners;
- six have Master of Business Administration degrees;
- one has a Master of Arts - Economics degree;
• one is pursuing a Master of Public Policy degree; and
• one is pursuing a professional certification.

In FY 2011, the Office of Internal Audit provided 937 hours of training (an average of 62 hours for each employee) which fully meets the continuing professional development requirements necessary to maintain the staff’s professional credentials. These hours do not include the time associated with completing evening coursework funded by the University’s Regents Scholarship Program. For FY 2012, 810 hours have been budgeted for staff training, an average of 54 hours per employee.

We continue to hold monthly Brown Bag lunch meetings at which University leaders are invited to speak with the audit staff.

COMPACT/BUDGET PLANNING
During the FY2012 compact and budget planning process, all University of Minnesota administrative units were asked four broad questions:
• What programs or services within your unit are excellent and have a competitive advantage, and should they be strengthened and/or expanded? Which core programs or services within your unit should be maintained?
• Which programs or services within your unit are less important or non-core and could potentially be reduced or eliminated?
• Which programs or services within your unit are no longer successful and should be eliminated?
• How can your activities be organized and processes reformed to improve services provided to stakeholders and increase the productivity of your unit’s resources?

The Office of Internal Audit is a system-wide, fully centralized function engaged in three activities: conducting audit work, carrying out internal investigations, and providing audit advisory services to the University community. The quality and efficiency of the services we provide have been repeatedly affirmed by customer satisfaction surveys and supported by external benchmarking. We also undergo an external peer review of the quality of our audit services and practices every five years. Our last review, conducted in March 2009, affirmed that 1) the practices of the Office of Internal Audit fully comply in all respects to the International Standards for the Professional Practice of Internal Audit, and 2) University Management and the Board of Regents can appropriately rely on the assurance provided by the work performed by the Office of Internal Audit. All of our core services are essential to fulfilling the Office of Internal Audits obligations to the Board of Regents and University leadership. Additional expansion of the Office’s portfolio of services is not necessary.

We have only one non-core activity – maintaining our Office’s website. All other work effort is directly related to the provision of audit services to the University. We have no unsuccessful programs or services.

We routinely evaluate our organization and processes to promote efficiency and/or improve the quality of the audit work we perform, and adapt our practices accordingly. We make extensive use of technology, apply a variety of audit approaches to provide the broadest audit coverage possible with the available resources, we invest in training our staff, and we are tenacious in limiting administrative activities that take time away from the conduct of audit work.

It is within the context of continually improving the service we provide to the University that we have given extensive thought and consideration to pursuing the intentional change in our audit approach that is represented by the 2011-2012 audit plan.
OFFICE OF INTERNAL AUDIT FY 2011 STAFFING ISSUES

We experienced minimal turnover this past year, with one senior staff member leaving the University. We were able to fill the open position at the entry level, promptly from within the University. We have one position which remains unfilled due to the hiring pause.

OFFICE OF INTERNAL AUDIT BUDGET STATUS

The Office of Internal Audit received a 2% decrease in its funding for FY2012. With over 95% of the Office’s expenses devoted to salary and fringe benefit costs, we aggressively manage all discretionary aspects of our budget. Consistent with the administration’s pay plans, no salary increases are being provided to any of the Internal Audit staff.

During these times of financial challenges throughout the University, we appreciate the continued financial and operational support we receive from the administration.
Proposal to Change the Approach for the Allocation of Audit Resources
Excerpted from the Audit Committee Docket for
June 9, 2011

We are seeking the Audit Committee’s direction on whether we should pursue an intentional and strategic evolution in our approach to deploying audit resources. We conduct our audit practice in compliance with the Institute of Internal Auditors’ Standards for the Professional Practice of Internal Auditing and adapt our practice as these Standards change. There is a very high likelihood that within the next 3-5 years these Standards will require an overall opinion on the effectiveness of internal control and risk management practices be rendered annually at the institutional level. Given the size and complexity of the University, our current methodology for providing audit coverage would not enable us to obtain sufficient audit evidence to support such an opinion annually. We would like to propose an alternative methodology that would better position us to comply with such a Standard, as well as significantly improve our ability to further the administration’s initiative regarding risk tolerance. The proposed methodology also would offer significant opportunities to further utilize technology to broaden our audit coverage over key institutional processes. There are, however, trade-offs, and it is important that the Audit Committee understands the implications if such a change in undertaken.

Current Methodology
Our current annual plans are built primarily around audit coverage of operating units (colleges, departments, etc.). A small number of process audits are included each year. Audit coverage is constructed to be “a mile wide and a mile deep” so that all significant activities carried out at the local level are audited thoroughly. Audit work is premised on the assumption that existing University policies are appropriately calibrated and the audit objective is primarily to determine local compliance.

This approach has, admittedly, served the University well. The University community values the coverage and accountability that is derived from these efforts. Unit leadership and personnel find the unit based audits to be very educational and senior leadership appreciates the accountability that is established.

It has, however, become increasingly difficult to maintain our established audit cycles as the University and its individual components become larger. Institutional trends in audit results can be determined but take a longer time to develop. This is exacerbated as audit cycles become longer. Trends also are not readily apparent to recipients of audit information (such as the Audit Committee and senior leadership) and require analysis by the audit staff to produce trending information. This approach is also not especially conducive to responding to emerging areas of concern, topics of interest at the Board and executive level. It is also not especially conducive to identifying systemic issues such as policy ineffectiveness, cost savings opportunities, best practices, etc. because of its focus on local operations.

Proposed Methodology
An alternative methodology would be to base the annual audit plan primarily on process audits. These audits could be conducted on either a campus-wide or system-wide basis. The focus of the audits would be at the business process/policy
level with the primary audit objective being to evaluate the efficiency and effectiveness of the specific process and related policies. Testing would be conducted in a sample of University units to obtain the evidence needed to formulate the audit conclusions. Audit coverage would be determined using a statistically valid methodology which would allow for extrapolation of the audit findings across the entire University.

This approach would be more effective at providing the Board of Regents assurance as to the University's overall risk and control effectiveness. Indicators of systemic problems would be more immediately identifiable, and recipients of audit information would be able to quickly gauge institutional compliance with policies and procedures. Our audits would include the identification by process/policy owners of the performance expectations (level of compliance) expected, which would further the risk tolerance discussion at a very practical level. This methodology also will be more effective in identifying when policy changes might be warranted based on a risk/cost/burden assessment. Best practices would also be more apparent as information from multiple units would be available to assess differences in audit results.

Some unit audits would still be included in the annual plan, but these would constitute a far smaller percentage than has been our practice. Unit audits would be included based on risk and/or specific requests from the administration; however, formal audit cycles would most likely be eliminated. There would also be selected units which would continue to be audited individually because of their unique activities and risks such as Intercollegiate Athletics, Student Finance, etc. We would also intend to continue to provide audit coverage at the coordinate campuses as we do currently, at least until this approach has been more fully integrated into our practice.

In implementing this type of methodology we would develop a system to track audit coverage provided within the process audits by college/department/unit. This would help us identify units that have a pattern of operational problems. We would also continue our historical practice of engaging in discussions with institutional leaders during our planning process, by which we are alerted to units which may warrant specific audit attention.

The hierarchy of the audit plan would be: 1) process audits, 2) special requests of areas that warrant reviews and 3) unit audits, with priority given to those with the highest risk assessment. The current methodology results in an audit plan that is approximately 85% unit audits and 15% process. We would expect the proposed methodology to result in approximately 70% process audits and 30% unit audits.

Based on our experience with conducting process audits, we expect this approach may initially be met with some resistance from process/policy owners who have no control over the individuals within the local units who are responsible for adherence to the process/policies. This approach also would not result in the granularity that our current audits do. It is likely that localized problems would not be identified, nor would risks that could be significant at the unit level but which are not institutionally significant. The approach would provide coverage over most of the activities that are engaged in at the local level, but through the view of the process versus the unit, with the exception of local resource management.
Audit Committee’s Institutional Risk Profile

**APPENDIX B**

**Heat Map**

<table>
<thead>
<tr>
<th>Unit</th>
<th>FY 11</th>
<th>FY 10</th>
<th>FY 09</th>
<th>FY 08</th>
<th>Unit</th>
<th>FY 12</th>
<th>FY 11</th>
<th>FY 10</th>
<th>FY 09</th>
<th>FY 08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Athletics</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Investments</td>
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<td>x</td>
<td>x</td>
<td>x</td>
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<td>Student Experience</td>
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<td>x</td>
<td>x</td>
<td>x</td>
<td>Associated Organizations</td>
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<td>x</td>
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(1) The organizational structure of the AHC/Medical School is still under study. The audit scheduled for 2012 will focus on revenue generating affiliation agreements which is a significant source of revenue for the Medical School.

(2) This audit was not completed as the University has not yet purchased a new Identity Management System as was expected to occur in 2011.

(3) This audit was deferred at the administration's request as it had not yet determined its final implementation strategy.

(4) This audit was not completed due to the extensive coverage received during the University's external audit by Deloitte and Touche.
Audit Committee

July 6, 2011

Agenda Item: Committee 2011-2012 Workplan Discussion

☐ review ☐ review/action ☐ action ☒ discussion

Presenters: Regent Richard Beeson
Associate Vice President Gail Klatt

Purpose:

☐ policy ☐ background/context ☒ oversight ☐ strategic positioning

The purpose of this discussion is to discuss the committee workplan for the upcoming year.

Outline of Key Points/Policy Issues:

The Audit Committee workplan is intended to focus on the oversight and monitoring of institutional risks. Topical discussion items should be selected based on their relevancy to the Audit Committee’s institutional risk assessment and their import to strategic outcomes.

The workplan is also intended to ensure the Committee receives the information necessary to carry out the governance responsibilities assigned to it in its Charter, including the supervision of the external auditor and oversight of the internal audit program. The Audit Committee also has an obligation to be informed regarding the institution’s compliance program.

In addition to identifying appropriate topics for inclusion in the workplan, the Committee members are requested to consider:

- If the time typically allocated to individual agenda items is appropriate.
- If the materials provided to the Committee are at the appropriate level of detail.

Background Information:

Each standing committee of the Board of Regents establishes an annual workplan. The workplan is a means to assist the Committee in discharging its responsibilities under its Charter and provides a structure to ensure the topics of highest priority receive the Committee’s attention.
Board of Regents Audit Committee  
Preliminary/Draft  
FY2012 Workplan

I. Suggested theme for the upcoming year:  
*Realizing opportunities through strategic risk management*

II. Regularly scheduled items  
- **September:** Audit Committee Workplan  
  Internal Audit Update (G. Klatt)  
- **October:** Even though the committee will meet in October, it will also need to review the annual financial statements prior to their finalization in mid-October. As in previous years, this will be handled by the Chair via a conference call.  
- **November:** External Auditor Report (Deloitte)  
  Compliance Officer Report (L. Zentner)  
  Information Item: Semi Annual Controller’s report  
- **February:** External Auditor’s Review of Completed Audit Work and  
  Letters to Management (Deloitte)  
  Internal Audit Update (G. Klatt)  
- **March:** External Auditor Review (Fees and 2013 Engagement) (M. Volna)  
  Information Item: External Auditor Relationships and Services Provided  
- **May:** External Audit Plan (Deloitte)  
  Compliance Officer Report (L. Zentner)  
  Internal Audit Update (G. Klatt)  
  Information Item: Semi-Annual Controller’s Report  
- **July:** Internal Audit Plan (G. Klatt)

III. Suggestions for thematic agenda items  
- A repeat visit by D. DeHaas from Deloitte and Touche to continue the discussion of the audit committee landscape in higher education  
- Reaffirmation of the independence of the internal audit function  
  - Review of the Audit Committee responsibilities as stated in its Charter  
  - Review of the Office of Internal Audit’s Charter  
  - Discussion of how the Office of Internal Audit maintains its independence  
  - Discussion of the Committee’s role in fostering the audit function’s independence  
- Update on the administration’s effort to recalibrate risk within the institution  
  - Case study by VP Mulcahy on the work being done in the research arena  
  - Others?  
- The opportunities presented by, and the associated risks involved with, emerging technologies:  
  - Cloud technology  
  - Social Media  
  - Mobile devices  
- A discussion with R. Keuppers, Vice Chairman of Deloitte and Touche, regarding the regulatory landscape and the Presidential Executive Order to reduce regulatory burden.