UNIVERSITY OF MINNESOTA
BOARD OF REGENTS
Audit Committee
Thursday, September 8, 2011
8:00 - 9:15 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 Update - G. Klatt (pp. 2-25)
2. Independence of Internal Audit Function - G. Klatt (pp. 26-29)
3. 2011-12 Committee Workplan Discussion - R. Beeson/G. Klatt (pp. 30-31)
Audit Committee

September 8, 2011

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 June 2011 meeting, 15% of the outstanding recommendations rated as “essential” were implemented by University departments. This percentage is significantly less than our expected implementation rate of 40%. An updated control evaluation chart is included for each audit to show progress made on the “essential” items. No units fully implemented all their remaining “essential” recommendations.

• Two audit reports containing 16 recommendations rated as “essential” were issued in the last three months.

Background Information:

This report is prepared three times per year and is presented to the Audit Committee in conformance with Board Operations and Agenda Guidelines.
Internal Audit Update
University of Minnesota Regents Audit Committee
September 8, 2011

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 June 2, 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 2011 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.
Implementation rates were 15% for the period, which is less than our expected rate of 40%.

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

Time spent on investigative activities and special projects is slightly less than what was expected and budgeted for the year to date.
### Status of "Essential" Recommendations as of August 26, 2011

<table>
<thead>
<tr>
<th>Report Date</th>
<th>Audit</th>
<th># of Essential Recommendations in the Report</th>
<th># of Essential Recommendations Remaining From Prior Quarter</th>
<th>Current Quarter Results</th>
<th>Overall Progress Towards Implementation*</th>
<th>Any Individual Issues With &lt; Satisfactory Progress?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug-07</td>
<td>UM - Morris Campus</td>
<td>12</td>
<td>1</td>
<td>1</td>
<td>Satisfactory</td>
<td></td>
</tr>
<tr>
<td>Aug-08</td>
<td>AudienceView Ticketing System</td>
<td>7</td>
<td>2</td>
<td>2</td>
<td>Satisfactory</td>
<td></td>
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<tr>
<td>Sep-08</td>
<td>Department of Mechanical Engineering</td>
<td>9</td>
<td>1</td>
<td>1</td>
<td>Satisfactory</td>
<td></td>
</tr>
<tr>
<td>Mar-09</td>
<td>Department of Concerts &amp; Lectures</td>
<td>7</td>
<td>1</td>
<td>1</td>
<td>Satisfactory</td>
<td></td>
</tr>
<tr>
<td>Jun-09</td>
<td>Sponsored Project Sub-Awards</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>Satisfactory</td>
<td></td>
</tr>
<tr>
<td>Jul-09</td>
<td>Effort Certification</td>
<td>5</td>
<td>2</td>
<td>2</td>
<td>Satisfactory</td>
<td></td>
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<tr>
<td>Aug-09</td>
<td>School of Dentistry</td>
<td>11</td>
<td>3</td>
<td>2</td>
<td>1 Satisfactory</td>
<td>Yes (1)</td>
</tr>
<tr>
<td>Dec-09</td>
<td>Payment Card Industry Compliance</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>Satisfactory</td>
<td></td>
</tr>
<tr>
<td>Jan-10</td>
<td>Google Applications for UMN</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>Satisfactory</td>
<td></td>
</tr>
<tr>
<td>Jan-10</td>
<td>UM - Crookston Campus</td>
<td>14</td>
<td>3</td>
<td>3</td>
<td>Satisfactory</td>
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<tr>
<td>Jan-10</td>
<td>Non-Sponsored Accounts Receivable</td>
<td>10</td>
<td>5</td>
<td>5</td>
<td>Satisfactory</td>
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<tr>
<td>Apr-10</td>
<td>Job Scheduling - EFS</td>
<td>6</td>
<td>4</td>
<td>3</td>
<td>1 Satisfactory</td>
<td></td>
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<tr>
<td>Jun-10</td>
<td>University Services IT</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>Satisfactory</td>
<td></td>
</tr>
<tr>
<td>Sep-10</td>
<td>Upward Bound</td>
<td>16</td>
<td>1</td>
<td>1</td>
<td>Satisfactory</td>
<td></td>
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<tr>
<td>Sep-10</td>
<td>OIT Change Control</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1 Satisfactory</td>
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<tr>
<td>Sep-10</td>
<td>CFANS Research &amp; Outreach Centers &amp; Cloquet Forestry Center</td>
<td>8</td>
<td>4</td>
<td>1</td>
<td>1 2 Satisfactory</td>
<td></td>
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<tr>
<td>Dec-10</td>
<td>Veterinary Diagnostic Laboratory</td>
<td>6</td>
<td>4</td>
<td>3</td>
<td>1 Satisfactory</td>
<td></td>
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<tr>
<td>Jan-11</td>
<td>OIT Networking &amp; Telecommunications Services</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1 Satisfactory</td>
<td></td>
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<tr>
<td>Feb-11</td>
<td>University Purchasing Card Program</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>Satisfactory</td>
<td></td>
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<tr>
<td>Mar-11</td>
<td>Sponsored Financial Reporting</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>Satisfactory</td>
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<td>Apr-11</td>
<td>College of Liberal Arts Information Technology</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>Satisfactory</td>
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<tr>
<td>May-11</td>
<td>Boynton Health Services</td>
<td>10</td>
<td>10</td>
<td>6</td>
<td>4 Satisfactory</td>
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<tr>
<td>May-11</td>
<td>OIT Server Virtualization</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>1 Satisfactory</td>
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<td>May-11</td>
<td>UMD Intercollegiate Athletics</td>
<td>6</td>
<td>6</td>
<td>5</td>
<td>1 Satisfactory</td>
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<tr>
<td>May-11</td>
<td>Real Estate Office</td>
<td>8</td>
<td>8</td>
<td>1</td>
<td>4 3 Satisfactory</td>
<td></td>
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<tr>
<td>May-11</td>
<td>Intercollegiate Athletics - NCAA Compliance</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>Satisfactory</td>
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<tr>
<td>Jun-11</td>
<td>EastCIF</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1 Satisfactory</td>
<td></td>
</tr>
</tbody>
</table>

**Total:** 162 78 12 50 16

* The following bar charts provide details on progress made towards implementation

(1) Issues pertaining to Dentistry's Faculty Practice Plan continue unresolved. Details are provided in the following report of "Issues Greater Than Two Years Old".

### "Essential" Recommendation Implementation Trends

#### Month / Year of Follow-up Report

<table>
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<tr>
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<tr>
<td># of Essential Recommendations Receiving Follow-up</td>
<td>78</td>
<td>57</td>
<td>82</td>
<td>80</td>
<td>103</td>
<td>101</td>
<td>108</td>
<td>132</td>
<td>179</td>
<td>102</td>
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<td># of Recommendations Considered Fully Implemented</td>
<td>12</td>
<td>16</td>
<td>35</td>
<td>27</td>
<td>30</td>
<td>47</td>
<td>39</td>
<td>44</td>
<td>53</td>
<td>34</td>
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<tr>
<td>Implementation Percentage</td>
<td>15%</td>
<td>28%</td>
<td>43%</td>
<td>34%</td>
<td>29%</td>
<td>47%</td>
<td>36%</td>
<td>33%</td>
<td>30%</td>
<td>33%</td>
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<tr>
<td>Audit/Report Date</td>
<td>Status-Partially Implemented (P) or Not Implemented (N)</td>
<td>Senior Management Contact</td>
<td>Summary of the Issue/Risk Involved</td>
<td>Current Comments From Management</td>
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<tr>
<td>University of Minnesota - Morris Aug-07</td>
<td>P</td>
<td>Jim Hall Lowell Rasmussen, Jacqueline Johnson, Ann Hill Duin</td>
<td>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).</td>
<td>During Spring and Summer 2011, Computing Services worked with OIT to refine options and shared costs for a campus network upgrade. The total cost will be about $1.5 million, with OIT to cover $732,000 and Morris covering $776,000. In July, Morris administration agreed to internal loan terms with the CFO’s office. Morris has existing funds in the Computing Services network budget to cover the first year payment. OIT is currently finalizing the schedule details, including staffing, with the following deliverables: October 2011: Review draft network upgrade timeline. December 2011: Timeline and work schedules are finalized. January-March 2012: On-site network upgrade activities begin. With the upgrade, Morris network management activities will move to OIT. Computing Services staff will transition to an on-site support role (hardware installation, replacement, etc).</td>
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<td># of Items 1</td>
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<tr>
<td>Enterprise Ticketing System (AudienceView) Aug-08</td>
<td>P</td>
<td>Jason Lafrenz</td>
<td>Access to the AudienceView application should be granted through Central Authentication Services using x.500 usernames and passwords. Privileged user access to the AudienceView application, database or server should require M Key token and pin authentication. No account username or password should ever be shared by more than one individual in the application, database or on the server. This is especially true for privileged accounts and service accounts used for process automation. Audit trails at the AudienceView application; database and server level should be secured and monitored. As OIT has identified a product for performing this function at the server level, they should move quickly toward implementing the solution. Access rights assignments should be reviewed on a periodic basis by appropriate managers. Records of rights assignment authorization should be retained for the life of the access authorization. Records of the periodic review should be maintained for a reasonable period (e.g., one year). Documentation of access assignment processes and security methodologies should be maintained at each level of the AudienceView</td>
<td>Athletics is proposing an alternate network configuration to OIT that will address the remaining concern associated with this finding which is two factor remote access. This VPN Client based solution will utilize software based keys along with device authentication as the two factors.</td>
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### Department of Mechanical Engineering

**Sep-08**

**P**

**Sue Mantell**  
**Uwe Kortshagen**

An efficient and effective process should be implemented to verify that all workstations used by department staff are configured to satisfy the security standards established by OIT (i.e., the equipment should be configured to pass the quick start tests).

Management should develop a formal inventory of all computer equipment owned/used by its personnel. Once that inventory is developed, management should develop a plan to transition system support for all computers used by ME to its central IS staff or implement a process to ensure that security risks are formally evaluated and properly managed.

A process should be established to communicate security standards and expected behavior by ME staff, including quick involvement by management when security standards are circumvented by individual staff actions.

Mechanical Engineering has a plan to convert all of its workstations (except for laboratory dedicated machines) to the University active directory protocol. Recently purchased workstations have been successfully implemented to active directory including those that are used in our machine shop and several labs associated with undergraduate education. The next step is to implement active directory in existing workstations that are not managed by MENET. Mechanical Engineering will be in dialogue with OIT regarding an exception for workstations that are running specialized software. The conversion process may take several months (possibly through January 2012), because Mechanical Engineering has only 2 fulltime staff members to support all of the IT activities in the department.

### 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.

The custom report has been submitted to AudienceView, and a quote is forth coming. It has been logged in their custom report category within their customer application program HEAT. Looking at implementation of the report within the next three months.
<p>| Sponsored Project Sub-Award | Jun-09 | P | Pamela Webb 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. | Due to competing OIT priorities and programming complexities, release of the SPA work bench has been delayed to Fall 2011. SPA is continuing to report FFATA in the FSRS website but the application we are using (Google Docs) is very labor intensive. The use of a manual system necessarily increases the likelihood of data entry errors, but it may be unwise at this time to invest in an electronic system since there is pending federal legislation (HR 2146: the DATA Act) that will likely change if or how FFATA reporting is accomplished. Internally, we added a new data element within EFS to more definitely identify whether each federal award is or is not subject to FFATA. This change is expected to improve data quality and reliability. SPA met with OVPR-IT to update the SPA subcontract database vendor codes to establish a cross-walk with the EFS vendor codes. OVPR-IT estimated that this cross-walk database will be completed in the fall. Once complete, this will allow for improved searching. We have tested and are now linking all new A-133 audit reports and financial questionnaires in the Subcontract Database to WebNow. This hyperlink in the Subcontract database will now allow the user to go directly to the document if they are logged into WebNow. Procedures have been drafted for staff use. We are also working with ImageNow staff on the possibility of being able to look up A-133 reports and financial questionnaires in ImageNow without having to go through the subcontract database. This would allow staff working in ImageNow to locate these documents without exiting and entering their queries in the subcontract database. This capacity requires access to the cross-walk listed above. |
| Effort Certification | Jul-09 | P | Pamela Webb Tim Mulcahy | User provisioning of effort coordinator or administrator access to the ECRT application should be formalized and include maintained documentation of the approval to grant the access. A formal list of acceptable access approvers should be maintained by the user administrator, and approvals should be obtained prior to the granting of access. A formalized process for removing user access should also be established that includes appropriate approval for removal. In addition, assigned ECRT application access should be reviewed at least on an annual basis by the defined approvers to ensure all user access is appropriate. SPA staff should also consider utilizing a University enterprise wide access management process to provide process consistency and appropriate segregation of duties. These user provisioning controls should be implemented for all ECRT users with any form of update access, but ECRT administrator access is not to be granted to non-approved users. User administration responsibilities are scheduled to be transferred to OIT Data Security in September 2011. A self-conducted access review is being completed by SPA prior to this transition. Evidence was provided in March 2009 showing that the developer’s administrator access was removed from the application. This finding will be marked complete once evidence is obtained showing: - OIT Data Security has taken full responsibility for user administration - A finalized list of SPA approvers has been established to approve access requests administered by OIT Data Security - Periodic access reviews have been, or are formally planned to be, conducted by OIT Data Security in conjunction with SPA at least on an annual basis. |</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>P</td>
<td>Pamela Webb, Tim Mulcahy</td>
<td>the most pressing. To significantly reduce this risk exposure in the short-term, SPA should work on immediately implementing all user provisioning controls for ECRT administrators, and perform formalized annual periodic access reviews for other users. Update access within the ECRT application should not be provided to developers. Developer application administrator access should thus be removed by management immediately. 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.</td>
<td>In addition, if SPA employees retain user administration rights a mechanism will need to be devised to provide independent monitoring of these activities. Monitoring should ensure SPA's use of user administration rights to bypass the standard OIT Data Security process is restricted to emergency situations. There is no funding available for a commitment Management system at this time. This remains on Vice President Mulcahy's system needs list and will be pursued at such time as funding becomes available.</td>
</tr>
<tr>
<td>School of Dentistry</td>
<td>P</td>
<td>Patrick Lloyd, Frank Cerra</td>
<td>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.</td>
<td>Practice agreements for the faculty practice and oral pathology have been signed on a timely basis by the practitioners and the School of Dentistry. These agreements are at the AHC awaiting final execution. Agreement with the AHC legal office on the practice agreements for the orthodontia practices has been completed. They are awaiting routing for signature. We met last week with them and they are ready to sign the approved agreements. Dean's tax was not collected as part of the FY2011 Faculty Practice Plan operations.</td>
</tr>
<tr>
<td>Aug-09</td>
<td>N</td>
<td>Patrick Lloyd, Frank Cerra</td>
<td>The practice of paying the faculty private practitioners prior to the recovery of overhead should be discontinued.</td>
<td>The faculty practice finished fiscal year 2011 just below break-even for the year. While this is not yet at a level in compliance with the existing policy, it is substantially improved from prior year results, where losses for the practice approached $100,000 annually.</td>
</tr>
<tr>
<td></td>
<td>P</td>
<td>Patrick Lloyd, Frank Cerra</td>
<td>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.</td>
<td>A proposal to change the current Regents policy for private practice has been with the former dean for many months. This recommendation has now been brought to the interim dean for her review. In addition, we have met with AHC legal counsel to discuss the history, background, legal aspects, potential financial and the political ramifications of changes. Based upon that initial meeting the interim dean felt that it would be beneficial for her to discuss the issue and the potential next steps with the AHC senior vice president and the provost to determine their priorities on this issue given her position and time horizon as an interim dean. We expect that those discussions will take place in the next month. The transition of the reporting relationship of the dean of the School of Dentistry to the provost and the assumption of the senior vice president of the AHC to his new position as a result of the former senior vice president's retirement has also impacted progress as new participants need to be educated prior to any decision making steps.</td>
</tr>
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<table>
<thead>
<tr>
<th># of Items</th>
<th>2</th>
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</table>

School of Dentistry | P | Patrick Lloyd, Frank Cerra | 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. | Practice agreements for the faculty practice and oral pathology have been signed on a timely basis by the practitioners and the School of Dentistry. These agreements are at the AHC awaiting final execution. Agreement with the AHC legal office on the practice agreements for the orthodontia practices has been completed. They are awaiting routing for signature. We met last week with them and they are ready to sign the approved agreements. Dean's tax was not collected as part of the FY2011 Faculty Practice Plan operations. |

| # of Items | 3 |

| Total:     | 11 |
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 June 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.
Google Apps for UMN (January 2010)

University of Minnesota - Crookston (January 2010)
University Services IT (June 2010)

- Disaster recovery preparation
- Customer service
- Code change management
- Server & database security
- Workstation security
- Risk Assessment
- Information & Communication
- Monitoring

Desirable Control Level

Potential Over-Control

Control Environment
Monitoring
Information & Communication
Risk Assessment
Workstation security
Server & database security
Code change management
Customer service
Disaster recovery preparation

Upward Bound (September 2010)

- Disaster recovery preparation
- Customer service
- Code change management
- Server & database security
- Workstation security
- Risk Assessment
- Information & Communication
- Monitoring

Desirable Control Level

Potential Over-Control

Control Environment
Monitoring
Information & Communication
Risk Assessment
Workstation security
Server & database security
Code change management
Customer service
Disaster recovery preparation

Information Systems Inventory
Sponsored Projects Payroll & Personnel
Disbursements & Purchasing Administration
Risk Assessment
Information & Communication
Monitoring
Control Environment

Desirable Control Level

Potential Over-Control
Original Report Evaluation

Purchasing Card Program (February 2011)

Previous Quarter Evaluation

Current Quarter Evaluation

Sponsored Financial Reporting (March 2011)
Original Report Evaluation

**OIT Server Virtualization (May 2011)**

- Control Environment
- Monitoring
- Information & Communication
- Risk Assessment
- Host/server configuration
- Service integration
- Shared administration
- Conversion management

**Current Quarter Evaluation**

- Control Environment
- Monitoring
- Information & Communication
- Risk Assessment
- Host/server configuration
- Service integration
- Shared administration
- Conversion management

**Previous Quarter Evaluation**

- Control Environment
- Monitoring
- Information & Communication
- Risk Assessment
- Host/server configuration
- Service integration
- Shared administration
- Conversion management

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**UMD Intercollegiate Athletics (May 2011)**

- Control Environment
- Monitoring
- Information & Communication
- Risk Assessment
- General Controls
- NCAA Compliance
- Cash Receipts
- Accounts Receivable
- Disbursements
- Payroll
- Information Systems

**Current Quarter Evaluation**

- Control Environment
- Monitoring
- Information & Communication
- Risk Assessment
- General Controls
- NCAA Compliance
- Cash Receipts
- Accounts Receivable
- Disbursements
- Payroll
- Information Systems

**Previous Quarter Evaluation**

- Control Environment
- Monitoring
- Information & Communication
- Risk Assessment
- General Controls
- NCAA Compliance
- Cash Receipts
- Accounts Receivable
- Disbursements
- Payroll
- Information Systems

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**Legend**

- **Green**: Adequate Control
- **Yellow**: Significant Control Level
- **Red**: Critical Control Level
- **Blue**: Potential Over-Control
Eastcliff (June 2011)

Control Environment
Monitoring
Information & Communication
Risk Assessment
Disbursements & Purchasing
Payroll

Adequate Control
Significant Control Level
Critical Control Level
Potential Over-Control
Audit Activity Report

Scheduled Audits

- Completed audits of: the Department of Civil Engineering (including the St. Anthony Falls Lab and the National Center for Earth-surface Dynamics) and Energy Management/BSAC Systems. Details are shown on the following charts.

- Began/continued audits of: the School of Dentistry clinical system (AxiUm), University Payroll, Intercollegiate Athletics, University Contract Management, UMD School of Fine Arts, Admissions, Treasury Accounting & Internal/External Sales, University course fees, Office of the Bursar, UMD Library, and due diligence processes performed prior to using Cloud Services.

Investigations

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

Special Projects

- Provided consulting services related to: data security, equipment disposal, controls associated with the AudienceView ticketing system, HIPAA compliance, the In Common Silver federation project, mobile computing, 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
Audit Reports Issued Since June 2011

Civil Engineering

- Control Environment: Adequate
- Monitoring: Adequate
- Information & Communication: Adequate
- Risk Assessment: Adequate
- Administration: Adequate
- Sponsored Projects: Adequate
- Payroll & Human Resources: Adequate
- Purchasing & Disbursements: Adequate
- Cash Receipts & A/R: Adequate
- NCED Center Review: Adequate

Report # 1201  Issue Date Aug-11
# of Essential Recs. 10  Total # of Recs. 24
Overall Assessment Adequate  Adequacy of MAP Satisfactory

This audit included Civil Engineering, the St. Anthony Falls Lab, and the National Center for Earth-surface Dynamics. Collectively, these units have developed a control environment and a system of internal control that addresses most major business and compliance risks. However, we noted a higher than average error rate with regard to financial operations when compared to other units within the college. Many issues identified were also noted in the previous audit conducted in 2003. Overall, we found a lack of adequate monitoring and poor maintenance of transactional supporting documentation. This was especially evident in the payroll, accounts receivable, disbursement, and sub award processes. Poor communication, staff turnover/retrenchment, and inadequate training and lack of appropriate supervision or monitoring of financial activity were contributing factors.

Energy Management/BSAC Systems

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

Report # 1202  Issue Date Sep-11
# of Essential Recs. 6  Total # of Recs. 7
Overall Assessment Adequate  Adequacy of MAP Satisfactory

This audit examined Energy Management’s processes associated with ensuring consistency and reliability of fire alarm and environment management/monitoring systems, preparations for potential disasters, operational efficiency and compliance with regulatory requirements. A number of management and operational concerns exist. While the configuration and operational issues outlined in this report are material, there are several mitigating processes to ensure University students, staff and visitors are quickly alerted to emergency situations. The fire alarm system does comply with all regulatory and industry requirements.
Audit Committee  September 8, 2011

Agenda Item:  Independence of the Internal Audit Function

☐ review  ☐ review/action  ☐ action  ☑ discussion

Presenters:  Associate Vice President Gail Klatt

Purpose:

☐ policy  ☐ background/context  ☑ oversight  ☐ strategic positioning

The Audit Committee of the Board of Regents has been delegated the responsibility for oversight of the internal audit function. Independence is a critical criterion for the professional conduct of internal audit work, and is created through organizational and governance infrastructure. The purpose of this presentation is to review the infrastructure in place at the University of Minnesota and how it fosters and supports audit independence.

Outline of Key Points/Policy Issues:

(1) Review of the professional standards regarding independence of the audit function and objectivity of the auditor.

(2) Review of the University infrastructure provided by Board of Regents Policy: Reservation and Delegation of Authority, the Audit Committee Charter, and the Office of Internal Audit Charter.

(3) Review how the Audit Committee fulfills its responsibilities as they relate to the independence of the audit function.

(4) Discussion of the practical application of the concept of independence in the internal audit function’s interactions with the University administration.
Background Information:

A summary of the *Standards for the Professional Practice of Internal Auditing* related to independence and objectivity and the associated actions of the University of Minnesota is included in the docket material.
<table>
<thead>
<tr>
<th>Source: Institute of Internal Auditing</th>
<th>The mission of the Office of Internal Audit is to provide independent, objective assurance and advisory services designed to add value and improve the operations of the University of Minnesota. It helps the University accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source: Standards for the Professional Practice of Internal Auditing</td>
<td>The internal audit activity must be independent, and internal auditors must be objective in performing their work.</td>
</tr>
<tr>
<td>Source: Institute of Internal Auditing’s Guidance relating to Independence &amp; Objectivity</td>
<td>Independence is defined as &quot;the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. It embodies the reporting structure of the function in order to allow for an appropriate level of organizational freedom and lack of restriction in their work and access to records.&quot; Direct and unrestricted access by the Chief Audit Executive to senior management and the Board achieves the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity.</td>
</tr>
<tr>
<td>Source: Standard for the Professional Practice of Internal Auditing</td>
<td>The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results.</td>
</tr>
<tr>
<td>Source: Institute of Internal Auditing Practice Advisory 1110-1</td>
<td>The chief audit executive (CAE), reporting functionally to the board and administratively to the organization’s chief executive officer, facilitates organizational independence.</td>
</tr>
<tr>
<td>Source: Practice Advisory 1110-1</td>
<td>Functional reporting to the board typically involves the board: Approving the internal audit activity’s overall charter; Approving the internal audit risk assessment and related audit plan; Receiving communications from the CAE on the results of the internal audit activities or other matters that the CAE determines are necessary, including private meetings with CAE without management present, as well as annual confirmation of the internal audit activity’s organizational independence; Approving all decisions regarding the performance evaluation, appointment, or removal of the CAE; Approving the annual compensation and salary adjustment of the CAE; Making appropriate inquiries of management and the CAE to determine whether there is audit scope or budgetary limitations that impede the ability of the internal audit activity to execute its responsibilities.</td>
</tr>
<tr>
<td>Source</td>
<td>PROFESSIONAL GUIDANCE</td>
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<tr>
<td><strong>Administrative reporting</strong> is the reporting relationship within the organization’s management structure that facilitates the day-to-day operations of the internal audit activity. Administrative reporting typically includes: Budgeting and management accounting; Human resource administration, including personnel evaluations and compensation; Internal communications and information flows; Administration of the internal audit activity’s policies and procedures.</td>
<td><strong>INDEPENDENCE</strong>: To provide for the independence of the Office of Internal Audit, the Board of Regents delegates directly to the Director of the Office of Internal Audit the authorities necessary to perform the duties set forth in the mission and scope of work. Additionally, the Director of the Office of Internal Audit is delegated administrative and operational authorities by the President of the University.</td>
</tr>
<tr>
<td><strong>Source</strong>: Office of Internal Audit Charter</td>
<td>Other Relevant Information</td>
</tr>
<tr>
<td><strong>Objective</strong></td>
<td><strong>Objective</strong> is defined as an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.</td>
</tr>
<tr>
<td><strong>Source</strong>: Standards for the Professional Practice of Internal Auditing Standard 1100 Independence &amp; Objectivity</td>
<td></td>
</tr>
<tr>
<td><strong>Interpretation</strong>: Impairment to organizational independence and individual objectivity may include, but is not limited to personal conflict of interest, scope limitations, restriction on access to records, personnel, and property, and resource limitation, such as funding.</td>
<td><strong>Authoritative Interpretation</strong>: The Office of Internal Audit Charter was last approved by the Audit Committee on 7/8/2008. The Audit Committee annually receives the Internal Audit risk assessment and related audit plan. Updates on Internal Audit activities are reported to the Audit Committee 3 times per year. The CAE receives annual performance appraisals from the President. The Office of Internal Audit follows all administrative policies and procedures (completes a compact, follows the University budget process, etc.). Because of state public meeting laws it is not possible for the CAE to meet privately with the Audit Committee.</td>
</tr>
<tr>
<td><strong>Source</strong>: IIA-Standard for Auditing 1130- Impairment to Independence &amp; Objectivity</td>
<td></td>
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<tr>
<td><strong>Source</strong>: IIA Practice Advisory 1120-1</td>
<td><strong>AUTHORITY</strong>: The Director and staff of the Office of Internal Audit are authorized to: Perform any operational duties for the University. Office of Internal Audit staff complete disclosures identifying any situations which may cause personal impairment.</td>
</tr>
</tbody>
</table>
Audit Committee

September 8, 2011

Agenda Item: 2011-12 Committee 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 finalize 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 discussions are relevant to the Audit Committee’s institutional risk assessment and their import to strategic outcomes.

The workplan ensures 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.

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
FY2012 Workplan

Workplan Theme: *Realizing opportunities through strategic risk management*

September: Audit Committee Workplan
Internal Audit Update (G. Klatt)
*Independence of the Internal Audit Function*

October: Even though the committee will *not* meet in October, it will 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.

December: External Auditor Report (Deloitte)
Compliance Officer Report (L. Zentner)
*Cloud Computing: Realizing its Opportunities Responsibly*
*Recalibration of Risk in the Research Enterprise (T. Mulchay)*
Information Item: Semi Annual Controller’s report

February: External Auditor’s Review of Completed Audit Work and Letters to Management (Deloitte)
*The Audit Committee Landscape in Higher Education (D. DeHaas - Deloitte)*
Internal Audit Update (G. Klatt)

May: External Auditor Review (Fees and 2013 Engagement) (M. Volna)
External Audit Plan (Deloitte)
Compliance Officer Report (L. Zentner)
*Social Media: Realizing its Opportunities Responsibly*
Information Item: External Auditor Relationships and Services Provided

June: Internal Audit Plan (G. Klatt)
Internal Audit Update (G. Klatt)
*Mobile Devices: Realizing the Opportunity Responsibly*
Information Item: Semi-Annual Controller’s Report