UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Audit Committee

Thursday, June 7, 2012

8:00 - 9:30 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

AGENDA

1. Board of Regents Policy: Internal Control - Review - G. Klatt (pp. 2-3)

2. Internal Audit Plan - G. Klatt (pp. 4-19)

3. Internal Audit Update - G. Klatt (pp. 20-38)


5. Information Items - G. Klatt (pp. 46-50)
Audit Committee                                          June 7, 2012

Agenda Item: Board of Regents Policy: Internal Control

☑ review     ☐ review/action     ☐ action     ☐ discussion

Presenters:  Associate Vice President Gail Klatt

Purpose:

☑ policy     ☐ background/context     ☐ oversight     ☐ strategic positioning

To review proposed amendments to Board of Regents Policy: Internal Control.

Outline of Key Points/Policy Issues:

The policy draft contains minor amendments intended to align the policy with the President’s risk recalibration initiative.

Background Information:

Board of Regents Policy: Internal Control was adopted on May 8, 1998 and was last amended on February 13, 2009.
INTERNAL CONTROL

The control model for the University of Minnesota (University) is the Integrated Framework of Internal Control as promulgated by the congressionally established Committee of Sponsoring Organizations (COSO).

Subd. 1. Guiding Principles. The University's integrated framework of internal control and risk assessment practices shall ensure that:

(a) University activities and operations function effectively and efficiently;
(b) University activities and operations comply with laws, regulations, and University policies and standards;
(c) University processes result in accurate and reliable financial information and reports;
(d) University resources are adequately protected;
(e) traditional and emerging strategic, operational, financial, compliance, and reputational risks are properly identified and appropriately managed;
(f) all material risks facing the University are identified and assessed routinely at all levels and within all University functions;
(g) control activities and other mechanisms are proactively designed and appropriately calibrated to address and manage significant risks consistent with their significance;
(h) information critical to identifying risks and meeting the University's mission and strategic objectives is communicated through established channels throughout the University; and
(i) controls are monitored and identified problems are addressed in a timely manner.

Subd. 2. Delegation of Authority. The president or delegate shall establish the foundation for sound internal control within the University through directed leadership, shared values, and a culture that emphasizes accountability.

Subd. 3. Accountability. Notwithstanding any delegation made by the president to administer this policy, the president shall be responsible to the Board of Regents (Board) for the faithful execution of the integrated framework of internal control consistent with the policies of the Board and applicable law.
Audit Committee  

June 7, 2012

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 Internal Audit plan for FY 2013 is risk-based and continues to reflect the principles of the Integrated Framework of Internal Control. The plan includes 28 audits of University processes and units. The plan focuses on high-risk processes in the financial, research, and technology areas. It also includes specific audit coverage related to leadership transitions and topical areas of governance interest. Audit resources have also been reserved for administrative/special requests and investigative audit needs.

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 94 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 continued transitions in University leadership
• Graduate School restructuring and the impact on the colleges
• E-learning strategies
• Curriculum development that is driven by financial versus academic needs
• Authorized enrollment increases being impeded by space limitations and faculty recruiting challenges
• Financial challenges in the health sciences caused by tuition inelasticity and reduced state funding.

We also held risk discussions with the Chairs and Vice Chairs of the Board of Regents committees, along with the Chair of the Board. The risks of greatest concern for governance are: the need for improvements in the University’s Human Resources processes; assurance that Board of Regents policies are being adhered to consistent with Regental intent; the University’s relationships with Fairview Health Services and University of Minnesota Physicians; the degree of decentralization within University operations; tuition philosophy; graduation rates; and, the successful transition of the University’s leadership team.
External Risk Assessment

To aid in our planning efforts we use a survey of other research universities regarding the assessment of risks within their institutions. While all of the public universities surveyed reported declining trends in state support as a significant concern, it is very interesting that the risk most consistently reported of greatest concern was the reputational risk associated with ethical lapses. The strategic risks presented by on-line education were also prominent in the survey responses, virtually replacing international risks which were front and center only two years ago. Not unexpectedly, the increasing cost and burden of regulatory compliance was commonly cited, especially in the areas of data privacy, data security, export controls, and new conflict of interest regulations. Additional areas where significant audit attention is being given include: social media, mobile device security, cloud computing, and integration of service center operational structures.

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. The risk factors that we considered in prioritizing institutional activities are:

- 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 2013 audit plan focuses on high risk process audits in the financial, research, and technology areas. Selected human resources processes will also receive audit coverage. Because of the number of new senior leaders and additional planned transitions, we believe that it is especially important for the audit plan to be highly flexible for the upcoming year. As leaders become more familiar with their portfolios, and further define their priorities, it may be appropriate to adjust the audit plan to align with these priorities. Additionally, several key areas were identified during our risk assessment process which we feel are not sufficiently developed to warrant inclusion in the audit plan at this time. However, if significant progress is made in these areas (on-line education strategies, the Ambulatory Care Center, the Clinical and Translational Science Institute
[CTSI] and Solutions for Integrated Research Compliance [SIRC] systems, enterprise security framework, and IT governance) adjustments to the audit plan may be appropriate.

**ALLOCATION OF AUDIT RESOURCES**

The audit plan is based on a planned staffing complement of 14.5 FTE professionals, consistent with 14.5 in FY 2012. This results in similar hours available for internal audit work. Approximately 56% of the Office of Internal Audit’s resources are committed to the completion of planned audit projects. This year 3% of those resources will be needed to complete carry-over work from our FY 2012 audit plan. Five audit projects are currently in process and will be completed in 2013.

The remainder of our FY 2013 audit resources are reserved as follows:

- 11% 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.
- 6% has been reserved for follow-up procedures performed on behalf of the Audit Committee. The number of hours remains consistent from previous years.
- 21% has been set aside for internal administrative functions, including our continuous improvement efforts.
FY 2013 PLANNED ALLOCATION OF AUDIT RESOURCES

- Scheduled Audits: 56%
- Investigations: 6%
- Presidential/Executive Requests: 11%
- Follow Up: 6%
- Administration: 21%
COMPARISON OF AUDIT RESOURCES FOR FY 2012 AND FY 2013

Percent of Available Time

<table>
<thead>
<tr>
<th>Activity</th>
<th>11/12 Budget</th>
<th>11/12 Actual</th>
<th>12/13 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheduled Audits</td>
<td>62</td>
<td>58</td>
<td>56</td>
</tr>
<tr>
<td>Investigations</td>
<td>6</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Special Projects</td>
<td>10</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>Follow Up</td>
<td>5</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Administration</td>
<td>17</td>
<td>23</td>
<td>21</td>
</tr>
</tbody>
</table>
FY 2013 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 2013 includes the following:

<table>
<thead>
<tr>
<th>Audits</th>
<th>Process Owner and/or VP</th>
<th>System, Process or in Units During Unit 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>
</tr>
<tr>
<td>Registration</td>
<td>Provost</td>
<td>Process</td>
<td>Student Experience, Compliance</td>
</tr>
<tr>
<td>Clinical Trials - Research</td>
<td>OVPR &amp; VP-AHC</td>
<td>Process</td>
<td>AHC, Research, Compliance, Financial Management</td>
</tr>
<tr>
<td>Conflict of Interest</td>
<td>President</td>
<td>Process</td>
<td>Compliance, Governance</td>
</tr>
<tr>
<td>Fairview Agreement</td>
<td>VP - AHC</td>
<td>Process</td>
<td>AHC, Governance, Financial Management</td>
</tr>
<tr>
<td>PeopleSoft Upgrade - Governance</td>
<td>VP - CIO, CFO, H/R &amp; Provost</td>
<td>Process</td>
<td>Governance, Technology, Financial Mgmt, HR, Student Exp</td>
</tr>
<tr>
<td>Identity Management</td>
<td>VP - CIO</td>
<td>Process</td>
<td>Technology</td>
</tr>
<tr>
<td>Mobile Devices</td>
<td>VP - CIO</td>
<td>Process</td>
<td>Technology</td>
</tr>
<tr>
<td>Database Management</td>
<td>VP - CIO</td>
<td>Process</td>
<td>Technology, Research</td>
</tr>
<tr>
<td><strong>Medium Risk Audits:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UM Morris Campus</td>
<td>UMM Chancellor</td>
<td>Unit</td>
<td>All</td>
</tr>
<tr>
<td>Human Resources – Processes TBD</td>
<td>VP Human Resources</td>
<td>Process</td>
<td>Human Resources, Quality of Faculty and Staff</td>
</tr>
<tr>
<td>Office of Tech Commercialization</td>
<td>OVPR</td>
<td>Unit</td>
<td>Technology Transfer, Research, Financial Management</td>
</tr>
<tr>
<td>Student Unions</td>
<td>Provost</td>
<td>Unit</td>
<td>Student Experience, Financial Management</td>
</tr>
<tr>
<td>UMD Recreational Sports</td>
<td>UMD Chancellor</td>
<td>Unit</td>
<td>Student Experience, Financial Management</td>
</tr>
<tr>
<td>UMD College of Liberal Arts</td>
<td>UMD Chancellor</td>
<td>Unit</td>
<td>Financial Management, Research</td>
</tr>
<tr>
<td>UMD Kirby Center</td>
<td>UMD Chancellor</td>
<td>Unit</td>
<td>Student Experience, Financial Management</td>
</tr>
<tr>
<td>UMD ITSS</td>
<td>UMD Chancellor</td>
<td>Unit</td>
<td>Technology</td>
</tr>
<tr>
<td>Accreditation Review &amp; Monitoring</td>
<td>Provost</td>
<td>Process</td>
<td>Academic Quality</td>
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<tr>
<td>University Debt</td>
<td>VP – CFO</td>
<td>Process</td>
<td>Financial Management, Compliance, Governance</td>
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<td>Travel &amp; Employee Reimbursements</td>
<td>VP – CFO</td>
<td>Process</td>
<td>Financial Management</td>
</tr>
<tr>
<td>NCAA Sport</td>
<td>President</td>
<td>Unit</td>
<td>Athletics, Compliance</td>
</tr>
<tr>
<td>Audits</td>
<td>Process Owner and/or VP</td>
<td>Unit Audit</td>
<td>Process Audit?</td>
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<tr>
<td>---------------------------------------------</td>
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<tr>
<td>Regent and/or Presidential Requests:</td>
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<tr>
<td>Code of Conduct Review</td>
<td>Board of Regents</td>
<td>Process</td>
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<tr>
<td>Externally Reported Data</td>
<td>Board of Regents</td>
<td>Process</td>
<td></td>
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<tr>
<td>Required Reporting to Board of Regents</td>
<td>Board of Regents</td>
<td>Process</td>
<td></td>
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<tr>
<td>Vice President Transition Audits (2)</td>
<td>OVPR, UServ</td>
<td>Unit</td>
<td></td>
</tr>
<tr>
<td>UMore Park</td>
<td>System Administration</td>
<td>Unit</td>
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</tbody>
</table>
The proposed audit plan is comprised of 17 process audits (61%) and 11 unit-based audits (39%). Six (35%) of the process audits will involve unit-level audit testing. Eight of the process audits are considered high risk. The proposed audit plan also includes significant coverage of the risks included on the Institutional Risk Profile (see appendix B).

The FY 2013 plan continues to provide well-balanced coverage across the University. The following chart shows the distribution of audit coverage by University component for FY 2013.
FY 2012 RESULTS

To date for FY 2012, we have issued 23 audit reports which were the result of planned reviews and requests from management (See Appendix B).

In addition,

- Five audits are currently in the planning or fieldwork stages and will be completed in FY 2013.
- Eight audits were deferred to FY 2013.
- Four audits were not completed.

During the past fiscal year we conducted nine investigations into financial or operational misconduct. Where appropriate, we have partnered with the University Police or the Office of the General Counsel to complete these reviews.
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, Oversight, and Reporting, the Institutional Review Board, the Department of Environmental Health and Safety, and the Office of the General Counsel, 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. 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 2012, a total of 425 employee surveys were sent out as part of our audit process, with a 70% 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, Controller’s Office, Purchasing, Disbursements, 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.

All of the professional internal audit staff are professionally credentialed or hold advanced degrees. Specifically,

- Twelve have professional certifications of Certified Internal Auditors, Certified Public Accountants, Certified Information Systems Auditors, and/or Certified Fraud Examiners;
- One is certified in Risk Management Assurance;
- Five have Master of Business Administration degrees;
- One has a Master of Arts - Economics degree;
- One has a Masters of Accounting and Financial Management;
- One is pursuing a Master of Public Policy degree; and
- Two are pursuing a professional certification.

In the first 10 months of FY 2012, the Office of Internal Audit provided 637 hours of training (an average of 42 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, 840 hours have been budgeted for staff training, an average of 56 hours per employee.

PROFESSIONAL STANDARDS

The Office of Internal Audit conducts its work in accordance with the Institute of Internal Auditors’ Standards for the Professional Practice of Internal Auditing. All of the audit staff are also required to comply with the Institute’s Code of Conduct for Internal Auditors. As required by our professional standards, our audit practice is reviewed by an external team of audit practitioners every five year as a quality assurance measure. Our last external review determined our work to be in full compliance with the Standards, and that University Management and the Board of Regents can appropriately rely on the assurance provided by the work performed by the Office.

INDEPENDENCE

There were no incidences during the year in which the independence or scope of internal audit work was restricted in any way.

OFFICE OF INTERNAL AUDIT FY 2012 STAFFING

We experienced 12% turnover this past year, with two senior staff members leaving the Office; one leaving the University and the other internally transferring to the College of Education and Human Development. We were able to promptly fill one of the open positions at the entry level, from within the University. We are currently recruiting for the other position. We have one position which remains unfilled due to the hiring pause.
OFFICE OF INTERNAL AUDIT BUDGET STATUS

The Office of Internal Audit received additional funding for a 2.5% compensation increase, consistent with the administration’s pay plans. The remainder of the Office’s budget remains unchanged for FY 2013.

We appreciate the continued financial and operational support we receive from the administration.
Audit Committee’s Institutional Risk Profile

APPENDIX A

Heat Map

<table>
<thead>
<tr>
<th>Unit</th>
<th>FY 13</th>
<th>FY 12</th>
<th>FY 11</th>
<th>FY 10</th>
<th>FY 09</th>
<th>Unit</th>
<th>FY 13</th>
<th>FY 12</th>
<th>FY 11</th>
<th>FY 10</th>
<th>FY 09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research- Infrastructure</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td>Investments</td>
<td></td>
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<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Individual Sponsored Projects</td>
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<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td>Leadership/Succession</td>
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<td></td>
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<td>x</td>
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<tr>
<td>AHC</td>
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<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td>Student Experience</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<tr>
<td>Athletics</td>
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<td></td>
<td></td>
<td>Associated Organizations</td>
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<tr>
<td>Financial Management</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td>Tech Transfer</td>
<td>x</td>
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<td>Technology</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td>Campus Safety</td>
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<td>Academic Quality</td>
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<td>Strategic Decisions</td>
<td>x</td>
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<tr>
<td>Quality of Faculty/Staff</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td>Asset Optimization</td>
<td>x</td>
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<td>x</td>
</tr>
</tbody>
</table>

Audit Coverage Provided
## STATUS OF FY 2012 AUDIT PLAN

### Audits Completed

**High Risk**
- University Payroll
- Intercollegiate Athletics Financial
- Office of the Bursar
- Cloud Services Due Diligence
- Treasury & Internal/External Sales
- Dentistry Clinical System
- Vendor Payments & Imaging
- Information Privacy and Compliance

**Moderate Risk**
- Energy Management - BSAC
- Office of Admissions
- UMD School of Fine Arts
- Department of Civil Engineering
- UMD Dining Service
- Housing and Residential Life
- University of Minnesota Police Department
- Moodle
- Family Medicine & Community Health
- Human Subject/IRB
- Testing of UMF/MMF Gift Transactions

**Low Risk**
- UMD Library
- Course Fees

**System-Wide Audits/Reviews**
- Administration of Major University Contracts
- Obstacles to Graduation Rates

### Audits Started in FY12 but will be Completed in FY13

**High Risk**
- Affiliation Agreements
- Research Storage

**Moderate Risk**
- Private Networks
- NCAA Sport
- UMD Health Services

### Audits Deferred and in 2013 Audit Plan

**High Risk**
- Registration
- Clinical Trial- Research
- Identity Management
- Conflict of Interest

**Moderate Risk**
- Human Resources Admin/Hiring
- Accreditation Review/Monitoring
- Office of Technology Commercialization
- Lab Safety Review

### Audits Not Completed

- CTSI Systems and Informatics (1)
- Coordination of 3rd Party Research (2)
- Collaborative Academic Innovation (2)
- Help Desk (3)
(1) The CTSI System was not sufficiently developed to be auditable at this time.
(2) These audits were not completed due to lack of available audit resources.
(3) This audit was indefinitely postponed as review of help desk activities is a priority of the new CIO.
Audit Committee

June 7, 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 February 2012 meeting 29% of the outstanding recommendations rated as “essential” were implemented by University departments. While this is lower than our expected implementation rate of 40%, the vast majority of recommendations remaining have not yet reached their targeted implementation dates. Four units also fully implemented all their remaining “essential” recommendations.

• An updated control evaluation chart is included for each audit to show progress made on the “essential” items.

• Five audit reports containing nine recommendations rated as “essential” were issued in the last four 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.
Internal Audit Update  
University of Minnesota Regents Audit Committee  
June 7, 2012

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 February 9, 2012

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.
Other Items

The University of Minnesota Foundation has had an external internal control review performed, as required by the Memorandum of Understanding with the University. The review was performed by LarsonAllen, LLP and the results were communicated to the Foundation's Audit Committee in October 2011. A copy of the report has been provided to the Board of Regents Office. The review concluded that the controls in all areas reviewed were found to be satisfactory and operating effectively.
Status of "Essential" Recommendations as of May 24, 2012

<table>
<thead>
<tr>
<th>Report Date</th>
<th>Audit Description</th>
<th>Original Report Control Rating</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>
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<tbody>
<tr>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>Implemented Partially Implemented Not Implemented</td>
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<td></td>
<td>Not Past Target Date Past Target Date Not Past Target Date Past Target Date</td>
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<tr>
<td>Aug-07</td>
<td>UM - Morris Campus</td>
<td>Adequate 1</td>
<td>1</td>
<td></td>
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<tr>
<td>Mar-09</td>
<td>Department of Concerts &amp; Lectures</td>
<td>Adequate 1</td>
<td>1</td>
<td></td>
<td>1</td>
<td>Completed</td>
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<td>Jun-09</td>
<td>Sponsored Project Sub-Awards (P)</td>
<td>Good 1</td>
<td>1</td>
<td></td>
<td>1</td>
<td>Satisfactory (a)</td>
</tr>
<tr>
<td>Jul-09</td>
<td>Effort Certification (P)</td>
<td>Good 1</td>
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<td></td>
<td>1</td>
<td>Satisfactory (b)</td>
</tr>
<tr>
<td>Aug-09</td>
<td>School of Dentistry</td>
<td>Adequate 1</td>
<td>1</td>
<td></td>
<td>1</td>
<td>Satisfactory (c)</td>
</tr>
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<td>Payment Card Industry Compliance (P)</td>
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<td>Audits &gt; 2 years old (see the following report for details on unresolved issues)</td>
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<tr>
<td>Aug-07</td>
<td>CFANS Research &amp; Outreach Centers</td>
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<td>Boynton Health Services</td>
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<tr>
<td>Audits receiving first-time follow-up</td>
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<tr>
<td>Oct-11</td>
<td>UMD School of Fine Arts</td>
<td>Adequate 1</td>
<td>1</td>
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<tr>
<td>Nov-11</td>
<td>University Payroll (P)</td>
<td>Needs Improvement 14</td>
<td>14</td>
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<tr>
<td>Nov-11</td>
<td>Intercollegiate Athletics</td>
<td>Needs Improvement 14</td>
<td>14</td>
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<td>Course Fees (P)</td>
<td>Good 1</td>
<td>1</td>
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<td>Feb-12</td>
<td>Dentistry - axiUm System (P)</td>
<td>Adequate 1</td>
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<td>Feb-12</td>
<td>University Contract Management (P)</td>
<td>Adequate 1</td>
<td>1</td>
<td></td>
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<td>Total:</td>
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<td></td>
<td>154</td>
<td></td>
<td>89</td>
<td>26</td>
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* The following bar charts provide details on progress made towards implementation

(a) 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.

(b) 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 anticipated (Spring 2012) OMB/A21 changes in effort management regulations.

(c) 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".

"Essential" Recommendation Implementation Trends

<table>
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<tr>
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<tr>
<td># of Essential Recommendations Receiving Follow-up</td>
<td>89</td>
<td>82</td>
<td>79</td>
<td>57</td>
<td>82</td>
<td>80</td>
<td>103</td>
<td>101</td>
<td>108</td>
<td>87</td>
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<tr>
<td># of Recommendations Considered Fully Implemented</td>
<td>26</td>
<td>55</td>
<td>12</td>
<td>16</td>
<td>35</td>
<td>37</td>
<td>30</td>
<td>47</td>
<td>39</td>
<td>32</td>
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<tr>
<td>Implementation Percentage</td>
<td>29%</td>
<td>67%</td>
<td>15%</td>
<td>28%</td>
<td>43%</td>
<td>34%</td>
<td>29%</td>
<td>47%</td>
<td>36%</td>
<td>37%</td>
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<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>Sponsored Project Sub-Award</td>
<td>P</td>
<td>Pamela Webb Timothy Mulcahy</td>
<td>SPA in conjunction with OVPR should plan for maintenance and replacement of the sub-award database for both the short and long term.</td>
<td>SPA was informed by the OVPR that they will fund a project for SPA to remedy their subaward deficiencies, and the scope of work for the systems solution is currently being prepared in SPA and with their OVPR-IT unit. The business requirements and workflow documents have been compiled (copy was provided) and SPA expects to turn in the project's scope of work for final approval in June. SPA has also analyzed their A-133 audit database and implemented an updated internal business process to ensure audit information is collected and uploaded into their system efficiently and acted on in a timely manner if a management decision is needed on a new or ongoing subaward. This updated process is being tested for audit data collections happening now through the summer (for FY11 audits being collected), and a new internal procedure is being written.</td>
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<tr>
<td>Effort Certification</td>
<td>P</td>
<td>Pamela Webb Tim Mulcahy</td>
<td>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>SPA intends to request that this issue be closed due to lack of funding. While SPA agrees that commitment monitoring is necessary, units are expected to have manual monitoring in place. SPA will submit a request as soon as the VP for Research has approved it.</td>
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<tr>
<td>School of Dentistry</td>
<td>P</td>
<td>Judith Buchanan Aaron Friedman</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, &quot;Private Practice Plan: School of Dentistry.&quot; Finance staff responsible for payment of faculty should ensure payments comply with the terms of the agreement and with policy. All issues related to private practice are on hold pending approval by the Regents of the revised Dentistry Private Practice Plan policy. The revised policy will be presented for information at the June 2012 Regents meeting, with approval expected at the July meeting. Upon approval, administrative policies will be developed to provide guidance on how the new policy will be rolled out within Dentistry.</td>
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<tr>
<td>N</td>
<td>Judith Buchanan Aaron Friedman</td>
<td>The practice of paying the faculty private practitioners prior to the recovery of overhead should be discontinued. See comments above on the expected changes to the Regents policy.</td>
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<tr>
<td>P</td>
<td>Judith Buchanan Aaron Friedman</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. See comments above on the expected changes to the Regents policy.</td>
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<td>Audit/ Report Date</td>
<td>Status—Partially Implemented (P) or Not Implemented (N)</td>
<td>Senior Management Contact</td>
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<tr>
<td>PCI Compliance Dec-09</td>
<td>P</td>
<td>David Laden, Ben Allen Mike Volna, Doug O’ Sullivan</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. 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>The remaining open concern revolves around use of desktops and the 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 as having this concern during the audit. At the February 2012 update to the Audit Committee a revised target date of June 30, 2012 was established. The implementation is on schedule to meet that timeframe. The environment has been set-up and testing of the environment has begun.</td>
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<tr>
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<td>6</td>
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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 February 2012, 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.
School of Dentistry (August 2009)

PCI Compliance (December 2009)
CFANS Research and Outreach Centers and the Cloquet Forestry Center (October 2010)

Boynton Health Service (May 2011)
Real Estate Office (May 2011)

Department of Civil Engineering (August 2011)
Energy Management/BSAC Systems (September 2011)

UMD School of Fine Arts (October 2011)

NO PREVIOUS CONTROL EVALUATION
Original Report Evaluation

Previous Quarter Evaluation

Current Quarter Evaluation

Dentistry - axiUm (February 2012)

NO PREVIOUS CONTROL EVALUATION

University Contract Management (February 2012)

NO PREVIOUS CONTROL EVALUATION

Adequate Control

Significant Control Level

Critical Control Level

Potential Over-Control
Units with Charts that Fully Implemented their "Essential" Recommendations During the Past Quarter

Original Report Evaluation

Previous Quarter Evaluation

Current Quarter Evaluation

University of Minnesota Morris (August 2007)

Department of Concerts & Lectures (March 2009)

Adequate Control

Significant Control Level

Critical Control Level

Potential Over-Control
Audit Activity Report

Scheduled Audits

- Completed audits of: Twin Cities Office of Admissions, Twin Cities Housing & Residential Life, Addressing Obstacles to Undergraduate Education on the Twin Cities Campus, and UMD Dining Services. Details are shown on the following charts.

- Began/continued audits of: Compliance-Privacy/Security of regulated data, Moodle-Learning Management System, the vendor payment & imaging process, the Human Subjects/IRB process, UM Police Department, the Department of Family Medicine and Community Health, the University affiliation agreement process, a review of Men’s Basketball Program NCAA compliance, UMD Health Service, research storage, private networks and institution-wide testing of UMF/MMF-funded gift and endowment accounts.

Non-Scheduled Audits

- At the request of CFANS management we completed a limited scope audit of the Minnesota Agricultural Experiment Station. Details are shown on the following chart.

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, social networking, mobile computing, NCAA football attendance certification 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
  - ITLA Security Committee
  - HRMS PeopleSoft Steering Committee
  - Sponsored Research Certified Approver Group
  - NCAA Compliance Review of Academic Support Services Committee
  - Global Operations Advisory Team
Audit Reports Issued Since February 2012

Twin Cities Office of Admissions

The Twin Cities Office of Admissions has established robust administrative strategies, procedures and controls to ensure: admission and scholarship award processes are fair and consistent, recruitment and admission strategies are regularly and appropriately adjusted to reflect the changing population/demographics of future students, and enrollment goals established by University leadership are achieved.

Housing and Residential Life

The audit did not identify any issues which warranted essential recommendations and contained only six significant recommendations. Two of the six recommendations are not the responsibility of HRL, but rather the Vice President of University Services (food inspections) and the Senior Vice President for Academic Administration (institution-wide Housing system). The other four issues address recommendations to HRL in the areas of non-student receivables, deposits, security, and information system access rights. The low number of recommendations is indicative of a staff and management with a sincere interest in complying with required policies and procedures.
Addressing Obstacles to Undergraduate Graduation Rates on the Twin Cities Campus

Due to the limited scope of this audit, a control evaluation chart was not developed for this report.

The University of Minnesota-Twin Cities campus has made great strides in improving its four-year graduation rates, showing an increase of almost forty percentage points in 15 years. The four-year graduation rate for 2011 was 54%, only 6% short of the Twin Cities campus goal of 60% in 2012. This change can be attributed to hard work by many units and colleges throughout the University. The Office of Undergraduate Education, along with the Vice President for Academic Affairs and Provost, have devoted numerous resources towards improving graduation rates, especially in the area of ensuring adequate class access for students.
In our opinion, the operational and financial controls within Dining Services are generally effective. Although our audit did identify a number of opportunities for improving controls, we feel these issues are not indicative of serious deficiencies in the overall control environment. The one function most in need of improved controls is information technology. The lack of adequate management and oversight in this area creates a substantial amount of risk for Dining Services. Dining Services has developed a management action plan that properly addresses the issues and recommendations in the report, and includes plans for their timely implementation. The action plan indicates that many of the recommendations are already implemented.
Audit Committee  

June 7, 2012

Agenda Item: Mobile Devices: Realizing the Opportunity Responsibly

☐ review  ☐ review/action  ☐ action  ☒ discussion

Presenters: Bernard Gulachek; Associate Vice President for Information Technology, Office of Information Technology
Brad Cohen; Associate Chief Information Officer for Academic Technology, Office of Information Technology
Dave Ernst, Director, Academic and Information Technology, College of Education and Human Development

Purpose:

☐ policy  ☐ background/context  ☒ oversight  ☐ strategic positioning

This is the third in a series of discussions on the opportunities and risks associated with changes in the delivery and use of technology. It is hard to overstate the degree to which mobile devices have utterly transformed our landscape. Mobile IT is at the apex of the confluence of cloud services and social networking. The ubiquity and power of smart phones and iPads (and other tablet devices) create opportunities for new forms of teaching, learning, discovery and dissemination. The consumer-driven experience sets expectations for what is expected with respect to mobile services and experiences. Policies, practices, and priorities have limited the University’s ability to fully meet these expectations, but there have been some exciting advances in recent years. This panel will engage the Audit Committee in a discussion of the:

- role of mobile devices in advancing existing strategic goals
- true implications of a Bring Your Own Device (BYOD) environment
- the proper balance of opportunity, responsibility, risk and accountability in a mobile world.

Outline of Key Points/Policy Issues:

The discussion will explore the following questions:

- How can we responsibly manage data in a BYOD environment?
- What is the strategic significance of mobile computing?
- What is currently happening vis-a-vis mobile technology at the U?
- Are there opportunities to influence legislative decisions that bear on compliance and opportunities in a mobile environment?
Background Information:

The following material is provided to further inform Committee members on mobile devices and their import to higher education and the University of Minnesota:

http://www.educause.edu/EDUCAUSE+Quarterly/EDUCAUSEQuarterlyMagazineVolume/MobileLearningEnvironments/213690
This brief article highlights a number of possibilities to enhance learning with mobile devices.

This page profiles the mobile app competition teams supported by the UROP/OIT partnership this past year. It includes video presentations by the teams and features the winning team and their app.

The University of Minnesota’s IT Mobile Task Force Draft Vision Report
IT Mobile Task Force
Draft Vision

Committee Members
Brad Cohen
Stephen Collins
Ed Deegan
Dave Ernst
Arash Forourhari
John Grosen
Jamey Hansen
Renee Rivers
Dennis Skovsted
Stephen Winckelman

Vision
To create mobile-friendly infrastructure, resources, and services that enable and encourage successful use of mobile technology in pursuit of the University’s core academic mission.

Paradigm Shift
As the barriers to technology adoption—complexity and access—decrease, people who were once reluctant or slow to adopt are integrating consumer technology into their daily lives at an ever-quickening pace.

In the “age of the PC,” IT was able to control and manage the infrastructure and experience for our users, but the new world of mobile and consumer technology generally lies outside the reach of traditional IT management, policy and support.

Managing PCs required purchasing controls, restricting access to networks, and maintaining a monopoly on technical expertise. This is in contrast to mobile technology which is most often owned by the end-user, connected to public or commercial networks, and requires little to no technical expertise to use successfully. University-owned and managed workstations may not disappear, but they will no longer be the sole or primary technology portal for our faculty, staff, and students.

Already, a significant portion of the technology tools our faculty, staff and students use daily is beyond traditional IT management and control approaches. All evidence shows this trend will continue until we are effectively a “Bring Your Own Device” environment. This is not to say traditionally important issues like security, support, and infrastructure are unimportant in this consumer-driven technology world, only that they must be approached in ways that accept and enhance the new reality. This new reality will dramatically change the role of IT.
This document is a call to action for the UMN IT community. We are already behind our peer institutions and at risk of irrelevancy. We need to shift our focus, change our paradigm, and reinvent ourselves as facilitators and enablers in the new world of consumer technology. The devices may be easy to use, but using them effectively and safely in the classroom, or the lab, or the office is far from easy. Technology options increase daily and our faculty, staff, and students will still need our guidance to integrate the mix of technologies into clear solutions, to fulfill their responsibilities to protect private data, and to apply the new technology to foster better learning, better research, and a competitive advantage for the University.

Ultimately, if we answer this call to action well, we will position IT at UMN for the long term—to create an IT organization that is highly flexible, nimble and adaptable to not only advance mobile strategy today, but to prepare the UMN to take advantage of the post-mobile world not yet visible on the horizon.

**IT Strategy**

The principle role for IT in a mobile landscape is to enable and partner in exploration and innovation. We acknowledge that the new reality requires shared risk management and responsibility, and we emphasize that resource constraints and other barriers preclude a pursuit of all things mobile for all members of our community for all they wish to do. We seek to identify and commit to strategically significant mobile objectives.

In pursuit of this strategy, we offer six broad goals below and some associated concrete actions to consider:

1. Mobile-friendly infrastructure and spaces
   a. Continue to enhance wireless density and cell phone penetration
   b. Develop power and recharging resources plan for mobile devices
   c. Pursue classroom technology upgrades for mobile plug and play

2. Force-multiplying mobile support services
   a. Develop and deliver HTML5 training short courses, and identify existing high quality learning opportunities for faculty and staff
   b. Commit to professional development for IT staff to build capacity to offer knowledgeable consultation and support to faculty, staff and students
   c. Expand mobile tech stop services
   d. Develop vendor strategies/services/relations to partner in mobile initiatives

3. Solutions lab (being defined by an SLT/ITLA subcommittee, a shared service for rapid, collaborative innovation)

4. Open architecture (a technical environment that invites innovators to remix data and add to user experience), allowing us to realize opportunities through responsible risk management
   a. build on anticipated delivery of nuanced data classification system
   b. create device-agnostic architecture
   c. publish open APIs where possible
   d. develop and publish guidelines for development of new mobile services/apps
   e. create open test environment

5. Community support to encourage coordination and shared discovery
   a. Establish a mobile people group (like net people)
   b. Create a mobile initiative page with crowd-sourcing dimensions

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c. Develop an event series around mobile (e.g., a mobile slam, summit, demos)
d. Identify/discover leading practitioners across the system
e. Pursue a discovery process to identify priority needs/opportunities (e.g., conduct focus groups with key stakeholders)
6. Shared responsibility so all members of the community understand and appropriately weigh opportunities and risks
   a. develop critical top ten list of things to do/avoid
   b. revise policies/guidelines toward device/service agnostic language (e.g., don’t specify AD as a solution)
   c. develop principle/value-based policies around mobile practice
   d. clarify responsibilities for personally owned and purchased devices/apps versus institutionally owned devices and apps

Recommendations
We acknowledge that the six goals above and the associated ideas vary with respect to cost and time to implement. In light of the priority projects already in place (e.g., PS upgrade), it is unrealistic in the current economic climate to hope for substantial re-architecting of the system. Nonetheless, we encourage adoption of all of these goals through the planning processes across IT.

In the short term, we recommend commitment of resources across IT to pursue goals 2 and 5. We believe these can be achieved before the start of the 2012-13 academic year.

With respect to goal 3, we believe that the solutions lab would create opportunities for collaborative and rapid prototyping of mobile innovations directly related to the core academic mission. It might also provide opportunities to pursue insights regarding how best to re-architect our broader environment. We hope this concept will be supported in the near future.

Goal 6 can be viewed as part of a broader technology fluency campaign that is needed across the system. There are activities already underway in this space, and we encourage enhanced commitment of IT to remain engaged in educating our community regarding safe and responsible use of mobile devices and services.

Appendix
The committee conducted a brief analysis of existing strengths and weaknesses associated with each of the six broad goals identified in the document. The results of that analysis are captured in the table below:

<table>
<thead>
<tr>
<th></th>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>• emergence of wireless video projection</td>
<td>• inconsistent wireless/cell coverage</td>
</tr>
<tr>
<td></td>
<td>• NTS proficiency (all that’s missing is $)</td>
<td>• limited power</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• unplanned demand</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• supply lag (we are building on demand, but</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>demand is outpacing supply)</td>
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<tr>
<td>---</td>
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<td>---</td>
</tr>
</tbody>
</table>
| 2 | ● staff flexibility  
● technology training  
● crowd sourcing community  
● relationships with clients | ● knowledge gap on support staff  
● technology immaturity/gap (e.g., no answer to ipad virus right now) |
| 3 | ● ITLA/OIT partnership | ● Bureaucracy and prioritization issues |
| 4 | ● data warehouse encourages access  
● new identity management solution will be an enabler and will bring standards  
● Business Intelligence initiative bringing data governance  
● ITLA has established trust | ● specific technologies hinder  
● culture that resists standards (viewed as limiting)  
● not having complete adoption of standards  
● no clear principles/standards that policies are built upon |
| 5 | ● experience with open source  
● faculty feel they are entrepreneurs | ● no formal guidance on who to talk to  
● no map of the available data sources  
● many IT units discourage community support—couldn’t deal with the diversity  
● IT feels ownership/responsibility to make things work  
● End-users expect that IT is responsible for making things work |
| 6 | ● | ● Not linking answers/policies to code of conduct  
● Legal system emphasizes corporate not individual responsibility for security. |
Audit Committee

June 7, 2012

Agenda Item: Information Items

☐ review ☐ review/action ☐ action ☒ discussion

Presenters: Associate Vice President Gail Klatt

Purpose:

☐ policy ☐ background/context ☒ oversight ☐ strategic positioning

To provide the Audit Committee with the Semi-Annual Controller's Report.

Outline of Key Points/Policy Issues:

Semi-Annual Controller's Report
This report presents a summary of activities completed by the Controller's Office in the last six months in the areas of financial accounting and reporting, internal controls, reducing financial or compliance risks to the University, and improving efficiencies and service.

Background Information:

The Controller's Report is prepared semi-annually and presented to the Regents Audit Committee in conformance with Board of Regents Policy: Board Operations and Agenda Guidelines.
I. Accounting and Financial Reporting Matters

The Governmental Accounting Standards Board (GASB) has issued two new accounting and reporting standards. Management is in the process of determining if they apply to the University and if so, the impact this statement will have on the University’s accounting and reporting. These standards and the related implementation dates are explained below.

- In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes proper classification for certain items as deferred inflows or outflows of resources that were previously reported as assets and liabilities; and recognizes certain items as revenues or expenses that were previously reported as assets and liabilities. This statement is effective for the fiscal year ending June 30, 2014.

- In March 2012, the GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*, which amends existing standards’ guidance on the fund type to report risk financing activities; operating lease payments that vary from a straight-line basis; purchase of a loan or group of loans; and certain servicing fees related to mortgage loans that are sold. This statement is effective for the fiscal year ending June 30, 2014.

In addition, the Controller’s Office continues to analyze the implementation requirements for four standards previously released by the GASB and reported to the Audit Committee in December 2011, all of which are effective for the University’s fiscal year ended June 30, 2013:

- GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The provisions of this statement are generally required to be applied retroactively for all fiscal years presented.


provisions of this statement are generally required to be applied retroactively for all fiscal years presented.


II. **Efforts Undertaken by Controller’s Office Departments to Enhance Service, Productivity, and Efficiency, and to Improve Internal Controls**

**Treasury Accounting Initiatives**

Treasury Accounting has been working with the University of Minnesota Foundation (UMF) and the Minnesota Medical Foundation (MMF) on a number of donor stewardship initiatives which are intended to improve the timeliness, completeness and accuracy of financial information related to gifts and endowments. These initiatives include:

- The UMF’s new Scholarship Tracking and Reporting System. This new system allows University departments to obtain information about combined endowments and gift balances managed individually by UMF, MMF, and the U of M. Departments now have better information to manage their total gift and endowment resources.
- Another reporting project to capture and report key data, both financial and non-financial, on endowed chairs.
- A project to digitize all University of Minnesota gift and donor documents for the Consolidated Endowment Fund. This project was completed with the assistance of UMF and the University’s Office of the General Counsel. Gift documents dating as far back as 1917 are now scanned, searchable, and readable by anyone with authorized access to the system.

**Accounts Payable Payment Audit**

The Controller’s Office engaged a third party firm to audit and evaluate the accuracy of accounts payable payments to vendors, and seek recovery on any payables transactions which were deemed to have resulted in overpayments to vendors. The period audited covered from July 2005 through December 2010, and audited approximately $1.5 billion of accounts payable payments (out of a total disbursed of approximately $5 billion). Fifty claims totaling $122,178 were identified, which calculates to a payment accuracy rate of 99.992% for the payment population and period audited. The University is working with the firm to recover the vendor overpayments.

**Internal and External Sales Improvements**

The Internal and External Sales departments were combined in FY 2009. This combination created synergies between the two units, and has provided additional cost accounting expertise to units conducting external sales. Internal/External Sales has worked with units conducting internal
and external sales to maximize revenues, improve accountability, provide clarity, and gain efficiencies. This unit is also actively evaluating alternative approaches to managing the financial, legal, and compliance risks associated with internal and external sales. Some of the recent process improvements include:

- The PeopleSoft Enterprise Financial System (EFS) is now being utilized to provide timely reporting to the departments conducting internal sales. All levels of management within the departments conducting internal sales now have visibility to the sales activity within their college. This allows departments to evaluate financial solvency and approve or disapprove the continuance of sales activities.
- The Internal/External Sales department now utilizes EFS for monthly global reviews in order to identify potential risks and work with the identified units proactively. This helps to avoid compliance issues, such as A-133 audit findings or unallowable costs on sponsored projects.
- The Internal/External Sales department provides on-line training, monthly seminars, and in-person training to ensure the understanding of rate setting and prudent business practices.
- The Internal/External Sales department worked with the Office of the General Counsel to create standard contracts, which reduces the need to negotiate unique sales contracts for each external sale. Contracts have also been written to cover multiple years whenever possible, which eliminates the need to renew contracts on an annual basis. As a result, the number of contracts went from an annual total of 848 in FY08 to 569 in FY11, while the dollar value of external sales went from an annual amount of $31 million in FY08 to $46 million in FY11.

Payment Card Industry Data Security Standards (PCI DSS) Compliance

In fall 2011, the Controller’s Office retained a consultant to complete a review of the self-assessment process the University uses to monitor compliance with the Payment Card Industry Data Security Standards (PCI DSS). The review was intended to provide management with feedback on the quality of the information provided by University departments on their Self-Assessment Questionnaires (SAQ), and to identify any issues associated with the SAQ process which could result in increased compliance risk to the University.

No issues of significant risk associated with the SAQ process were found. University of Minnesota merchant managers were found to be committed to data security and SAQ compliance. Irregularities in SAQ responses across merchants were determined to be issues of interpretation of the questionnaire. None of the irregularities poses a significant compliance risk.

Finally, the review assisted in understanding the risk profile for payment card acceptance at the University of Minnesota. The following table shows the risk classification for the 181 departments that have merchant accounts for accepting credit card payments.
Very few of the 181 merchant accounts can be characterized as having a high-risk profile.

- 80 low-risk merchants use only swipe terminals connected by phone line, thus avoiding the higher risks associated with storing or sending credit card data across University systems (SAQ-B).
- An additional 80 merchants (57 SAQ-A, 23 SAQ-D) are lower risk because the credit card process is outsourced or they use lower-risk systems or processes.
- The remaining 21 accounts (SAQ-D) managed by eight departments have higher-risk profiles due to the complexity and extent of their interactions with cardholder data. The consultant recommended prioritizing efforts and resources to focus on these most complex accounts.