AGENDA

1. Internal Audit Update – G. Klatt (pp. 2-30)


3. The Audit Committee Landscape in Higher Education – D. DeHaas/N. Thanjan (pp. 32-33)
Audit Committee

February 9, 2012

Agenda Item: Internal Audit Update

☐ review  ☐ review/action  ☐ action  ☒ discussion

Presenters: Associate Vice President Gail Klatt

Purpose:

☐ policy  ☐ background/context  ☒ oversight  ☐ strategic positioning

To update the Audit Committee on Internal Audit activities, results, and observations.

Outline of Key Points/Policy Issues:

• Since our last follow-up for the September 2011 meeting 67% of the outstanding recommendations rated as “essential” were implemented by University departments. This is a record-high percentage that is significantly more than our expected implementation rate of 40%. Sixteen units also fully implemented all their remaining “essential” recommendations. These numbers are reflective of a concerted effort made by University units during this time period to implement their outstanding issues.
• An updated control evaluation chart is included for each audit to show progress made on the “essential” items.
• Ten audit reports containing 63 recommendations rated as “essential” were issued in the last five months.

Background Information:

This report is prepared three times per year and is presented to the Audit Committee in conformance with Board of Regents Policy: Board Operations and Agenda Guidelines.
This report includes:
- Audit Observations/Information/Status of Critical Measures/Other Items
- Status of “Essential” Recommendations & Bar Charts Showing Progress Made
- Audit Activity Report
- Audit Reports Issued Since September 5, 2011

Details for any of the items in this report are available on request. Individual reports were sent to the President, Provost, Vice Presidents, and Chancellors about these internal audit issues.

**Audit Observations/Information**

**Status of Critical Measures**

As part of our on-going efforts to provide the Audit Committee with critical information in as concise a format as possible, we have developed the following three charts to present a “snapshot” status report on work performed by the Office of Internal Audit.

The first chart, “Essential Recommendation Implementation”, provides our overall assessment of the success University departments had during the last quarter in implementing our essential recommendations. Readings in the yellow or red indicate implementation percentages less than, or significantly less than, our expected University-wide rate of 40%. Detailed information on this topic, both institution-wide and for each individual unit, is contained in the next section of this Update Report.

The second chart, entitled “Progress Towards Annual Audit Plan Completion”, is our assessment of how we are progressing towards completion of the FY 2012 Annual Audit Plan. Readings less than green could be influenced by a variety of factors (i.e. insufficient staff resources; increased time spent on non-scheduled audits or investigations).

The final chart, “Time Spent on Investigative Activities”, provides a status report on the amount of time consumed by investigative activities. Our annual plan provided an estimated budget for this type of work, and the chart will indicate if we expect that budget to be sufficient. Continued readings in the yellow or red may result in seeking Audit Committee approval for modifying the Annual Audit Plan.
Essential Recommendation Implementation

Implementation rates were 67% for the period, which is much higher than our expected rate of 40%.

Overall Implementation of “Essential” Recommendations

During this reporting period University units invested substantial efforts to resolve outstanding audit recommendations and the results of that effort have been impressive. While 67% of all recommendations receiving follow-up were implemented, particularly noteworthy is the fact that 71% of the outstanding recommendations with an information technology component have been brought to closure. This closure rate of information technology related recommendations is materially higher than any period in the last 15 years. All but one of the outstanding recommendations in reports addressed to a central OIT unit/leader were resolved during this period.

The high implementation rate of outstanding recommendations has resulted in reducing by 55% the audit reports needing further follow-up. There has not been another period in the last 15 years when so many audit reports have been brought to closure. During the current reporting period 13 of the 18 reports with an outstanding information technology related finding were closed.

Changes to the “Essential” Recommendations Spreadsheet

To provide the Audit Committee with enhanced information related to the recommendations we rated as “essential” we have made the following changes to this document:

- We inserted a column titled “Original Report Control Rating” that includes our assessment from the audit report of the state of controls in the unit audited. The available ratings include “Good”, “Adequate” and “Needs Improvement”.
- For recommendations considered “Partially Implemented” or “Not Implemented” we inserted columns to identify whether or not the recommendation was past the original target date specified by management.
- We deleted a column that identified audits having issues where management was making less than satisfactory progress. These items are still flagged on the spreadsheet and comprehensive footnotes are provided when necessary.

Progress Towards Annual Audit Plan Completion

Time spent to date on the FY 2012 audit plan is about what was expected and budgeted.

Time Spent on Investigative Activities

Time spent on investigative activities and special projects is slightly less than what was expected and budgeted for the year to date.
To better differentiate the length of time an audit has been outstanding the listing of audits on the spreadsheet has been divided into three segments: “Audits > 2 years old”, “Audits < 2 years old; have received prior follow-up”, and “Audits receiving first-time follow-up”.

Additional Update on a Previous Audit
In 2009 we evaluated control systems in place for the AHC database “Time and Study Collection System” (TASCS), which was then being modified to support and assist in managing the clinical trial budgeting and billing process. Accurate and compliant billing for the medical procedures associated with research activities requires the coordination of information among the University, University of Minnesota Physicians (UMP) and Fairview Health Services. The TASCS system provides the platform to facilitate this coordination. Research Administration considers the information communicated in TASCS as the primary source supporting the accuracy of clinical billing.

The 2009 audit concluded the TASCS system provided a platform for establishing a more consistent and efficient research budgeting and billing process, but the controls in TASCS needed to be improved for management to claim the integrity of the process and have substantial confidence in the research billing process. AHC management consequently took steps to improve the TASCS system and associated business processes that in some cases involved Fairview and UMP.

A recent Research Billing Audit Report issued by Fairview’s Corporate Compliance function has provided additional validation that the actions taken to improve TASCS were effective. The audit:

1. Evaluated accuracy of charge routing to either insurance or clinical trial as per the established billing grid for the study; and

2. Determined if the right charges based on CPT code and documentation were assigned.

The testing results reported in Fairview’s audit report were very positive. The Research Administration System Director at Fairview indicated the improvement made to TASCS was an important contributing factor for the success reported.
### Current Quarter Results

<table>
<thead>
<tr>
<th>Report Date</th>
<th>Audit</th>
<th>Original Report Control Rating</th>
<th># of Essential Recommendations in the Report</th>
<th>Current Quarter Results</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Implemented</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Past Not Target Date</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Overall Progress Towards Implementation**

- **Not Past Target Date**: 2
- **Past Target Date**: 1
- **Not Implemented**: 1

### Status of "Essential" Recommendations as of January 27, 2012

- **Audits 2 years old (see the following report for details on unresolved issues)**
- **Audits < 2 years old have received prior follow-up**

#### Audits 2 years old

<table>
<thead>
<tr>
<th>Month / Year of Follow-up</th>
<th>Report Date</th>
<th>Audit</th>
<th>Original Report Control Rating</th>
<th># of Essential Recommendations Receiving Follow-up</th>
<th># of Essential Recommendations Considered Fully Implemented</th>
<th>Implementation Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feb. 2012</td>
<td>Aug-07</td>
<td>UM - Morris Campus</td>
<td>Adequate</td>
<td>12</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>Feb. 2011</td>
<td>Sep-08</td>
<td>Dept of Mechanical Engineering</td>
<td>Needs Improvement</td>
<td>9</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Jun-09</td>
<td>Apr-10</td>
<td>Job Scheduling - EFS</td>
<td>Adequate</td>
<td>6</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Feb. 2010</td>
<td>May-11</td>
<td>University Services IT</td>
<td>Good</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Sep-10</td>
<td>Jun-10</td>
<td>OIT Change Control</td>
<td>Good</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Dec-10</td>
<td>May-11</td>
<td>OIT Server Virtualization</td>
<td>Good</td>
<td>6</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Jan-11</td>
<td>May-11</td>
<td>UMD Intercollegiate Athletics</td>
<td>Needs Improvement</td>
<td>6</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Jul-10</td>
<td>May-11</td>
<td>Real Estate Office</td>
<td>Good</td>
<td>8</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Feb-11</td>
<td>May-11</td>
<td>Athletics - NCAA Compliance</td>
<td>Good</td>
<td>11</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Jan-11</td>
<td>May-11</td>
<td>Athletics - EFS</td>
<td>Good</td>
<td>6</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Jun-11</td>
<td>May-11</td>
<td>Athletics - EFS</td>
<td>Good</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

#### Audits < 2 years old

- **Audits receiving first-time follow-up**

<table>
<thead>
<tr>
<th>Month / Year of Follow-up</th>
<th>Report Date</th>
<th>Audit</th>
<th>Original Report Control Rating</th>
<th># of Essential Recommendations Receiving Follow-up</th>
<th># of Essential Recommendations Considered Fully Implemented</th>
<th>Implementation Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug-07</td>
<td>Aug-07</td>
<td>UM - Morris Campus</td>
<td>Adequate</td>
<td>12</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>Aug-08</td>
<td>Aug-08</td>
<td>Audience View Ticketing System</td>
<td>Adequate</td>
<td>7</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Sep-08</td>
<td>Sep-08</td>
<td>Audience View Ticketing System</td>
<td>Needs Improvement</td>
<td>9</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Mar-09</td>
<td>Mar-09</td>
<td>Department of Concerts &amp; Lectures</td>
<td>Adequate</td>
<td>7</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Jun-09</td>
<td>Jun-09</td>
<td>Sponsored Project Sub-Awards</td>
<td>Good</td>
<td>11</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Jul-09</td>
<td>Jul-09</td>
<td>Effort Certification</td>
<td>Good</td>
<td>5</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Aug-09</td>
<td>Aug-09</td>
<td>School of Dentistry</td>
<td>Adequate</td>
<td>11</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Dec-09</td>
<td>Dec-09</td>
<td>Payment Card Industry Compliance</td>
<td>Good</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Jan-10</td>
<td>Jan-10</td>
<td>Google Applications for UMN</td>
<td>Good</td>
<td>3</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Jan-10</td>
<td>Jan-10</td>
<td>UM - Crookston Campus</td>
<td>Good</td>
<td>14</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Jan-10</td>
<td>Jan-10</td>
<td>Non-Sponsored Accounts Receivable</td>
<td>Good</td>
<td>10</td>
<td>5</td>
<td>4</td>
</tr>
</tbody>
</table>

### "Essential" Recommendation Implementation Trends

| Month / Year of Follow-up Report | # of Essential Recommendations Receiving Follow-up | # of Recommendations Considered Fully Implemented | Implementation Percentage |
|----------------------------------|-----------------------------------------------|------------------------------------------------|
| Feb. 2012 | 82 | 55 | 67% |
| Sept. 2011 | 78 | 34 | 67% |
| June 2011 | 57 | 21 | 67% |
| Feb. 2011 | 82 | 43 | 67% |
| Sept. 2010 | 80 | 29 | 67% |
| May 2010 | 103 | 47 | 67% |
| Feb. 2010 | 101 | 36 | 67% |
| Sept. 2009 | 108 | 36 | 67% |
| May 2009 | 132 | 36 | 67% |

### Notes

- **(a)** Significant progress has been made towards resolving the IT findings during the last year. Good progress is now being made on resolving the last finding, which involves a significant upgrade to the Morits’ network infrastructure.
- **(b)** An issue relating to improved daily sales reports continues unresolved. C&L continues to work with Audience/View management on developing system-generated sales reports.
- **(c)** The remaining recommendation deals with planning for maintenance or replacement of the sub-award database. SPA management indicates that a business analyst position has now been filled and will work on sub-contract vendor codes, imaging, EFS changes, and A133 database analysis. There is currently no funding for a large scale sub-award database. However, sub-award database improvements will compete for limited funding with smaller scale initiatives. The sub-award project is ranked high on the OVPR prioritization list.
- **(d)** The remaining recommendation relates to the need for a system to track effort commitments and continues to be on the OVPR list of system needs. However, a Commitment Management system is not feasible at this time due to budgetary reasons and to anticipated (Spring 2012) OMB/A21 changes in effort management regulations.
- **(e)** Issues pertaining to Dentistry’s Faculty Practice Plan continue unresolved, but management is working on this issue. Details are provided in the following report of “Issues Greater Than Two Years Old.”
- **(f)** Significant progress has been made towards addressing the server management concerns noted in this finding. The remaining unresolved portion of the finding relates to the servers supporting the voice-over IP system. Management has had difficulty recruiting and retaining server administration staff needed to address the remaining concern associated with this finding. Management has placed a lower priority on this issue accepted the residual risk because the availability of cell phones reduces operational risk associated with the system.
- **(g)** Actions have been taken to address a substantial portion of the risk associated with this finding. Management has accepted the residual risk of not performing a detailed review of field and page level permissions for each role in the financial system until the next system upgrade. Management believes such a review would be an enormous task which is not cost justified in light of other control processes.
- **(h)** University Services has made significant progress over the past 3 years in consolidating its IT infrastructure to reduce risks and costs. The remaining task to close this finding was migrating all of University Services’ disaster recovery servers to the planned institutional pod Data Centers currently being pursued by OIT. University Services determined their test and backup systems must remain out of the University’s primary Data Center to ensure adequate recovery capability should the University’s primary Data Center in WIB06 be compromised. Rather than spend significant resources upgrading existing University Services server rooms to address the deficiencies in physical security and environmental controls for the test and disaster recovery equipment, management has accepted interim risks and is working with OIT to develop a transition plan to quickly move all of their test/disaster recovery servers to OIT datacenters when a redundant facility is available. The Vice President of University Services and the CIO have concurred with this strategy/acceptance of risk.
<table>
<thead>
<tr>
<th>Audit/Report Date</th>
<th>Status-Partially Implemented (P) or Not Implemented (N)</th>
<th>Senior Management Contact</th>
<th>Summary of the Issue/Risk Involved</th>
<th>Current Comments From Management</th>
</tr>
</thead>
</table>
| University of Minnesota - Morris Aug-07 | P                                                      | Jim Hall Lowell Rasmussen Jacqueline Johnson Ann Hill Duin | The network design of UMM should be reconfigured to ensure that no single point of failure exists for any critical business processes. Management should continue developing procedures for enforcing consistency in device settings and should consider deploying an automated tool to manage network device configurations. Any variances in configuration settings should be documented (i.e., the need for the variance should be explained). | UMM Computing Services and OIT have started work on the network upgrade, and are currently conducting a review of the current network devices and configuration. The project has these planned milestones:  
  • January-May, 2012: review of current network, entry of information into database  
  • May-July, 2012: replacement of central network hardware  
  • July-August, 2012: replacement of wireless network  
  
  With the upgrade, Morris network management activities will move to OIT. Computing Services will transition to an on-site support role (hardware installation, replacement, etc.) |

# of Items 1

| Concerts & Lectures Mar-09 | P                                                      | Holly Radis-McCluskey Ben Johnson | C&L should work with the University AudienceView owner and the AudienceView representatives to develop improved system reports including daily sales by event, and detailed refund reporting. | Concerts and Lectures talked to AudienceView and they are working on scheduling an upgrade which C&L feels will solve this reporting issue. C&L tried for implementation in January 2012 but missed this window and will try for Spring 2012. AudienceView has a general ledger reporting process on this upgrade which will allow C&L to better define the funds for certain business processes. C&L has seen the reports and has done some preliminary testing on their testing environment for this new release. The refund report was completed in January 2011. Internal Audit will consider this recommendation complete when the daily sales report is complete. | 

# of Items 1

| Sponsored Project Sub-Award Jun-09 | P                                                      | Pamela Web Timothy Mulcahy | SPA in conjunction with OVPR should plan for maintenance and replacement of the sub-award database for both the short and long term. | SPA has completed recruitment for a full-time Business Analyst (reporting to OVPR-IT) dedicated to supporting SPA systems and electronic processes. One of the first responsibilities of this individual will be in the area of seeing what improvements can be made without the creation of a new, large-scale subaward database. We plan for this person's duties to include the following:  
  1) Create the cross-walk between subcontract vendor codes and EFS vendor codes (OVPR-IT was not able to complete this project with their existing resources as originally anticipated).  
  2) Work with ImageNow staff to determine whether it may be possible to look up A-133 reports and financial questionnaires in ImageNow without having to go through the subcontract database. In the past quarter, a meeting between SPA, OIT, and ImageNow staff occurred but no action came from that meeting because of naming convention and look-up functionality challenges within ImageNow. This remains to be resolved.  
  3) Determine what changes, if any, can be made within PeopleSoft (EFS) to help track subawards as they are proposed and issued.  
  4) Analyze the existing A-133 database and make a recommendation for its modification and replacement.  
  
  In addition, SPA is currently working on refining its internal business process to improve (manual) tracking of A-133 reports from subrecipients, primarily including more timely follow-up. This improved business process is expected to be in place by the end of FY12.  
  
  It remains the case that there is no funding for a large-scale subaward database. However, OVPR has a limited amount of funding available for smaller-scale initiatives. Once the analysis listed above is complete, it is |
<p>| # of Items | Effort Certification | P | Pamela Webb, Tim Mulcahy | The University should explore a system to more accurately track effort commitments compared to actual effort expended. This would also require more accurate commitment data be submitted to SPA at the proposal and award times. | There is no change this quarter, and no change is anticipated in this item until such time as the University has funding to invest in a Commitment Management system. This is not feasible at this time, both because of the (overlapping) human resources in OVPR and OIT that need to be devoted to the SIRC project and for budgetary reasons (this will represent a major outlay). Apart from financial reasons, SPA believes it is unwise to pursue it immediately as the federal government is contemplating changes in how effort needs to be certified/tracked - they hope to have word of a recommended change in A-21 sometime this spring thanks to the A-21 Interagency Task Force and their recommendations to OMB this past fall. (The task force has declined to make those recommendations public until OMB has reviewed them.) It is possible (though not certain) these recommendations will result in changes not only to how ECRT should function but also how effort commitments need to be forecast, tracked, and managed. Overall, the need for commitment management continues to be on the OVPR list of system needs and it is reviewed as a part of the annual process. |
| # of Items | School of Dentistry | P | Judith Buchanan, Aaron Friedman | Dentistry should establish a consistent and sustainable approach to control and monitor private practice activities. Private practice intramural agreements should be executed in a timely manner, prior to the start of the agreement period. The agreements should be written to establish payout formulas that comply with the Board of Regents policy. “Private Practice Plan: School of Dentistry.” Finance staff responsible for payment of faculty should ensure payments comply with the terms of the agreement and with policy. | Faculty Practice Agreements for 2011-2012 were signed by the practitioners and the School of Dentistry but are still awaiting execution by the Office of the Senior Vice President of the AHC. The agreements and payments are still not in compliance with current Board of Regents policy “Private Practice Plan: School of Dentistry.” A Dentistry private practice advisory committee has been formed to develop recommendations on the future direction of the entire faculty practice model for the School of Dentistry, and their report is due to the Dean by February 29, 2012. It is expected a new practice model will be drafted, which will be vetted through normal faculty and administrative processes prior to submission to the Board of Regents. |
| N | Judith Buchanan, Aaron Friedman | The practice of paying the faculty private practitioners prior to the recovery of overhead should be discontinued. | Overhead recovery from practitioners is still not in compliance with current Board of Regents policy. In addition, Dean's tax assessed on the overhead was not collected as part of the FY 2011 or the FY 2012-to-date Faculty Practice Plan operations. |
| P | Judith Buchanan, Aaron Friedman | Dentistry administration should continue their efforts to implement changes to the FPC to improve revenue generation and financial performance. Dentistry should continue working with the AHC and the Board of Regents (as needed) to determine if the compensation model and Board of Regents policy for the Dentistry practice plan should be modified. | The operational changes identified in the status update in mid 2010 were implemented and have resulted in progress on the financial results. The Faculty Practice had a loss of $80,000 in FY2009, a loss of $54,000 in FY 2010, and finished FY2011 with a loss just under $10,000 (see Audit Note below). This is improved but still not at the level that is compliant. Immediate compliance with the existing policy is deemed to be politically unfeasible given the negative impact on faculty compensation. A new partnership with Boynton Health Service to jointly offer a dental plan to undergraduates, effective September 2011, is expected to provide significant additional revenue. This additional revenue is expected to bring the clinic to a profitable level for FY 2012 if the patient volume forecast by the insurer is realized. |</p>
<table>
<thead>
<tr>
<th>Audit/Report Date</th>
<th>Status - Partially Implemented (P) or Not Implemented (N)</th>
<th>Senior Management Contact</th>
<th>Summary of the Issue/Risk Involved</th>
<th>Current Comments From Management</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Metropolitan Life is realized.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>As noted above, an advisory committee, supported by legal counsel from the AHC, was assembled to develop recommendations on the future direction of the entire faculty practice model for the School of Dentistry.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Internal Audit note: Financial results of Faculty Practice Clinic from July-December 2011 renewed concerns over the financial vitality of the clinic.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Revenues are 16.9% lower than the same period in FY 2011, while expenses are only 3.4% lower. Based upon these results, a projection of losses for FY 2012 would be near $100,000 (excluding clinic director’s salary and Dean’s tax).</td>
</tr>
<tr>
<td># of Items</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PCI Compliance</td>
<td>P</td>
<td>David Laden, Ben Allen</td>
<td>To ensure that the University can continue to process credit cards, management should make a concerted effort to comply with PCI DSS, or put in adequate compensating controls where the standard cannot be met.</td>
<td></td>
</tr>
<tr>
<td>Dec-09</td>
<td>Mike Volna, Doug O'Sullivan</td>
<td></td>
<td>Management should develop and implement an action plan for resolving compliance issues. Management should set a date for expected compliance/completion of its action plan. The items in the first set of bullets create more substantial risk and should be focused on first.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>The remaining open concern revolves around use of desktops and need for two-factor authentication when accessing PCI solutions remotely. OIT, the PCI compliance area in the Controller’s Office, and Athletics believe using a virtual desktop solution will address this concern for the institution and the Audience View application, which was specifically identified with this concern during the audit. OIT has infrastructure in place to establish a virtual desktop solution for workstations processing PCI transactions and plans to roll it out as a pilot test in Athletics, providing the concept is confirmed as viable from a compliance perspective. OIT, the PCI compliance area in the Controller’s Office, and Athletics are very hopeful that the strategy solves the immediate audit concern and simplifies operational side requirements while reducing costs. It is also believed this strategy will make management and monitoring related to PCI compliance more effective. It is expected the virtual desktop solution can be in place for Athletics by June 30, 2012.</td>
</tr>
<tr>
<td># of Items</td>
<td>1</td>
<td>David Laden</td>
<td>NSAR should require automated or manual approvals for all non-cash adjustments made in the billing module. Increased central monitoring of billing adjustments, modification of terms beyond 30 days, local printing of invoices and departmental deposits should be implemented. Remedial training regarding justification standards, local printing of invoices and departmental deposits should be considered for units in violation of standards.</td>
<td></td>
</tr>
<tr>
<td>Non-Sponsored Accounts Receivable</td>
<td>P</td>
<td>David Laden, Mike Volna</td>
<td>An enhancement to improve the approval and oversight of non-cash credits in billing has been added to the EFS &quot;Punch List&quot;. Module Support completed analysis and functional design for system modifications on November 21, 2011. This enhancement, which will require a second person to approve non-cash credits in billing, has been completed and tested. Remaining steps are to identify and train approvers in the new business process. Rollout into production is expected to be completed by March 31, 2012.</td>
<td></td>
</tr>
<tr>
<td>Jan-10</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td># of Items</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total:</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The bar charts shown below are presented to provide pictorial displays of the progress units are making on implementing audit recommendations rated as "essential". The bar chart included in the original report is shown in the left column, along with updated bar charts showing the previous quarter and the current status of the "essential" recommendations only (those bars that have red segments). The chart in the center column displays the status as of September 2011, while the chart on the right represents the current status. Charts are not presented for investigations. Charts for those units having implemented all "essential" recommendations during the current quarter are shown at the end of this report.
Energy Management/BSAC Systems (September 2011)

Original Report Evaluation  Previous Quarter Evaluation  Current Quarter Evaluation

Control Environment  Monitoring  Information & Communication  Risk Assessment  System Management  Resiliency & Continuity  Operational Efficiency  Regulatory & UMN Compliance

<table>
<thead>
<tr>
<th>Adequate Control</th>
<th>Significant Control Level</th>
<th>Critical Control Level</th>
<th>Potential Over-Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green</td>
<td>Yellow</td>
<td>Red</td>
<td>Blue</td>
</tr>
</tbody>
</table>

NO PREVIOUS CONTROL EVALUATION CHART
Units with Charts that Fully Implemented their "Essential" Recommendations During the Past Quarter

Original Report Evaluation

Previous Quarter Evaluation

Current Quarter Evaluation

AudienceView - Ticketing System (August 2008)

Department of Mechanical Engineering (September 2008)

- Adequate Control
- Significant Control Level
- Critical Control Level
- Potential Over-Control
Google Apps for UMN (January 2010)

University of Minnesota - Crookston (January 2010)

Legend:
- **Adequate Control**
- **Significant Control Level**
- **Critical Control Level**
- **Potential Over-Control**
Original Report Evaluation

Previous Quarter Evaluation

Current Quarter Evaluation

Job Scheduling - EFS (April 2010)

University Services IT (June 2010)

Adequate Control

Significant Control Level

Critical Control Level

Potential Over-Control
Veterinary Diagnostic Laboratory (December 2010)

OIT Networking & Telecommunications Services (NTS) (January 2011)
Audit Activity Report

Scheduled Audits

- Completed audits of: UMD School of Fine Arts, University Payroll, Intercollegiate Athletics, Cloud Services Due Diligence, UMD Library, Office of the Bursar, Course Fees, Controller’s Office—Treasury Accounting and Internal/External Sales, Dentistry—axiUm Review, and University Contract Management. Details are shown on the following charts.

- Began/continued audits of: Admissions, Compliance-Privacy/Security of regulated data, Moodle-Learning Management System, a review of undergraduate education initiatives, the vendor payment & imaging process, UMD Dining Services, the Human Subjects/IRB process, Housing, UM Police Department, and the Department of Family Medicine and Community Health.

Non-Scheduled Audits

- At the request of CFANS management we began a limited scope audit of the Agricultural Experiment Station.

Investigations

- Performed investigative work on six issues in accordance with the University Policy on Reporting and Addressing Concerns of Misconduct.

Special Projects

- Provided consulting services related to: data security, PCI compliance, HIPAA compliance, the In Common Silver federation project, mobile computing, NCAA football attendance certification, private practice activities within the Department of Neurology and the School of Dentistry, and University payroll exception testing.

Other Audit Activities

- Participated in the following:
  - Senior Leadership Group
  - Operations Leadership Team
  - President’s Policy Committee
  - Board of Regents Policy Committee
  - Executive Compliance Oversight Committee
  - Institutional Conflict of Interest Committee
  - University of Minnesota Foundation Audit Committee
  - Fairview Health Systems Audit Committee
  - Institutional Conflict of Interest Policy Review Committee
  - OSH Steering Committee
  - IT Leadership Alliance
  - HRMS PeopleSoft Steering Committee
  - Sponsored Research Certified Approver Group
  - NCAA Compliance Review of Academic Support Services Committee
The control framework for University payroll needs significant improvement to address most major business and compliance risks. Specifically, absence of effective monitoring and oversight has jeopardized the decentralized control framework and resulted in inconsistent data, inefficient processes, and insufficient controls. Opportunities to leverage the University’s investment in enterprise resources through the use of data analytics and reporting have not been maximized.

Poor communication at the unit level is a root cause of many delays and errors within the system. Payroll leadership demonstrated awareness and shared their assessment of risks related to their operation, including many identified in this report. At the time of the audit, payroll leadership was in the process of evaluating operations and controls in an effort to improve efficiencies and effectiveness of operations.
The operational and financial controls within Athletics indicate there is room for improvement. The recurring nature of some excessive expenses reviewed (complimentary tickets, cell phone allowances, and hospitality/food expenses) indicates the need for more vigilant oversight in these areas. On the positive side, our employee survey revealed a fairly widely-held perception among employees that their work environment is positive and there is a commitment to compliance and high ethical standards. Athletics has developed a management action plan which includes several responses for which Athletics management is willing to accept the risks.

This audit evaluated Cloud Services that include the collection/storage of University data on devices managed by a vendor which are not housed within University facilities. Our audit work confirmed that the University uses a large variety and quantity of Cloud Services. There are no policies defined specifically for Cloud Services and existing University policies do not fully align with use of Cloud Services. It is very challenging to determine if management involvement is right sized for all Cloud Service acquisitions because formal mechanisms are not in place to identify and log when Cloud Services are acquired that represent a high impact or larger risk solution. The CIO’s office is coordinating efforts with the Controller’s Office and the Office of the General Counsel to address the issues in this report.
### UMD Library

- **Report #**: 1207
- **Issue Date**: Dec-11
- **# of Essential Recs.**: 0
- **Total # of Recs.**: 0
- **Overall Assessment**: Good
- **Adequacy of MAP**: NA

The audit did not identify any issues which warranted either significant or essential recommendations. This is a rare occurrence and is indicative of a staff and management with a sincere interest in complying with required policies and procedures. The audit did identify areas where selected operations could be enhanced and these were reported verbally to Library management.

### Office of the Bursar

- **Report #**: 1208
- **Issue Date**: Jan-11
- **# of Essential Recs.**: 0
- **Total # of Recs.**: 8
- **Overall Assessment**: Good
- **Adequacy of MAP**: Satisfactory

The Office of the Bursar has established an effective system of controls that addresses its most significant risks. Controls and accuracy in handling cash receipts were particularly noteworthy, as we confirmed an accumulative cash overage of less than $90 during the audit period while processing gross receipts totaling $487 million. While this record for accuracy in cash handling was outstanding, we did note certain issues related to office activities and system security that should be addressed to ensure the Office of the Bursar continues to fulfill its compliance and oversight roles.
Course Fees

Due to the limited scope and system-wide nature of this audit a control evaluation chart was not developed for this report.

This audit included an assessment of whether departmental uses of the funds collected through course fees are appropriate and in accordance with the provisions contained in the Regent’s Policy on “Tuition and Fees”. We believe that while the current process for course fee assessment works well, improvements could be made that include revision of the Regents policy to clarify the reason for the fee, define a “consumable” product or service, and update for appropriate allowable uses.

To enhance accountability over the use of course fee revenue, modifications should be made to the course fee policies and process.

Treasury Accounting & Int/Ext Sales

<table>
<thead>
<tr>
<th>Control Environment</th>
<th>Monitoring</th>
<th>Information &amp; Communication</th>
<th>Risk Assessment</th>
<th>Endowment Accounting</th>
<th>Bank Reconciliations</th>
<th>Internal/External Sales</th>
<th>Administration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adequate Control</td>
<td>Adequate Control</td>
<td>Adequate Control</td>
<td>Adequate Control</td>
<td>Adequate Control</td>
<td>Adequate Control</td>
<td>Adequate Control</td>
<td>Adequate Control</td>
</tr>
</tbody>
</table>

This indicates a desirable control level. However, the last three areas have potential over-control.

Treasury Accounting and Internal/External Sales have developed control environments and systems of internal control that address their major business and compliance risks. We noted significant improvements have been made concerning the reconciliation of University bank accounts. Our 2005 audit of this process identified several weaknesses, but the current process is much improved, highly automated and results in timely reconciliations of the accounts. Similarly, the processes used to account for University endowments are also highly automated and well-controlled. We did identify one issue, rated as significant, related to timeliness of the negotiations for non-standard external sales contracts.
Dentistry - axiUm System

Dentistry has effectively implemented the axiUm clinic management application and is now better positioned to address emerging administrative and regulatory needs. Moving to axiUm has eliminated its dependence on an old, internally developed system which had limited functionality and was difficult to enhance. The axiUm application is meeting the needs of daily clinical operations and is progressing toward the goal of electronic health records for dental clinics. The most critical issues included controls over patient accounts receivable, more fully utilizing the system’s functionality to improve business processes, monitoring & reporting, improving the billing rate development & adjustment processes, and strengthening system change controls, access rights, and authentication practices.

University Contract Management

We believe additional structure/guidance would benefit the overall effectiveness of contract administration within the University. Because of the decentralized approach to contract administration, risks associated with managing the contracts are identified and mitigated locally by the contract owners without central review. We noted significant differences in the formality and level of oversight/monitoring in the various units responsible for the contracts we reviewed. Little to no guidance is provided in terms of institutional expectations for the administration of individual contracts. While we noted areas of improvement in the administration of each of the contracts we reviewed, Contract Administration - Auxiliary Services is setting the standard for effective contract administration at the University. Energy Management also has a disciplined approach and the technical knowledge necessary for the administration of the Foster Wheeler plant management contract.
Audit Committee February 9, 2012

**Agenda Item:** External Auditor's Review of Completed Audit Work & Letters to Management

☐ review ☐ review/action ☐ action ☒ discussion

**Presenters:** Associate Vice President Michael Volna
Kirsten Vosen, Partner, Deloitte & Touche
Katie Knudtson, Partner, Deloitte & Touche

**Purpose:**

☐ policy ☐ background/context ☒ oversight ☐ strategic positioning

To update the Audit Committee on the results of the FY 2011 A-133 audit and other audits performed by Deloitte & Touche.

**Outline of Key Points/Policy Issues:**

The A-133 compliance audit is required as a condition of the University receiving federal funding for research, student financial aid, and other federal programs. Deloitte will discuss their audit procedures, conclusions, reported findings, and other observations.

The management letter communicates the external auditor’s overall observations and findings on internal controls, accounting and reporting, compliance, and other matters. Deloitte has judged that their comments relative to the FY 2011 engagements do not rise to a level of significance that warrants discussion with the Audit Committee, and they will be issuing their letter directly to University management. Copies of their letter will be available to the Audit Committee.

Deloitte will also briefly highlight other audit and non-audit engagements performed for the University during FY 2011. All proposed engagements were scrutinized by both Deloitte and the Controller’s Office, and none were judged to impair Deloitte’s independence with respect to performing the University’s annual financial audit.

**Background Information:**

These engagements are performed annually by the external auditors, and the results are presented to the Board of Regents Audit Committee in conformance with the Board of Regents policy: *Board Operations and Agenda Guidelines*. 
Audit Committee

February 9, 2012

Agenda Item: The Audit Committee Landscape in Higher Education

☐ review  ☐ review/action  ☐ action  ☑ discussion

Presenters: Associate Vice President Gail Klatt
Deb DeHaas, Vice Chairman and Central Region Managing Partner, Deloitte LLP
Nina Thanjan, Director, Deloitte Consulting LLP

Purpose:

☐ policy  ☑ background/context  ☑ oversight  ☐ strategic positioning

The purpose of this presentation is to provide the Audit Committee with external perspective on the approaches being taken by other higher education institutions and their audit committees to address areas of strategic importance.

Outline of Key Points/Policy Issues:

Ms. DeHaas and Ms. Thanjan will discuss their observations in working with governing boards of other higher education institutions on the topics of:

- Changes in the risk profiles of higher education clients from the audit perspective
- Challenges presented by the regulatory landscape and the associated cost of compliance.
- Potential for financial and operational returns on investment through technology optimization.
- Cost efficiencies that can be realized through organizational alignment.

Background Information:

Deb DeHaas serves as the vice chairman and Central region managing partner for Deloitte LLP, which includes 23 offices across 12 states. With 9,000 professionals, Deloitte is the largest Big Four organization in the region. In this role, Deb leads the quality, client
satisfaction, growth, marketplace, and human resource initiatives in the Central region. She also serves as the lead client service partner or advisory partner on a number of Deloitte’s most significant clients. Deb is a member of the Board of Directors of Deloitte LLP and is the U.S. Firms’ representative on the Canadian Board of Directors. She is the board chair of the Chicagoland Chamber of Commerce, Vice Chair of the United Way of Metropolitan Chicago and serves on the boards of World Business Chicago, The Executives’ Club of Chicago, Millennium Park, the Museum of Science and Industry and WTTW/Channel 11. She is a member of the Civic Committee of the Commercial Club of Chicago, Board of Trustees of Northwestern University and the Duke University Trinity College Board of Visitors. In her roles, Deb has dealt directly with the issues of sustainable cost reductions and other value enhancement strategies in both higher education and other complex organizations.

Nina Thanjan is a leader in Deloitte’s Higher Education & Technology practice and has over 18 years of consulting experience in Higher Education, Hospitals, Financial Services, Technology Companies and Government. She has experience as a project manager on large enterprise resource planning implementations. Nina also has experience in business process reengineering, data modeling, financial modeling, grants management, cost analysis, budgeting and diagnostic reviews of indirect cost rate proposals in higher education and hospitals. Prior to consulting she was employed by both Stanford University as a Financial Analyst and Carnegie Mellon University as a Budget Analyst. Relevant Higher Education Clients: Rutgers University, Yale University, Princeton University, Columbia University and Medical Center, Cornell Medical Center, Stanford University and Hospital, Research Foundation of CUNY, Carnegie Mellon University, UCLA.