UNIVERSITY OF MINNESOTA
BOARD OF REGENTS
Audit Committee
Thursday, June 13, 2013
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
Abdul Omari

AGENDA

1. Internal Audit Plan - G. Klatt (pp. 2-17)
2. Internal Audit Update - G. Klatt (pp. 18-37)
3. The Risk Profile of University Operations - P. Wheelock (pp. 38-40)
4. Information Items - G. Klatt (pp. 41-46)
Audit Committee

June 13, 2013

**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 2014 is risk-based and continues to reflect the principles of the Integrated Framework of Internal Control. The plan includes 33 audits of University processes, units, and systems. Over the last two years audit coverage has been provided for the majority of the University's significant processes. The proposed plan provides audit coverage of the major processes remaining. Because of our previous coverage, this year's proposed plan includes more unit-based audits resulting in an approximately equal percentage of process and unit audits. Selection of activities for inclusion in the annual audit plan also considered alignment with the Institutional Risk Profile and leadership's strategic objectives. 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. We also do a scan to identify areas of emphasis at relevant federal agencies and use a survey of other research universities regarding the assessment of risks within their institutions.

External Risk Assessment / Scan of the National Landscape of Higher Education

Regulatory Agencies: Based on federal agency audit plans, the regulatory focus for 2013-2014 is on the “usual suspects” of federal funding compliance: cost allowance, cost sharing, adherence to salary caps, etc. While not expected to be finalized for at least another year, the primary regulatory spotlight is on the OMB’s proposal to consolidate several of its regulations (e.g., A-133, A-21, etc.) into one document. There are a number of changes being proposed in the consolidation, some of which may have a significant impact (both positive and negative) on the University.

Research Universities: Reputational risk was again the most often cited highest risk for public research universities. Unlike last year when this risk was described in terms of ethical lapses, this year it was in the context of the public’s perception of value. Not surprisingly, reining in administrative costs, responding to the pressure to stem rising tuition costs, and declining state and federal support were also commonly cited. Cyber security and data privacy continue to remain as risks of concern, as does technology - both as a strategic enabler and a major cost driver. For universities with academic health centers and/or hospitals, the impact of the Affordable Care Act and the changing health care market is receiving heightened attention. Campus safety was also frequently mentioned.
Internal Risk Assessment

As part of the planning process, we held risk discussions with the Chairs and Vice Chairs of the Board of Regents committees, along with the Chair of the Board to identify risks of concern at the governance level for audit consideration. The risks most often identified in these discussions were:

- Protection of the University’s reputation
- The “integrated structure” with Fairview and University of Minnesota Physicians and the success of our academic health programs
- Human resources management practices and their impact on the University’s culture
- The need to responsibly manage administrative costs
- Increasing external reporting demands and the associated administrative costs

We also held discussions with 70 institutional officials from 36 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 Enterprise Systems Upgrade Project; most specifically the impact on units when personnel are provided to work on the project
- The integrity of our Human Resources data
- The need for better mechanisms to produce accurate and reliable reporting of unit and institutional data

There were very few concerns expressed related to unit/collegiate finances; or the impact of the federal funding levels or the sequestration.

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 163 individual auditable activities of which 23 are considered to be high risk, 95 moderate risk, and 45 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 AND IMPACT ON THE FY2014 AUDIT PLAN

Taking into account the information we obtained in our risk assessment process, the University’s focus on upgrading its major administrative systems, recent audit coverage of significant institutional processes, the continued acclimation of new institutional leadership, and the amount of change that is occurring within the University, we believe that a “back to the basics” audit plan is most appropriate for FY 2014. The 2014 plan provides an approximately equal percentage of process and unit-based audits. In the past two years we have provided audit coverage over the majority of the University’s significant processes; the 2014 audit plan provides coverage of the major ones remaining. Audits of fundamental information technology functions are also included to reaffirm that continued reliance can be placed on the controls that they are intended to provide. As we have done over the past two years, audit coverage is planned for selected human resources processes. The plan reserves time to provide audit coverage related to the University/Fairview/University of Minnesota Physicians Integrated Structure. The timing and construct of what audit coverage should be provided is as yet undetermined. Time has also been allocated to provide coverage for the Enterprise Systems Upgrade Project (ESUP). We have developed an audit approach which places reliance on the quality assurance reviews conducted by the project’s external implementation partner and are coordinating our work to avoid duplication. Audit coverage will be provided for significant aspects of the project which are not covered by the quality assurance efforts.

Finally, we believe the audit plan will again need to be flexible to be responsive to emerging needs that require audit attention.

ALLOCATION OF AUDIT RESOURCES

The audit plan is based on a planned staffing complement of 15.4 FTE professionals. Because of recent turnover, the current plan, as proposed, exceeds our resource availability. Over the last year we have hired three entry-level auditors. Considering the training and supervision needed to develop these individuals into fully productive auditors, we have decided to defer hiring to fill this most recently vacated position until our recent hires are more self-sufficient. This deferral may result in our inability to complete all of the audits included in the plan. Audits of higher risk areas will receive priority and the Audit Committee will be kept apprised of our progress towards the full completion of the plan and the impact of our hiring deferral.

Approximately 58% 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 2013 audit plan. Twelve audit projects are currently in process and will be completed in 2014.

The remainder of our FY 2014 audit resources is reserved as follows:

- 10% has been reserved to accommodate requests from the President, the Board, or executive committee members. This has been supported by the Audit Committee. The number of hours remains consistent from previous years.
- 6% has been reserved for investigations. The number of hours remains consistent from previous years.
- 4% has been reserved for follow-up procedures performed on behalf of the Audit Committee. The number of hours required for follow up has decreased from previous years.
- 22% has been set aside for internal administrative functions, including our continuous improvement efforts.

**FY 2014 PLANNED ALLOCATION OF AUDIT RESOURCES**

- **Scheduled Audits - 58%**
- **Investigations - 6%**
- **Presidential/Executive Requests - 10%**
- **Follow Up - 4%**
- **Administration - 22%**
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<thead>
<tr>
<th>Category</th>
<th>12/13 Budget</th>
<th>12/13 Actual</th>
<th>13/14 Budget</th>
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<tr>
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<td>Investigations</td>
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<td>Special Projects</td>
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<td>9</td>
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<td>Follow Up</td>
<td>6</td>
<td>3</td>
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<tr>
<td>Administration</td>
<td>21</td>
<td>25</td>
<td>22</td>
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**COMPARISON OF AUDIT RESOURCES FOR FY 2013 AND FY 2014**

Percent of Available Time
FY 2014 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 2014 includes the following:

<table>
<thead>
<tr>
<th>Audits</th>
<th>Process Owner and/or VP</th>
<th>System, Testing Done</th>
<th>Process or in Units During Process Audit?</th>
<th>Risk Area(s) Covered</th>
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<tbody>
<tr>
<td><strong>High Risk Audits:</strong></td>
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<tr>
<td>U-Wide Depositing</td>
<td>VP – CFO</td>
<td>Process</td>
<td>Yes</td>
<td>Financial Management</td>
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<tr>
<td>Fairview/UMP</td>
<td>VP – AHC</td>
<td>Process</td>
<td>Yes</td>
<td>Associated Org, Strategic Decisions, AHC, Governance</td>
</tr>
<tr>
<td>U-Wide Sponsored Transaction Test</td>
<td>VP – Research</td>
<td>Process</td>
<td>Yes</td>
<td>Research, Financial Management, Compliance</td>
</tr>
<tr>
<td>ESUP – 3 projects</td>
<td>VP - CIO</td>
<td>System</td>
<td></td>
<td>Technology, Fin Mgmt, HR, Student Experience, Strategic Decisions</td>
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<td><strong>Medium Risk Audits:</strong></td>
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<tr>
<td>HR Projects</td>
<td>VP – Human Resources</td>
<td>Process</td>
<td>Yes</td>
<td>Human Resources, Quality of Faculty and Staff</td>
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<td>Vendor File Maintenance</td>
<td>VP – CFO</td>
<td>Process</td>
<td></td>
<td>Financial Management</td>
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<tr>
<td>State Federal Appropriation Draw</td>
<td>VP – CFO</td>
<td>Process</td>
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<td>Financial Management, Compliance</td>
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<tr>
<td>AHC – to be determined</td>
<td>VP - AHC</td>
<td>Unit</td>
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<td>Financial Management, AHC, Research, Compliance</td>
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<tr>
<td>Grading and Transcripts</td>
<td>Provost</td>
<td>Process</td>
<td>Yes</td>
<td>Student Experience</td>
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<tr>
<td>Pediatrics</td>
<td>VP – AHC</td>
<td>Unit</td>
<td></td>
<td>Financial Management, Research, Compliance</td>
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<tr>
<td>CLA East Bank 1</td>
<td>Provost</td>
<td>Unit</td>
<td></td>
<td>Financial Management, Research, Compliance</td>
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<tr>
<td>Chemistry</td>
<td>Provost</td>
<td>Unit</td>
<td></td>
<td>Financial Management, Research, Compliance</td>
</tr>
<tr>
<td>Rec Sports</td>
<td>Provost</td>
<td>Unit</td>
<td></td>
<td>Student Experience, Financial Management</td>
</tr>
<tr>
<td>Athletics – ASPIRE Contract</td>
<td>President</td>
<td>Unit</td>
<td></td>
<td>Athletics, Financial Management</td>
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<tr>
<td>Parking Services</td>
<td>VP – University Services</td>
<td>Unit</td>
<td></td>
<td>Campus Safety, Financial Management, Asset Optimization</td>
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<tr>
<td>Athletics – Sport Audit (2)</td>
<td>President</td>
<td>Unit</td>
<td></td>
<td>Athletics, Compliance</td>
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<tr>
<td>UMD Large Lake Observatory</td>
<td>UMD Chancellor</td>
<td>Unit</td>
<td></td>
<td>Financial Management, Research</td>
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<tr>
<td>UMD Housing</td>
<td>UMD Chancellor</td>
<td>Unit</td>
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<td>Campus Safety, Financial Management, Student Experience</td>
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<tr>
<td>UMD NRRI</td>
<td>UMD Chancellor</td>
<td>Unit</td>
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<td>Financial Management, Research</td>
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<tr>
<td>Audits</td>
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<td>Unit Audit</td>
<td>Process Audit?</td>
<td>Risk Area(s) Covered</td>
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<tr>
<td>Crookston Campus</td>
<td>UMC Chancellor</td>
<td>Unit</td>
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<td>All</td>
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<tr>
<td>Equipment Disposal</td>
<td>VP – CIO</td>
<td>Process</td>
<td>Yes</td>
<td>Technology, Compliance</td>
</tr>
<tr>
<td>Data Center &amp; Server Room</td>
<td>VP – CIO</td>
<td>Process</td>
<td>Yes</td>
<td>Technology</td>
</tr>
<tr>
<td>Server Management</td>
<td>VP – CIO</td>
<td>Process</td>
<td>Yes</td>
<td>Technology</td>
</tr>
<tr>
<td>Database Audit</td>
<td>VP – CIO</td>
<td>Process</td>
<td></td>
<td>Technology, Research</td>
</tr>
<tr>
<td>System Development–Code Change Mgmt</td>
<td>VP – CIO</td>
<td>Process</td>
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<td>Technology</td>
</tr>
<tr>
<td>Backup Management</td>
<td>VP – CIO</td>
<td>Process</td>
<td>Yes</td>
<td>Technology</td>
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</tbody>
</table>

*Low Risk Audits:*

<table>
<thead>
<tr>
<th>Audits</th>
<th>Process Owner and/or VP</th>
<th>Unit Audit</th>
<th>Process Audit?</th>
<th>Risk Area(s) Covered</th>
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</thead>
<tbody>
<tr>
<td>UMD Parking</td>
<td>UMD Chancellor</td>
<td>Unit</td>
<td></td>
<td>Campus Safety, Financial Management, Asset Optimization</td>
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</tbody>
</table>
The proposed audit plan is comprised of 16 process audits (49%), 14 unit-based audits (42%), and 3 system-based audits (9%). Eleven (69%) of the process audits will involve unit-level audit testing. Four 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 A).

The FY 2014 plan continues to provide well-balanced coverage across the University. The following chart shows the distribution of audit coverage by University component for FY 2014, based on the number of hours allocated to each component.
FY 2013 RESULTS

For FY 2013, we will have issued 22 audit reports which were the result of planned reviews and requests from management (See Appendix B).

In addition,
- Twelve audits are currently in the planning or fieldwork stages and will be completed in FY 2014.
- One audit was deferred to FY 2014.
- Five audits were not completed due to changing circumstances.

During the past fiscal year we conducted 19 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 Education and Oversight, 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 2013, a total of 666 employee surveys were sent out as part of our audit process, with a 64% response rate. Another 538 customer surveys were sent out as part of our University-wide process audits, with a 59% 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, 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,

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

In the first 10 months of FY 2013, the Office of Internal Audit provided 2050 hours of formal and informal training (an average of 137 hours for each employee). These hours do not include the time associated with completing coursework funded by the University's Regents Scholarship Program. We continue to provide the continuing professional development required to maintain the staff's professional credentials. For FY 2014, 875 hours have been budgeted for formal staff training, an average of 55 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 years 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. Our next external review will take place in the Fall of 2014.

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 2014 STAFFING

We had a number of staffing changes in FY 2013. We filled one position that had been vacant due to the University's hiring pause, and we lost two senior auditors to positions outside of the University (12% turnover). We have replaced one of these positions with an entry-level auditor, and will be deferring the replacement of the other as noted previously. Two entry-level auditors were promoted to senior auditors during the year; one was, unfortunately, one of our two resignations.
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 Office’s overall budget was reduced by .8%.

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

Heat Map

| Unit                        | FY 14 | FY 13 | FY 12 | FY 11 | FY 10 | | Unit                        | FY 14 | FY 13 | FY 12 | FY 11 | FY 10 |
|-----------------------------|-------|-------|-------|-------|-------| |-----------------------------|-------|-------|-------|-------|-------|
| Research- Infrastructure    | x     | x     | x     | x     | x     | | Investments                 |       |       |       |       | x     |
| Individual Sponsored Projects | x   | x     | x     | x     | x     | | Leadership/Succession       | x     | x     | x     | x     |       |
| AHC                         | x     | x     | x     | x     | x     | | Student Experience          | x     | x     | x     | x     |       |
| Athletics                   | x     | x     | x     | x     | x     | | Associated Organizations    | x     | x     | x     | x     | x     |
| Financial Management        | x     | x     | x     | x     | x     | | Tech Transfer               | x     |       |       |       |       |
| Technology                  | x     | x     | x     | x     | x     | | Campus Safety               | x     | x     | x     |       |       |
| Academic Quality            | x     | x     | x     | x     | x     | | Strategic Decisions         | x     | x     | x     | x     | x     |
| Quality of Faculty/Staff    | x     | x     | x     | x     | x     | | Asset Optimization/Utilization | x   | x     | x     |       |       |

Impact

Audit Coverage Provided

15
## STATUS OF FY 2013 AUDIT PLAN

### Audits Completed

<table>
<thead>
<tr>
<th>High Risk</th>
<th>Moderate Risk</th>
<th>Low Risk</th>
<th>Governance Audits</th>
<th>Transitional Reviews</th>
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<tbody>
<tr>
<td>Affiliation Agreements</td>
<td>Network Segments Not Managed by NTS</td>
<td>Institute on the Environment</td>
<td>Board of Regents Internal Reporting</td>
<td>UMC Chancellor Transition</td>
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<tr>
<td>Research Data Storage</td>
<td>Lab Safety Process Review</td>
<td>UM Rochester Campus</td>
<td>Code of Conduct</td>
<td>VP Research Transition</td>
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<td>Student Registration Processes</td>
<td>UMD Health Services</td>
<td>UMore Park</td>
<td>Legal Review of Contracts</td>
<td>VP University Services Transition</td>
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<td>Workers Compensation and Payroll Related Processes</td>
<td>UMD Recreational Sports</td>
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<td>Conflict of Interest Process</td>
<td>UMD College of Liberal Arts</td>
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<td>UM Morris Campus</td>
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<td>Office for Technology Commercialization</td>
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<td>Travel and Employee Expense Reimbursements</td>
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### Audits Started in FY13 but will be Completed in FY14

<table>
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<tr>
<th>High Risk</th>
<th>Moderate Risk</th>
<th>Low Risk</th>
<th>System-Wide Audits/Reviews</th>
<th>Audits Deferred and in 2014 Audit Plan</th>
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<tbody>
<tr>
<td>Identity Management</td>
<td>Student Unions</td>
<td>Center for Transportation Studies</td>
<td>2008/2010 General Obligation Bonds Review</td>
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<tr>
<td>Privacy and Security Compliance Review</td>
<td>UMD Kirby Student Center</td>
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<td>Mobile Devices</td>
<td>UMD ITSS</td>
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<td>University Debt</td>
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<td>Testing of UMF Gift Transactions</td>
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### Audits Not Completed

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<th>Audits Deferred and in 2014 Audit Plan</th>
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<tbody>
<tr>
<td>Clinical Trials – Research (1)</td>
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<tr>
<td>Fairview Agreement (2)</td>
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<td>Institutional Cost of Fundraising (3)</td>
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<tr>
<td>PeopleSoft Upgrade – Governance (4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accreditation Review and Academic Program Reviews (5)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
1) During our initial planning we determined that extensive internal and external oversight was already being provided for CTSI activities. The information resulting from these oversight mechanisms was determined to be comprehensive, addressing appropriate issues. We concluded that providing additional audit coverage would be duplicative and would not provide sufficient additional value to warrant the expenditure of audit or unit resources.

2) In light of the varied and changing developments associated with the University’s relationship with Fairview throughout the past year, we concluded there was too much uncertainty to effectively audit elements of the relationship.

3) The merger of the two foundations sufficiently changed the infrastructure of the fundraising activities associated with the University, and we felt an audit would be more value-added once the merged organization has stabilized and its interactions with University development staff have adjusted accordingly.

4) In following our strategy to rely on the project implementation partner’s quality assurance review process we determined that project governance is being sufficiently evaluated through that effort.

5) During our initial work on this audit we determined that the Provost’s Office has made establishing a process for academic program reviews a priority for this year and further work on our part was not warranted.
2014 Internal Audit Plan
Office of Internal Audit

Board of Regents
Audit Committee
June 13, 2013
Topics

• Risk Assessment and Plan Development
• FY 2014 Audit Plan
• FY 2013 Audit Results
Office of Internal Audit Portfolio

- Audits
- Investigations/Special Projects
- Audit Advisory Services
Developing the Annual Plan

• A risk-based assessment of the University forms the foundation of the internal audit plan.
  • External Risk Assessment
  • Internal Risk Assessment
  • Operational Risk Assessment
  • Overall Risk Assessment
• Provides the basis for the rational deployment of limited audit resources.
Developing the Annual Plan

• External Risk Assessment
  • Survey of research-intensive universities
  • Review of regulatory agencies, externally conducted surveys, professional discussion groups, etc.

• Internal Risk Assessment
  • Discussions with administrative leadership
  • Discussions with Board leadership
Developing the Annual Plan

- Operational Risk Assessment
  - Assuring that all University activities have been accounted for, and included in a defined auditable activity.
  - Assessing each auditable activity against a set of defined risk factors.
Operational Risk Factors

- Impact of activity on the University mission
- Impact of information technology
- Regulatory compliance issues
- Organizational change/turnover
- Complexity/diversity of operations
- Known or perceived control concerns
- Audit history
- Impact on University finances
- Assessment of activity’s control environment
Operational Risk Assessment

163 auditable activities
- 23 high-risk activities
- 95 moderate-risk activities
- 45 low-risk activities
Overall Risk Assessment

Risks relevant for 2014

– Protection of the University’s reputation/brand
– Stature of the AHC/School of Medicine
– Management of administrative costs
– Execution of the Enterprise System Upgrade Project
– Revitalization of human resources practices
FY 2014 Allocation of Resources

- Scheduled Audits - 58%
- Investigations - 6%
- Presidential/Executive Requests - 10%
- Follow Up - 4%
- Administration - 22%
FY 2013 Allocation of Resources

Comparison of Audit Resources for FY 2013 and FY 2014
Percent of Available Time

- Scheduled Audits
  - 13/14 Budget: 56
  - 12/13 Actual: 57
  - 12/13 Budget: 58

- Investigations
  - 13/14 Budget: 6
  - 12/13 Actual: 6
  - 12/13 Budget: 6

- Special Projects
  - 13/14 Budget: 11
  - 12/13 Actual: 9
  - 12/13 Budget: 10

- Follow Up
  - 13/14 Budget: 6
  - 12/13 Actual: 3
  - 12/13 Budget: 4

- Administration
  - 13/14 Budget: 21
  - 12/13 Actual: 25
  - 12/13 Budget: 22
Deploying Audit Resources

We select activities for inclusion in the plan by considering and placing priority on coverage of:

- High-risk activities
- Major organizational components
- Institutional Risk Profile/ Risk Assessments
- Areas of strategic priority
- Management requests
Audit Plan Focus for 2014

The 2014 audit provides coverage of:

- Remaining major institutional processes
- Unit audits in three TC colleges
- Fundamental information technology components
- Human resources activities
- The Enterprise Systems Upgrade Project

Flexibility will continue to be important
FY 2014 Breakdown by Type of Audit

- Process: 49%
- Unit: 42%
- System: 9%

69% of the planned process audits will involve unit testing.

25% of the planned process audits are considered high risk.
FY 2014 Audit Coverage by Major Component

- AHC 13%
- Provost 15%
- CIO 20%
- U Services 5%
- Finance 13%
- Executive 5%
- Human Resources 2%
- Research 7%
- Coordinate Campuses 20%
Institutional Risk Profile

- Likelihood:
  - Low
  - Moderate
  - High

- Impact:
  - Low
  - Moderate
  - High

- Categories:
  - Athletics
  - Investments
  - Financial Management
  - International
  - Asset Optimization/Utilization
  - Associated Organizations
  - Student Experience
  - Technology
  - Campus Safety
  - Public Info
  - Academic Quality
  - Quality of Faculty & Staff
  - AHC
  - Research
  - Financing
  - Strategic Decisions
  - Leadership/Succession
  - Tech Transfer/IP

- Likelihood and Impact Levels:
  - High
  - Moderate
  - Low
Audit Coverage of Institutional Risks

<table>
<thead>
<tr>
<th>Unit</th>
<th>FY 14</th>
<th>FY 13</th>
<th>FY 12</th>
<th>FY 11</th>
<th>FY 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research – Infrastructure</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Individual Sponsored Project</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>AHC</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Tech Transfer</td>
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<td></td>
<td>X</td>
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<tr>
<td>Strategic Decisions</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Academic Quality</td>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
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<tr>
<td>Quality of Faculty and Staff</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
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<tr>
<td>Leadership/Succession</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Athletics</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Financial Management</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Technology</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Student Experience</td>
<td>X</td>
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<tr>
<td>Campus Safety</td>
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<td>Asset Optimization</td>
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<td>Public Information</td>
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<td>X</td>
</tr>
</tbody>
</table>
The 2014 Audit Plan

• Provides reasonable audit coverage across all of the major components of the University.
• Addresses risks identified by the Audit Committee as important.
• Addresses areas of interest/concern identified by the administration.
FY 2013 Audit Results
Our Commitment to Accountability
The Office of Internal Audit is committed to its accountability for the professional conduct of its work.

- We conduct our work in accordance with the *Standards for the Professional Practice of Internal Auditing* and abide by our profession’s *Code of Conduct*.
- There were no restrictions on audit scope or interference with our independence during the year.
The Office of Internal Audit is committed to its accountability for the productive use of the resources provided by the University.

Our Commitment to Accountability

In FY 2013:
– 22 audits completed
– 12 audits currently in process
– 6 audits either deferred to FY 2014 or were not completed
– 19 investigations conducted
Our Commitment to Accountability

• All of the professional staff are professionally certified or hold advanced degrees.
  – Thirteen are professionally certified as a CPA, CIA, CFE, or CISA
  – Nine have master’s degrees
  – Two are pursuing professional certifications
  – The audit staff has on average 17 years of audit experience

The Office of Internal Audit is committed to its accountability for the professional competence of its staff.
Our Commitment to Accountability

The Office of Internal Audit is committed to its accountability for the quality of the audit services we provide.

- We benchmark our practices/performance against other audit functions.
- We request a post-audit evaluation of our services after each audit.
- We undergo an external quality assurance review every five years.
“The internal audit activity at the University of Minnesota conforms both in spirit and application to all of the Standards.”

“University management and the Board of Regents can appropriately rely on the assurance provided by the audit work performed by the Office of Internal Audit.”

March 2009
Questions?
Audit Committee

June 13, 2013

**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 2013 meeting 23% of the outstanding recommendations rated as “essential” were implemented by University departments. While this is lower than our expected implementation rate of 40%, nearly 50% of the recommendations remaining have not yet reached their targeted implementation dates. We estimate that 10-15 of the 37 recommendations currently considered “partially implemented” will be implemented before our next follow-up in August. Three units 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.

- Nine audit reports containing 21 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 13, 2013

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 7, 2013

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 2013 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.
The Committee of Sponsoring Organizations of the Treadway Commission (COSO) released the 2013 *Internal Control – Integrated Framework* on May 14, 2013, updating the *Framework* issued in 1992. The COSO *Integrated Framework* is the leading guidance for designing, implementing, and conducting internal control and assessing its effectiveness within the United States. The Board of Regents policy *Internal Control* is based on the 1992 *Framework*. COSO recommends transitioning to the updated *Framework* as soon as practically feasible; however, transition must occur by 12/15/14 when the 1992 model will be decommissioned. We will be reviewing the changes over the summer to determine how best to transition to the new guidance.

- We plan to continue to provide a minimal amount of support/assistance to the University of Minnesota Physicians’ auditor in the area of information technology auditing.
<table>
<thead>
<tr>
<th>Audit 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>Implemented</th>
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<tr>
<td>Aug-09</td>
<td>School of Dentistry</td>
<td>Adequate</td>
<td>11</td>
<td>3</td>
<td>1 2</td>
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<tr>
<td>May-11</td>
<td>Boynton Health Services</td>
<td>Adequate</td>
<td>10</td>
<td>2</td>
<td>1 1</td>
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<tr>
<td>Sep-11</td>
<td>Energy Management/BSAC Systems (P)</td>
<td>Adequate</td>
<td>6</td>
<td>1</td>
<td>1</td>
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<tr>
<td>Oct-11</td>
<td>UMD School of Fine Arts</td>
<td>Adequate</td>
<td>10</td>
<td>2</td>
<td>1 1</td>
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<tr>
<td>Nov-11</td>
<td>University Payroll (P)</td>
<td>Needs Improvement</td>
<td>14</td>
<td>9</td>
<td>4 5</td>
</tr>
<tr>
<td>Nov-11</td>
<td>Intercollegiate Athletics</td>
<td>Needs Improvement</td>
<td>5</td>
<td>2</td>
<td>2</td>
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<tr>
<td>Feb-12</td>
<td>Dentistry - axUm System (P)</td>
<td>Adequate</td>
<td>14</td>
<td>10</td>
<td>1 8</td>
</tr>
<tr>
<td>Feb-12</td>
<td>University Contract Management (P)</td>
<td>Adequate</td>
<td>17</td>
<td>3</td>
<td>1 3</td>
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<tr>
<td>May-12</td>
<td>UMD Dining Services</td>
<td>Adequate</td>
<td>8</td>
<td>5</td>
<td>1 2 1 1</td>
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<tr>
<td>Jul-12</td>
<td>Human Research Protection Program (P)</td>
<td>Good</td>
<td>3</td>
<td>1</td>
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<tr>
<td>Sep-12</td>
<td>Vendor Payment &amp; Imaging Process (P)</td>
<td>Good</td>
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<td>1</td>
<td>1</td>
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<tr>
<td>Sep-12</td>
<td>UMD Health Services</td>
<td>Good</td>
<td>3</td>
<td>2</td>
<td>2</td>
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<tr>
<td>Dec-12</td>
<td>Network Segments Not Managed By OIT</td>
<td>Adequate</td>
<td>5</td>
<td>5</td>
<td>2 3</td>
</tr>
<tr>
<td>Jan-13</td>
<td>UMD Recreational Sports Outdoor Program</td>
<td>Good</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Jan-13</td>
<td>Affiliation Agreement Process (P)</td>
<td>Good</td>
<td>2</td>
<td>2</td>
<td>2</td>
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<tr>
<td>Jan-13</td>
<td>Workers Comp. &amp; Payroll Processes (P)</td>
<td>Adequate</td>
<td>3</td>
<td>3</td>
<td>1 2</td>
</tr>
</tbody>
</table>

Audits > 2 years old (see the following report for details on unresolved issues):
- Sep-11 Energy Management/BSAC Systems (P) - Adequate 6 1 1
- Oct-11 UMD School of Fine Arts - Adequate 10 2 1 1
- Nov-11 University Payroll (P) - Needs Improvement 14 9 4 5
- Nov-11 Intercollegiate Athletics - Needs Improvement 5 2
- Feb-12 Dentistry - axUm System (P) - Adequate 14 10 1 8
- Feb-12 University Contract Management (P) - Adequate 17 3 1 3
- May-12 UMD Dining Services - Adequate 8 5 1 2 1 1
- Jul-12 Human Research Protection Program (P) - Good 3 1 1
- Sep-12 Vendor Payment & Imaging Process (P) - Good 1 1 1
- Sep-12 UMD Health Services - Good 3 2 2
- Dec-12 Network Segments Not Managed By OIT - Adequate 5 5 2 3
- Jan-13 UMD Recreational Sports Outdoor Program - Good 5 5
- Jan-13 Affiliation Agreement Process (P) - Good 2 2
- Jan-13 Workers Comp. & Payroll Processes (P) - Adequate 3 3 1 2

Audits receiving first-time follow-up:
- Sep-11 Energy Management/BSAC Systems (P) - Adequate 6 1 1
- Oct-11 UMD School of Fine Arts - Adequate 10 2 1 1
- Nov-11 University Payroll (P) - Needs Improvement 14 9 4 5
- Nov-11 Intercollegiate Athletics - Needs Improvement 5 2
- Feb-12 Dentistry - axUm System (P) - Adequate 14 10 1 8
- Feb-12 University Contract Management (P) - Adequate 17 3 1 3
- May-12 UMD Dining Services - Adequate 8 5 1 2 1 1
- Jul-12 Human Research Protection Program (P) - Good 3 1 1
- Sep-12 Vendor Payment & Imaging Process (P) - Good 1 1 1
- Sep-12 UMD Health Services - Good 3 2 2
- Dec-12 Network Segments Not Managed By OIT - Adequate 5 5 2 3
- Jan-13 UMD Recreational Sports Outdoor Program - Good 5 5
- Jan-13 Affiliation Agreement Process (P) - Good 2 2
- Jan-13 Workers Comp. & Payroll Processes (P) - Adequate 3 3 1 2

Audits receiving first-time follow-up:
- Sep-11 Energy Management/BSAC Systems (P) - Adequate 6 1 1
- Oct-11 UMD School of Fine Arts - Adequate 10 2 1 1
- Nov-11 University Payroll (P) - Needs Improvement 14 9 4 5
- Nov-11 Intercollegiate Athletics - Needs Improvement 5 2
- Feb-12 Dentistry - axUm System (P) - Adequate 14 10 1 8
- Feb-12 University Contract Management (P) - Adequate 17 3 1 3
- May-12 UMD Dining Services - Adequate 8 5 1 2 1 1
- Jul-12 Human Research Protection Program (P) - Good 3 1 1
- Sep-12 Vendor Payment & Imaging Process (P) - Good 1 1 1
- Sep-12 UMD Health Services - Good 3 2 2
- Dec-12 Network Segments Not Managed By OIT - Adequate 5 5 2 3
- Jan-13 UMD Recreational Sports Outdoor Program - Good 5 5
- Jan-13 Affiliation Agreement Process (P) - Good 2 2
- Jan-13 Workers Comp. & Payroll Processes (P) - Adequate 3 3 1 2

**Total:** 117 56 13 15 22 4 2

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

(a) Issues pertaining to Dentistry’s Faculty Practice Plan remain, but management has made substantial progress and continues their work on this issue. Details are provided in the following report of "Issues Greater Than Two Years Old".

(b) Actions necessary to assert compliance with PCI DSS have been incomplete for more than a year, resulting in unsatisfactory progress on this particular issue.

**"Essential" Recommendation Implementation Trends**

<table>
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<tbody>
<tr>
<td># of Essential Recommendations Receiving Follow-up</td>
<td>96</td>
<td>67</td>
<td>72</td>
<td>89</td>
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<td>78</td>
<td>57</td>
<td>82</td>
<td>80</td>
<td>74</td>
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<tr>
<td># of Recommendations Considered Fully Implemented</td>
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<td>26</td>
<td>16</td>
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<td>55</td>
<td>12</td>
<td>16</td>
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<td>25</td>
</tr>
<tr>
<td>Implementation Percentage</td>
<td>23%</td>
<td>39%</td>
<td>22%</td>
<td>29%</td>
<td>67%</td>
<td>15%</td>
<td>28%</td>
<td>43%</td>
<td>34%</td>
<td>34%</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>
<tr>
<td><strong>School of Dentistry</strong>&lt;br&gt;Aug-09</td>
<td>P</td>
<td>Jeff Ogden&lt;br&gt;Leon Assael</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>We have received private practice plans from all faculty with the exception of three individuals. Two of the individuals who have not signed their plans yet have no change in their internal practice plans, but they are discussing some small details of the document with the Dean. The other individual is Oral Surgery and we are transitioning the separate corporation which formerly operated within the School of Dentistry (MOSPA), out of the School of Dentistry over the next six months. As this is a complex legal process, which is also affected by the many changes in divisional governance that are going on concurrently, we are progressing steadily at a measured pace. For the purposes of the audit we believe that we have complied (and will continue to comply) with the intent of the recommendation after much work. See comments above on the changes made to date and the ongoing implementation of the new faculty practice plan model.</td>
<td></td>
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<tr>
<td><strong>Boynton Health Service</strong>&lt;br&gt;May-11</td>
<td>P</td>
<td>Carl Anderson&lt;br&gt;Gerald Rinehart</td>
<td>BHS should enhance its change management processes and ensure the enhanced change processes are applied to all code change management on all applications used by BHS. Formal processes should be established for the movement of changes between development, test, and production environments. Only tested and authorized changes should be moved into production. Development and testing should be performed in dedicated environments. Vendor and developers’ update access to the production environment should be removed or systematically restricted with necessary logging and monitoring mechanisms. Evidence that code changes were tested and appropriately authorized should be retained. Change evidence should be reconciled with system generated logs that illustrate when changes were moved between the various environments and who did the actual moves. Logs should be secured so no one who can migrate changes can also modify or delete the logs. These change logs should be periodically reviewed by appropriate independent management (i.e., management without access to make changes to the application). Code and system change processes should incorporate end-user testing and business process owner approval for the most significant changes. Emergency code change processes should be established and followed. Emergency processes should ensure users cannot unilaterally move code into production without some independent review and approval. All emergency changes should be consistently documented and require retroactive review to confirm the appropriateness of the emergency changes.</td>
<td>Boynton Health Services (BHS) is in the process of implementing a new Medical Record system. The system is expected to be moved into production in July. At the same time the system is moved into production, BHS intends to implement a new tool for tracking system changes. BHS has been testing the change tracking tool and is confident that it will address the concerns listed in the finding. As the tool is implemented BHS will be codifying associated standards and procedures for evaluating reporting out of the tool to ensure only authorized and tested changes are being moved to production. Resolution of this finding has been impacted by the decision to update the medical record system. It is expected that the necessary infrastructure and processes will be functioning by the end of July.</td>
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</tr>
</tbody>
</table>

**Total:** 3
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 2013, 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.
Original Report Evaluation

Previous Quarter Evaluation

Current Quarter Evaluation

University Contract Management (February 2012)

UMD Dining Services (May 2012)
Network Segments Not Managed By OIT (December 2012)

UMD Recreational Sports Outdoor Program (January 2013)
Worker's Compensation & Payroll Processes (January 2013)

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

Original Report Evaluation

Energy Management/BSAC Systems (September 2011)

Previous Quarter Evaluation

Human Research Protection Program (July 2012)

Current Quarter Evaluation

Legend:
- **Adequate Control**
- **Significant Control Level**
- **Critical Control Level**
- **Potential Over-Control**
Affiliation Agreements Process (January 2013)

Original Report Evaluation

Previous Quarter Evaluation

Current Quarter Evaluation

Adequate Control

Significant Control Level

Critical Control Level

Potential Over-Control
Audit Activity Report

Scheduled Audits
• Completed audits of: the Office of the Vice President for Research transition review, student registration processes University-wide, UM – Rochester campus, travel and employee expense reimbursement process, UMD College of Liberal Arts, lab safety process review, Office for Technology Commercialization, and research data storage. Details are shown on the following charts.

• Began/continued audits of: the conflict of interest process, compliance-privacy/security of regulated data, mobile computing devices, identity management, the external reporting of data process, Employee Benefits - retirement plans, UMD - Kirby Student Center, UMD ITSS, the University’s debt process, institution-wide testing of UMF-funded gift and endowment accounts and Twin Cities student unions and activities.

Non-Scheduled Audits
• Completed our review of institutional compliance with the Regents policy on Legal Review of Contracts and Transactions. Details are shown on the following chart.

• Began audits of the Institute on the Environment and the Center for Transportation Studies.

• At the request of the Legislative Auditor we began an audit of the University’s use of 2008 and 2010 general obligation bond funding.

Investigations
• Performed investigative work on 12 issues in accordance with the University Policy on Reporting and Addressing Concerns of Misconduct.

Special Projects
• Provided consulting services related to: University payroll exception testing.

Other Audit Activities
• Participated in the following:
  - Senior Leadership Group
  - Operational Excellence 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
  - Enterprise System Upgrade - Human Resource Functional Steering Committee
  - OHS Steering Committee
  - Global Operations Advisory Team
  - IT Leaders Community of Practice
  - IT Security Community of Practice
  - IT Risk Management Affinity Group
Audit Reports Issued Since February 2013
Office of the Vice President for Research Transition Review

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

Report # 1315  Issue Date Apr-13
# of Essential Recs. 0  Total # of Recs. 0
Overall Assessment Good  Adequacy of MAP NA

The purpose of this review was to determine if appropriate operational and financial controls were in place and operating effectively within VP Mulcahy’s office through the end of his tenure and to identify any areas which warrant VP Herman’s attention as he assumes the VP position. In our opinion, the operational and financial controls within the Office of the Vice President for Research are effective. Staff and management demonstrated a sincere interest in complying with required policies and procedures. We did identify selected issues, minor in nature, which we communicated to the department.

Student Registration Processes University-wide

Our audit reviewed controls and procedures in place over the registration process. Based on the results of the audit work performed we believe the University’s registration processes are well designed and operate effectively to support the course registration by students on all of the University’s campuses. The University’s enterprise registration system (PeopleSoft) is used by all campuses. The system provides substantial automated functionality and a robust self-service platform for student registration. The system provides for efficient assignment of registration queue times, processing of block enrollments for professional/graduate school students and course drop/adds. Holds and releases were determined to be handled appropriately.
This was the first audit of the University of Minnesota - Rochester (UMR) campus. Based on the results of the audit work performed we believe UMR has developed a control environment and a system of internal control that addresses many of its major business and compliance risks. We noted that financial oversight, reporting, and reconciliations for the campus’ housing activity are inadequate, and UMR will need to consider implementing a formal housing software system, such as the system used in the Twin Cities, to manage the housing operation. In addition, the audit noted the need for improvements to the process used for UMR cash receipts.

Travel and Employee Expense Reimbursement Process

Based on the results of the University-wide audit work performed, we believe departmental adherence to policies regarding the processing of travel and employee reimbursements is generally good. In addition, we believe the policies and procedures governing these processes are generally clear, concise, and well documented. Acceptable error rates have not been developed for the policy attributes we tested, so we were unable to draw conclusions on whether the error rates we noted met institutional expectations. However, only one attribute (timely payments) had an error rate that, in our opinion, appeared to be excessive. We noted the need for a review of the process used to issue cash advances to employees, especially those advances given to principal investigators for human subject payments.
Legal Review of Contracts and Transactions

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

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<th>1319</th>
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<td>Adequacy of MAP</td>
<td>Satisfactory</td>
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The objective of our review was to assess the control systems in place to assist in ensuring compliance with the Board of Regent Policy: Legal Review of Contracts and Transactions. We believe the Office of the General Counsel (OGC) has developed an appropriate framework of internal control that governs the execution of University contracts and ensures compliance with Regents policy. We found University departments were not bypassing the OGC in the contract process when its involvement was required, forms and procedures have been properly developed to facilitate the process, contracts and transactions that require Board notification or specific Board approval have been presented to them, and contracts or transactions that require specific approval by the Board have first been reviewed by the OGC.

UMD College of Liberal Arts

Based on the results of the audit work performed, we believe the operational and financial controls within UMD CLA 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 operational area of greatest concern is the Victus Farm project. The high visibility of this project, combined with a lack of close attention to University policy and a lack of adequate consultation with University central offices, creates substantial risk for UMD CLA. The college has developed a management action plan that properly addresses the issues and recommendations in the report. Timelines for implementation of the recommendations are reasonable.
Based on the results of our audit of the lab safety process, which included teaching and research labs at the University, we concluded that overall effectiveness needs to be improved. The University’s approach to providing oversight on lab safety for research labs is becoming more consistent and refined as new processes and procedures are being developed by a newly hired research safety staff within the Department of Environmental Health and Safety (DEHS). The new research safety group appears to be moving in the right direction and is making progress. However, prior to the new staff, oversight of research labs was inconsistent and ineffective. As part of this audit we surveyed Research Safety Officers (RSOs) to obtain feedback on the level of service and information they were receiving from DEHS; the survey results indicated a very high level of RSO satisfaction with both DEHS and the units the RSOs work in. RSOs whose labs had recently been reviewed were even more supportive of DEHS than those who have not yet been reviewed, indicating those recent interactions have been a positive experience.

In our opinion, operational and compliance controls in place within the OTC are well designed and generally operating effectively. Our review indicated that the OTC maintains a strong control environment and OTC staff demonstrated a sincere interest in complying with all required regulations, policies and procedures. Mechanisms, however, are not in place to ensure all OTC activities are in compliance with its internally developed policies and procedures. While we believe the OTC is performing well, the volume of work requires a consistent, continuous, and focused attention to optimize its efficiency and effectiveness. Given the resources and tools available to OTC, this is and will be a major challenge.
The audit evaluated whether necessary storage solutions exist to support research needs and monitoring for compliance of regulatory requirements and contractual commitments. The University has made significant investments in data storage solutions. The solutions have been implemented by a variety of central, regional and local providers. Some of these storage solutions have strong security features and high performance standards. The lack of comprehensive inventories identifying where research data is being stored makes it more difficult for the University to monitor research activities to ensure compliance, effectiveness and efficiency. Insufficient guidance makes it difficult for researchers and SPA to determine what storage solutions satisfy specific requirements included in contract commitments related to research data storage. Many of the issues identified in this report are rated as “essential” to emphasize the strategic planning that will be required to keep the UM competitive in research over the next 5-10 years. The VP for Research and the VP for IT have decided to accepted the risk of not having a comprehensive inventory and have concluded that having a standard set of performance parameters to evaluate storage service solutions against would not be a value-add given the cost to create.
Audit Committee

June 13, 2013

Agenda Item: The Risk Profile of University Operations

☐ review  ☐ review/action  ☐ action  ☑ discussion

Presenters: Vice President Pamela Wheelock

Purpose:

☐ policy  ☐ background/context  ☑ oversight  ☐ strategic positioning

The FY2013 Audit Committee work plan is structured around a series of discussions of risks associated with each of the major operational components of the University. These discussions provide the Audit Committee with the administration leadership’s views on the risks facing the University and those risks deemed by the administration to be significant to the achievement of the University's strategic goals. This is the fourth discussion in the series.

In this discussion, Vice President Pamela Wheelock will provide an overview of risks unique to the university’s non-academic operations and outline the current and planned efforts to mitigate those identified.

Outline of Key Points/Policy Issues:

University Services is a broad organization with over 3,000 employees and responsibilities across the University of Minnesota System that which create and sustain a physical environment and service culture that supports and advances the teaching, research, and outreach missions of the institution. University Services includes Capital Planning and Project Management; Public Safety; Facilities Management; University Health and Safety; and Auxiliary Services (Bookstores, Housing and Residential Life, Dining Services, Parking and Transportation, Printing and General Services, Contract Administration/Dining and Beverage, and UMarket).

The presentation to the Audit Committee will provide detail on the risks specific to University Services, or for which University Services has primary responsibility to provide leadership on their mitigation:

- Reliance on State Funding for Physical Assets and Operations
- Business Interruption due to Building System Failures
- Safety of Buildings and Infrastructure
- Tension Between Access, Security, and Safety
- Mismatch Between Physical Assets and Mission
- Environmental/Public Health Protection and Compliance
- Multimodal Transportation Conflicts
• Research Safety
• Biological Safety and Security
• Radiation Safety
• Student Choices and Behaviors
• University’s Distributed Footprint
• Variability in the Construction Industry
• Reliability of University Services IT Systems

The presentation will provide an overview of these risks, highlight the risk areas that are of greatest impact, identify specific risk areas that are trending upward, and review the strategic opportunities for risk mitigation.

In addition to the risks specific to University Services, there are several identified risks that are significant for University Services but where primary responsibility for planning and mitigation fall to other areas of institutional oversight. These risks include but are not limited to the following:

• Cash and Credit Card Handling and Reconciliation (Budget and Finance)
• Purchasing and Vendor Compliance (Budget and Finance)
• Employee Training Programs (Human Resources)
• Succession Planning (Human Resources)
• Server Security and Reliability (Information Technology)
• Network Reliability (Information Technology)
• Student Conduct and Mental Health (Student Affairs, Boynton Health Service)

The presentation also will highlight how these risks impact University Services’ operations.

**Background Information:**

At its February 11, 2011 meeting, the Board expressed support for the Strategic Risk Management Work Group’s operational strategy and risk principles provided a framework to guide the University community toward a more strategic risk management approach across all aspects of its operations.

Throughout FY2013 the Audit Committee has reviewed and discussed the risks associated with each of the major operational components of the University. Previous risk discussions by the Board of Regents Audit Committee include:

• Research (December 2012)
• Human Resources (February 2013)
• Information Technology (May 2013)
2014 Internal Audit Plan
Office of Internal Audit

Board of Regents
Audit Committee
June 13, 2013
Topics

• Risk Assessment and Plan Development
• FY 2014 Audit Plan
• FY 2013 Audit Results
Office of Internal Audit Portfolio

- Audits
- Investigations/Special Projects
- Audit Advisory Services
Developing the Annual Plan

• A risk-based assessment of the University forms the foundation of the internal audit plan.
  • External Risk Assessment
  • Internal Risk Assessment
  • Operational Risk Assessment
  • Overall Risk Assessment
• Provides the basis for the rational deployment of limited audit resources.
Developing the Annual Plan

- **External Risk Assessment**
  - Survey of research-intensive universities
  - Review of regulatory agencies, externally conducted surveys, professional discussion groups, etc.

- **Internal Risk Assessment**
  - Discussions with administrative leadership
  - Discussions with Board leadership
Developing the Annual Plan

• Operational Risk Assessment
  – Assuring that all University activities have been accounted for, and included in a defined auditable activity.
  – Assessing each auditable activity against a set of defined risk factors.
Operational Risk Factors

• Impact of activity on the University mission
• Impact of information technology
• Regulatory compliance issues
• Organizational change/turnover
• Complexity/diversity of operations
• Known or perceived control concerns
• Audit history
• Impact on University finances
• Assessment of activity’s control environment
Operational Risk Assessment

163 auditable activities
- 23 high-risk activities
- 95 moderate-risk activities
- 45 low-risk activities
Overall Risk Assessment

Risks relevant for 2014

– Protection of the University’s reputation/brand
– Stature of the AHC/School of Medicine
– Management of administrative costs
– Execution of the Enterprise System Upgrade Project
– Revitalization of human resources practices
FY 2014 Allocation of Resources

- Scheduled Audits - 58%
- Investigations - 6%
- Presidential/Executive Requests - 10%
- Follow Up - 4%
- Administration - 22%
FY 2013 Allocation of Resources

Comparison of Audit Resources for FY 2013 and FY 2014

Percent of Available Time

- Scheduled Audits
  - 13/14 Budget: 56
  - 12/13 Actual: 57
  - 12/13 Budget: 58

- Investigations
  - 13/14 Budget: 6
  - 12/13 Actual: 6
  - 12/13 Budget: 6

- Special Projects
  - 13/14 Budget: 11
  - 12/13 Actual: 9
  - 12/13 Budget: 10

- Follow Up
  - 13/14 Budget: 6
  - 12/13 Actual: 3
  - 12/13 Budget: 4

- Administration
  - 13/14 Budget: 21
  - 12/13 Actual: 25
  - 12/13 Budget: 22

University of Minnesota
Deploying Audit Resources

We select activities for inclusion in the plan by considering and placing priority on coverage of:

- High-risk activities
- Major organizational components
- Institutional Risk Profile/ Risk Assessments
- Areas of strategic priority
- Management requests
Audit Plan Focus for 2014

The 2014 audit provides coverage of:

– Remaining major institutional processes
– Unit audits in three TC colleges
– Fundamental information technology components
– Human resources activities
– The Enterprise Systems Upgrade Project

Flexibility will continue to be important
FY 2014 Breakdown by Type of Audit

- 49% Process
- 42% Unit
- 9% System

69% of the planned process audits will involve unit testing.

25% of the planned process audits are considered high risk.
FY 2014 Audit Coverage by Major Component

- AHC 13%
- Provost 15%
- CIO 20%
- U Services 5%
- Finance 13%
- Executive 5%
- Human Resources 2%
- Research 7%
- Coordinate Campuses 20%
## Audit Coverage of Institutional Risks

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<tr>
<th>Unit</th>
<th>FY 14</th>
<th>FY 13</th>
<th>FY 12</th>
<th>FY 11</th>
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The 2014 Audit Plan

• Provides reasonable audit coverage across all of the major components of the University.
• Addresses risks identified by the Audit Committee as important.
• Addresses areas of interest/concern identified by the administration.
FY 2013 Audit Results
Our Commitment to Accountability
Our Commitment to Accountability

- We conduct our work in accordance with the *Standards for the Professional Practice of Internal Auditing* and abide by our profession’s *Code of Conduct*.
- There were no restrictions on audit scope or interference with our independence during the year.
Our Commitment to Accountability

The Office of Internal Audit is committed to its accountability for the productive use of the resources provided by the University.

In FY 2013:
- 22 audits completed
- 12 audits currently in process
- 6 audits either deferred to FY 2014 or were not completed
- 19 investigations conducted
Our Commitment to Accountability

The Office of Internal Audit is committed to its accountability for the professional competence of its staff.

- All of the professional staff are professionally certified or hold advanced degrees.
  - Thirteen are professionally certified as a CPA, CIA, CFE, or CISA
  - Nine have master’s degrees
  - Two are pursuing professional certifications
  - The audit staff has on average 17 years of audit experience
Our Commitment to Accountability

The Office of Internal Audit is committed to its accountability for the quality of the audit services we provide.

- We benchmark our practices/performance against other audit functions.
- We request a post-audit evaluation of our services after each audit.
- We undergo an external quality assurance review every five years.
“The internal audit activity at the University of Minnesota conforms both in spirit and application to all of the Standards.”

“University management and the Board of Regents can appropriately rely on the assurance provided by the audit work performed by the Office of Internal Audit.”

March 2009
Audit Committee  

June 13, 2013

**Agenda Item:** Informational Items

- [] review  
- [] review/action  
- [] action  
- [x] discussion

**Presenters:** Associate Vice President Gail Klatt

**Purpose:**

- [] policy  
- [] background/context  
- [x] 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 for the last six months in the area of financial accounting and reporting, internal controls, reducing financial or compliance risks to the University, and improving efficiencies and service. The report highlights some key changes to the annual financial statements, the implementation of a new eprocurement tool, and the increase in the University’s capitalization threshold.

**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.*
This report presents a summary of activities completed by the Controller’s Office in the last six months that have strengthened financial reporting, enhanced internal controls, reduced financial risks, improved services to the University community, or created efficiencies in financial operations.

I. Accounting and Financial Reporting Matters

A. Governmental Accounting Standards Board (GASB) Pronouncements

GASB has issued 7 accounting and reporting standards in the last 2 years. The University will be adopting 4 for our June 30, 2013 year end reports. The remaining 3 will be implemented in 2014 and 2015. The following provides a brief summary of each new standard, and the potential impact (if known) on the University’s financial statements.

New Standards to be adopted for Fiscal Year Ended June 30, 2013:

- **GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements** - This standard addresses Service Concession Arrangements (SCAs), which are a type of public-private or public-public partnership. In a SCA arrangement, the University (the transferor) would be required to record a liability for future contractual obligations (e.g., capital improvements, insurance, maintenance, etc.) under the terms of the agreement, if applicable, along with recording deferred inflow of resources. Revenue would be recognized by the University in a systematic manner over the term of the agreement.

  Illustration: If the SCA agreement requires an upfront payment or installment payments from the operator, the University would report (a) the upfront payment or present value of the installment payments as an asset (e.g., cash), (b) any contractual obligations as liabilities, and (c) related deferred inflow of resources equal to the difference between (a) and (b). The deferred inflow of revenues would be amortized and recognized as revenue over the life of the agreement.

  The above illustration would result in the University’s balance sheet reflecting an increase in assets, an increase in liabilities and a reduction in revenue on the basis of recording a deferred inflow of resources (versus recognizing revenue immediately) at the time of payment receipt.

- **GASB Statement No. 61, The Financial Reporting Entity: Omnibus** - We do not expect a material impact on the University’s financial statements from implementing this standard.

- **GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements** – We do not
expect a material impact on the University’s financial statements from implementing this standard.

- **GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position**
  The Standard amends the balance sheet reporting requirements in GASB 34, Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments, and other pronouncements by standardizing the presentation. Certain assets and liabilities will now be classified as deferred outflows of resources and deferred inflows of resources, respectively. As a result, the University's balance sheet, which will be referred to in the future as the *Statement of Net Position*, will have the following section classifications: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

  The impact of this implementation will change the classification titles and overall presentation of the University's balance sheet. An illustration of the new format is included with this report, with the new report elements highlighted in red font.

**New Standards effective for Fiscal Years Ended June 30, 2014 and June 30, 2015**

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

- **GASB 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.

- **GASB Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27,** which establishes and improves accounting and financial reporting for defined benefit and contribution pension plans administered through trusts or equivalent arrangements. This statement is effective for the fiscal year ending June 30, 2015.

**B. Changes in previously reported Component Units**

Previously the University has reported 7 component units – University of Minnesota Foundation, Minnesota Medical Foundation, Minnesota Landscape Arboretum Foundation, Minnesota 4-H Foundation, University of Minnesota Physicians, University of Minnesota Alumni Association, and the University Gateway Corporation. We are expecting to report fewer component units for June 30, 2013 for two reasons. First, UMF and MMF’s merger may result in showing those two organizations as combined component units. Second, three
of the smaller component units (Minnesota Landscape Arboretum Foundation, Minnesota 4-H Foundation, and University of Minnesota Alumni Association) may no longer need to be reported due to a re-evaluation of the materiality thresholds for reporting component units. There would be no changes to the remaining component units, or to the nature or extent of reporting the remaining component units.

II. Activities to Enhance Service, Productivity, and Efficiency, and to Improve Internal Controls

Equipment Capitalization Threshold:
The University has received all approvals to raise our equipment capitalization threshold from $2,500 to $5,000, effective July 1, 2013. Planning has been completed, processes have been modified and tested, and the changes have received a final “go” to implement. This change will generate operational efficiencies, with minimal increase in risk, as exemplified by the following:

- The net book value of capital equipment that will no longer be capitalized, tagged, and tracked is approximately $16.7 million dollars, or 9% of total capital equipment (based on FY 11 data).
- The number of capital equipment assets that will no longer be capitalized, tagged, and tracked is approximately 21,000, or 31% of total capital equipment (based on FY 11 data).
- When these metrics are extrapolated into future years, the change is expected to result in an estimated reduction of administrative work by approximately 8,600 hours each year, spread across central administrative, academic, and support units.
- The change will bring the University of Minnesota into alignment with all peer institutions in the CIC, which all currently use a $5,000 capitalization threshold.

Implementation of SciQuest “e-Procurement” software, and transformation of U Stores’ into “U Market Services”
This initiative is a result of a study done last year to evaluate U Stores, the University organization that provides supplies, logistics and materials management to University departments. The study recommended that U Stores’ mission be clarified, and that the internal purchasing activities be strengthened by implementing a new e-procurement software system. The implementation was begun in December, 2012, and will be completed by July 1, 2013. Our implementation will bring up 40 vendors’ catalogues, which is about 4 times the normal implementation of a system like this. When complete, more small dollar purchases and payments will be handled through the system, saving the University money through lower prices and lower transaction costs.

As of May 31, 2013, the system is functioning as planned in a “pilot” phase, with a limited number of departments using and testing the system. All remaining tasks are on schedule. We
will be making a go/no go decision in June, and all decision criteria point towards a “go” decision and full roll-out across the institution on July 1, 2013.

Roll-out of Non-sponsored Accounts Receivable services
At the beginning of FY 2013 the Controller’s Office began a multi-year project to complete the automation and centralization of all invoicing and cash collections on “miscellaneous” non-sponsored sales activity (but not tuition, certain clinical activities, etc.). Prior to starting this project, approximately 140 units were already using the centralized A/R services, but this accounted for only about 20-25% of all invoicing and collections activity (~ 25,000 per year).

In this first year, we successfully added several large, complex units to the consolidated process. This captured an additional 61,000 billing transactions that previously were done by personnel in those units. The final two years of roll-out (FY 2014 and FY 2015) will capture 35,000 to 40,000 more transactions, spread across numerous smaller entities. The result will be full automation and consolidation of all activities that previously were decentralized.

Enterprise Systems Upgrade Program – Finance project planning and kickoff
The Finance organization has spent the last two years planning for the upgrade of EFS. Our activities included developing and supporting two critical end-user advisory groups: the Financial Management Advisory Committee, and the EFS Functional Steering Committee. We have been working with those organizations to identify pain points and user priorities for the upgrade, create project plans, and identify participants for work teams. These activities culminated in a successful kick-off of the EFS upgrade on May 8, 2013. With the work teams in place, we have begun the “Plan and Discover” sessions to assess what the upgraded system functionality looks like, and what alternatives are available for addressing priorities and pain points. These will continue through the summer of 2013.

The Board will receive a more in-depth report on the Enterprise Systems Upgrade Program at its Board meeting on Friday, June 14, 2013.
## Consolidated Statements of Net Position (Excluding Component Units)

*New Report Classifications in RED*

### Assets

<table>
<thead>
<tr>
<th>Current assets</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Short-term investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables, net</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student loans receivable, net</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses and deferred charges</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Noncurrent assets | | |
|-------------------| | |
| Restricted cash and cash equivalents | | |
| Investments | | |
| Receivables, net | | |
| Student loan receivables, net | | |
| Prepaid expenses and deferred charges | | |
| Other assets | | |
| Capital assets, net | | |
| **Total noncurrent assets** | | |

### Deferred Outflows of Resources

*To Be Determined Based on Outcome of GASB Standard Implementation*

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total assets and deferred outflows of resources</strong></td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

### Liabilities

| Current liabilities | | |
|---------------------| | |
| Accounts payable | | |
| Accrued liabilities and other | | |
| Unearned income | | |
| Long-term debt-current portion | | |
| **Total current liabilities** | | |

| Noncurrent liabilities | | |
|------------------------| | |
| Accrued liabilities and other | | |
| Unearned income | | |
| Long-term debt | | |
| **Total noncurrent liabilities** | | |

### Deferred Inflows of Resources

*To Be Determined Based on Outcome of GASB Standard Implementation*

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total liabilities and deferred inflows of resources</strong></td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

### Net Position

| Unrestricted | | |
|----------------| | |
| Restricted | | Expendable |
| Nonexpendable | | |
| Net investment in capital assets | | |

### Total net position