Audit Committee

June 2014

June 12, 2014

8:00 AM - 9:30 a.m.

East Committee Room, McNamara Alumni Center
AUD - JUN 2014

1. Internal Audit Plan
   - *Docket Item Summary* - Page 3
   - *Annual Internal Audit Plan* - Page 4
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2. Internal Audit Update
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3. Updated Research Risk Profile
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4. Consent Report
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Agenda Item: Internal Audit Plan

☐ Review  ☐ Review + Action  ☐ Action  ☒ Discussion

☒ This is a report required by Board policy.

Presenters: Associate Vice President Gail Klatt

Purpose & Key Points

The recommended Internal Audit plan for FY 2015 is risk-based and continues to reflect the principles of the Integrated Framework of Internal Control. The plan includes 24 audits of University processes, units, and systems. Audit coverage has recently been provided for all of the University’s significant processes and because of this previous coverage, the proposed plan includes notably more unit-based audits. Selection of activities for inclusion in the annual audit plan considered alignment with the Institutional Risk Profile and well-balanced coverage across the University. Audit resources have also been reserved for administrative special requests and investigative audit needs.

Background Information

The Audit Committee is delegated the responsibility to review the annual internal audit plan on behalf of the Board of Regents in conformance with Board of Regents Policy: Audit Committee Charter.
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, strategic, and reputational 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: In December 2013, the U.S. Office of Management and Budget issued comprehensive grant reform rules titled "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards." The new document consolidates the requirements that were previously addressed in eight separate OMB Circulars into a new "super circular." The super circular, which goes into effect December 2014, includes many changes to existing federal requirements as well as establishes new requirements. Developing plans for its implementation is currently a major focus of our largest federal funding agencies.

Research Universities: Our survey of universities identified three broad areas of concerns. First, is President Obama's college rating system that is being developed by the Department of Education. Ratings are to be available before the 2015 academic year, but what will be considered in the ratings, and the information that they will be based on, is still ill-defined. Second, universities with Division 1 athletics
are concerned about the potential for athlete unionization and/or the provision of stipends for athletes. Lastly, information security and data privacy continue to be “top of mind” for many university audit committees. Universities with academic health centers and/or hospitals are still closely monitoring the impact of the Affordable Care Act and the changing health care market.

**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 to identify risks of concern at the governance level for audit consideration. The risks most often identified in these discussions were:

- Enrollment management and related financial implications
- Public relations and communications and the distraction of negative media coverage
- All things Academic Health Center: the stature and funding of the Medical School, the relationship with Fairview Health Services and University of Minnesota Physicians and the Integrated Structure, the Ambulatory Care Center, the impact of the Affordable Care Act, and the success of its new leadership.

We also held discussions with 84 institutional officials from 39 units to solicit input on the University's institutional risks and any specific areas of concern. These discussions with University leadership did not identify any persistent areas of risk determined to be of concern. It is particularly noteworthy that there were no concerns raised about the potential success of the Enterprise System Upgrade Project. While many acknowledged that there were still many unanswered questions and potential implications, all expressed confidence that the Upgrade would be successful. Several of the academic leaders interviewed emphasized the importance of meeting their enrollment targets to the college’s financial stability. All stated that they are actively working to manage this risk. Finally, there is building curiosity, and optimism, about the Strategic Plan and how it will be advanced throughout the University.

**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 177 individual auditable activities, of which 19 are considered to be high risk, 103 moderate risk, and 55 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 FY2015 AUDIT PLAN

Interestingly, our review of the external and internal risk landscape did not identify any specific risks that warrant focused attention as we allocate our audit resources. We will continue to closely monitor the Enterprise Upgrade Project as it moves towards its February 2015 implementation date. We have provided recent audit coverage of all of the significant University business processes, which allows us focus our attention on unit audits as central units remain deeply involved in the Upgrade rollout. The University administration is also very cognizant of the importance and magnitude of the new OMB Circular and has established a number of task groups to identify its impact on our operations. These impacts will not be “auditable” in FY2015, but internal audit staff are participating on the task groups, which will keep us informed of the changes that will be coming.

ALLOCATION OF AUDIT RESOURCES

The audit plan is based on a planned staffing complement of 15.3 FTE professionals, which is our full complement. We currently have three open positions, but expect to have them all filled in the near future.

Approximately 55% of the Office of Internal Audit’s resources are committed to the completion of planned audit projects. This year 8% of those resources will be needed to complete carry-over work from our FY 2014 audit plan. Four audit projects are currently in process and will be completed in 2015.

The remainder of our FY 2015 audit resources is reserved as follows:

- 10% has been reserved to accommodate requests from the President, the Board, or members of the senior leadership team. 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 remains consistent from previous years.
- 25% has been set aside for internal administrative functions, including our continuous improvement efforts. This is a 3% increase from our prior budget to accommodate the training that will be required by all staff for the Enterprise Upgrade.
FY 2015 PLANNED ALLOCATION OF AUDIT RESOURCES

- Scheduled Audits: 55%
- Investigations: 6%
- Presidential/Executive Requests: 10%
- Follow Up: 4%
- Administration: 25%
COMPARISON OF AUDIT RESOURCES FOR FY 2014 AND FY 2015

Percent of Available Time

<table>
<thead>
<tr>
<th>Category</th>
<th>13/14 Budget</th>
<th>13/14 Actual</th>
<th>14/15 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheduled Audits</td>
<td>58%</td>
<td>50%</td>
<td>55%</td>
</tr>
<tr>
<td>Investigations</td>
<td>10%</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>Special Projects</td>
<td>4%</td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td>Follow Up</td>
<td>2%</td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td>Administration</td>
<td>22%</td>
<td>27%</td>
<td>25%</td>
</tr>
</tbody>
</table>
RELIANCE ON OTHER PROVIDERS

To avoid duplication of work and additional burden on University staff, we continue to place reliance on audit related work performed by other service providers. We rely on the external audit work performed by Deloitte and Touche, LLP in the areas of investments and RUMINCO, the University’s captive insurance company. We also rely on the audit work performed by external construction audit firms engaged by the University’s Capital Planning and Project Management (CPPM) unit for construction projects that are delivered using the Design/Build or the Construction Manager at Risk delivery methods. We are in agreement with the scope of this audit work and receive copies of their reports. Lastly, as reported last year, we are relying on the quality assurance work performed by Cedar Crestone on the Enterprise Upgrade Project, as well as the assessments of the project provided by North Highland and Aeritae Consulting Group during the course of this year.

FY 2015 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 2015 includes the following:

<table>
<thead>
<tr>
<th>Audits</th>
<th>Process Owner and/or VP</th>
<th>System, Process or Unit Audit</th>
<th>Testing Done in Units During Process Audit?</th>
<th>Risk Area(s) Covered</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High Risk Audits:</strong></td>
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<tr>
<td>Facilities Mgmt – Districts</td>
<td>VP U Services</td>
<td>Unit</td>
<td></td>
<td>Financial Management, Asset Optimization, Campus Safety, Student Experience</td>
</tr>
<tr>
<td>Department of Medicine</td>
<td>VP AHC</td>
<td>Unit</td>
<td></td>
<td>Financial Management, AHC, Research, Compliance</td>
</tr>
<tr>
<td>Sponsored Projects Admin TBD</td>
<td>VP Research</td>
<td>Process</td>
<td>Yes</td>
<td>Financial Management, Research, Compliance</td>
</tr>
<tr>
<td>PCI Compliance</td>
<td>VP CFO</td>
<td>Process</td>
<td>Yes</td>
<td>Technology, Compliance</td>
</tr>
<tr>
<td>NCAAA Compliance (TC)</td>
<td>President</td>
<td>Unit</td>
<td></td>
<td>Athletics, Compliance</td>
</tr>
<tr>
<td><strong>Medium Risk Audits:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Review of Large Contract Negotiations</td>
<td>VP CFO</td>
<td>Process</td>
<td>Yes</td>
<td>Financial Management, Governance</td>
</tr>
<tr>
<td>UMD Medical School</td>
<td>VP AHC</td>
<td>Unit</td>
<td></td>
<td>Financial Management, AHC, Research, Compliance</td>
</tr>
<tr>
<td>College of Pharmacy</td>
<td>VP AHC</td>
<td>Unit</td>
<td></td>
<td>Financial Management, AHC, Research, Compliance</td>
</tr>
<tr>
<td>Clinical Translational Sciences Institute</td>
<td>VP AHC</td>
<td>Unit</td>
<td></td>
<td>Financial Management, AHC, Research, Compliance</td>
</tr>
<tr>
<td>Ophthalmology</td>
<td>VP AHC</td>
<td>Unit</td>
<td></td>
<td>Financial Management, AHC, Research, Compliance</td>
</tr>
<tr>
<td>21st Century Fund Scholarships</td>
<td>Provost</td>
<td>Process</td>
<td>Yes</td>
<td>Financial Management, Student Experience, Quality of Faculty and Staff</td>
</tr>
<tr>
<td>Law School</td>
<td>Provost</td>
<td>Unit</td>
<td></td>
<td>Financial Management, Research, Compliance</td>
</tr>
<tr>
<td>Carlson School of Management</td>
<td>Provost</td>
<td>Unit</td>
<td></td>
<td>Financial Management, Research, Compliance</td>
</tr>
<tr>
<td>Audits</td>
<td>Process Owner and/or VP</td>
<td>System, Testing Done</td>
<td>Risk Area(s) Covered</td>
<td></td>
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<tr>
<td>---------------------------------------------</td>
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<td>----------------------------------------------------------</td>
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</tr>
<tr>
<td>CFANS Dean’s Office</td>
<td>Provost</td>
<td>Process</td>
<td>Financial Management, Research, Compliance</td>
<td></td>
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<tr>
<td>CSE Dean’s Office</td>
<td>Provost</td>
<td>Unit</td>
<td>Financial Management, Research, Compliance</td>
<td></td>
</tr>
<tr>
<td>Athletics ASPIRE Contract</td>
<td>President</td>
<td>Unit</td>
<td>Athletics, Compliance, Financial Management</td>
<td></td>
</tr>
<tr>
<td>Executive Officer Expenses</td>
<td>President/All</td>
<td>Process</td>
<td>Financial Management, Leadership, Governance</td>
<td></td>
</tr>
<tr>
<td>UMD Athletics</td>
<td>UMD Chancellor</td>
<td>Unit</td>
<td>Athletics, Compliance, Financial Management</td>
<td></td>
</tr>
<tr>
<td>IT Security Risk Eval &amp; Risk Mitigation</td>
<td>VP CIO</td>
<td>Process</td>
<td>Technology</td>
<td></td>
</tr>
<tr>
<td>Physical Security of High Risk Systems</td>
<td>VP CIO</td>
<td>Process</td>
<td>Technology</td>
<td></td>
</tr>
<tr>
<td>Server Administration</td>
<td>VP CIO</td>
<td>Process</td>
<td>Technology</td>
<td></td>
</tr>
<tr>
<td>OIT Database Administration</td>
<td>VP CIO</td>
<td>Process</td>
<td>Technology</td>
<td></td>
</tr>
<tr>
<td>Review of Incentive Compensation</td>
<td>VP Human Resources</td>
<td>Process</td>
<td>Financial Management, Reputation, Governance, Athletics</td>
<td></td>
</tr>
</tbody>
</table>

**Low Risk Audits:**

<table>
<thead>
<tr>
<th>Audits</th>
<th>System, Testing Done</th>
<th>Risk Area(s) Covered</th>
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</thead>
<tbody>
<tr>
<td>Hormel Institute</td>
<td>Unit</td>
<td>Financial Management, Compliance, Research</td>
</tr>
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</table>

**Monitoring Activities:**

<table>
<thead>
<tr>
<th>Audits</th>
<th>System, Testing Done</th>
<th>Risk Area(s) Covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESUP Readiness for Implementation</td>
<td>System</td>
<td>Technology, Governance</td>
</tr>
</tbody>
</table>
The proposed audit plan is comprised of 10 process audits (40%), 14 unit-based audits (56%), and 1 system-based audit (4%). Nine (90%) of the process audits will involve unit-level audit testing. Two 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 2015 plan continues to provide well-balanced coverage across the University. The following chart shows the distribution of audit coverage by University component for FY 2015, based on the number of hours allocated to each component.
FY 2014 RESULTS

The annual audit plan presented to the Audit Committee for FY 2014 exceeded our resource availability by one FTE because of staff turnover at the time. We subsequently lost an additional employee three months later. We were unable to fill either of these positions. As a result, our available resources were 2400 hours less than those planned, and we were consequently unable to complete six audits included in the audit plan.

For FY 2014, we will have issued 26 audit reports which were the result of planned reviews and requests from management (See Appendix B).

In addition,
  - Four audits are currently in the planning or fieldwork stages and will be completed in FY 2015.
- Five audits were deferred to FY 2015.
- Six audits were not completed due to limited audit resources
- One audit planned (Fairview and the Integrated Structure) was determined to be unnecessary.

During the past fiscal year we conducted 16 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 Human Research Protection Program, 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 2014, a total of 1568 employee surveys were sent out as part of our audit process, with a 57% response rate. Along with the Office of Institutional Compliance, 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, 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 pursue 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;
- Four are certified in Risk Management Assurance;
- Three 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
- One is pursuing a professional certification.

In the first 10 months of FY 2014, the Office of Internal Audit provided almost 1200 hours of formal and informal training (an average of 85 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 2015, 1795 hours have been budgeted for formal staff training, an average of 112 hours per employee; this increase is to accommodate training needed for the Enterprise Upgrade and our planned move to a new data analytics platform.

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. 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 2015 STAFFING

We had one staff leave the University during the year (6% turnover). One of our three Audit Managers will be retiring in July. This position is planned to be filled by an internal promotion. Three other staff members are being promoted – two from the Auditor position to Senior Auditors, and one from Senior Auditor to Principal Auditor. We have recently filled our open Auditor position and are currently in the final stages of recruiting two IS Auditors. This will bring us fully up to staff.

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 1.5%

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

APPENDIX A

Audit Coverage Provided

<table>
<thead>
<tr>
<th>Unit</th>
<th>FY 15</th>
<th>FY 14</th>
<th>FY 13</th>
<th>FY 12</th>
<th>FY 11</th>
<th>Unit</th>
<th>FY 15</th>
<th>FY 14</th>
<th>FY 13</th>
<th>FY 12</th>
<th>FY 11</th>
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</thead>
<tbody>
<tr>
<td>Research- Infrastructure</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td>Investments</td>
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<td>Individual Sponsored Projects</td>
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<td>x</td>
<td>x</td>
<td>x</td>
<td>Leadership/Succession</td>
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<td>x</td>
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<td>AHC</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>Student Experience</td>
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<td>Athletics</td>
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<td>x</td>
<td>x</td>
<td>x</td>
<td>Associated Organizations</td>
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<td>Financial Management</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>Tech Transfer</td>
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<tr>
<td>Technology</td>
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<td>x</td>
<td>x</td>
<td>x</td>
<td>Campus Safety</td>
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<tr>
<td>Academic Quality</td>
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<td>Strategic Decisions</td>
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<td>x</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>x</td>
<td>x</td>
<td>Asset Optimization/Utilization</td>
<td>x</td>
<td>x</td>
<td></td>
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<td>x</td>
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</tbody>
</table>
## STATUS OF FY 2014 AUDIT PLAN

<table>
<thead>
<tr>
<th>Audits Completed</th>
<th>Modest Risk</th>
<th>Audits Started in FY14 but will be Completed in FY15</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Risk</td>
<td>Recreation &amp; Wellness</td>
<td></td>
</tr>
<tr>
<td>U-Wide Purchasing (excluding E-procurement)</td>
<td><strong>Low Risk</strong></td>
<td></td>
</tr>
<tr>
<td>Identity Management</td>
<td>UMD Sea Grant</td>
<td></td>
</tr>
<tr>
<td>U-wide Depositing</td>
<td><strong>System-Wide Audits/Reviews</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Moderate Risk</strong></td>
<td>Large Researchers</td>
<td></td>
</tr>
<tr>
<td>Student Unions and Activities</td>
<td>Testing of UMF Transactions FY 14</td>
<td></td>
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<tr>
<td>Debt Process Review</td>
<td>Audits Deferred and in 2015 Audit Plan</td>
<td></td>
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<tr>
<td>Center for Transportation Studies</td>
<td>AHC - College of Pharmacy</td>
<td></td>
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<tr>
<td>CLA East Bank 1</td>
<td>Server Management</td>
<td></td>
</tr>
<tr>
<td>UMD ITSS</td>
<td>Physical Security of High Risk Systems (Data Centers)</td>
<td></td>
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<tr>
<td>Chemistry</td>
<td>OIT Database Administration</td>
<td></td>
</tr>
<tr>
<td>Pediatrics</td>
<td>Athletics - ASPIRE contract</td>
<td></td>
</tr>
<tr>
<td>Men's Hockey</td>
<td>Audits Not Completed</td>
<td></td>
</tr>
<tr>
<td>Women's Hockey</td>
<td>Fairview (1)</td>
<td></td>
</tr>
<tr>
<td>Testing of UMF and MMF Transactions FY 13</td>
<td>HR Project (2)</td>
<td></td>
</tr>
<tr>
<td>Grading &amp; Transcripts</td>
<td>System Development - Code Change Management (2)</td>
<td></td>
</tr>
<tr>
<td>UM Crookston Campus</td>
<td>UMD Large Lake (2)</td>
<td></td>
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<tr>
<td>Research Animal Resources</td>
<td>UMD Housing (2)</td>
<td></td>
</tr>
<tr>
<td>Parking and Transportation Services</td>
<td>UMD NRRI (2)</td>
<td></td>
</tr>
<tr>
<td>State &amp; Federal Appropriation Draw</td>
<td>Equipment Disposal (2)</td>
<td></td>
</tr>
<tr>
<td>Vendor Maintenance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Third Party Control Attestation (replaces Backup Mgmt)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U Market E Procurement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HR - Retirement Plans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008/2010 General Obligation Bond Funding</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Externally Reported Data</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Low Risk
- UMD Parking Services
- UMD Kirby Student Center

### Audit Effort Not Resulting in Audit Report
- Monitoring of Enterprise Upgrade Project

---

1) Through extensive conversations with the Audit Directors of Fairview Health Systems and University of Minnesota Physicians, the newly introduced Integrated Structure has had minimal impact on the University and has been solely focused on operational activities within those two organizations. No auditable impacts were identified.

2) Audits were not completed due to lack of resources.
2015 Internal Audit Plan
Office of Internal Audit

Board of Regents Audit Committee
June 12, 2014
Topics

• Risk Assessment and Plan Development
• FY 2015 Audit Plan
• FY 2014 Audit Results
Office of Internal Audit Portfolio

- Audits
- Investigations/Special Projects
- Audit Advisory Services
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

177 auditable activities

- 19 high-risk activities
- 103 moderate-risk activities
- 55 low-risk activities
Overall Risk Assessment

Risks relevant for 2015

- Implementation of the Enterprise System Upgrade
- Revitalization of human resources practices
- Stature of the AHC/School of Medicine
FY 2015 Allocation of Resources

- Scheduled Audits - 55%
- Investigations - 6%
- Presidential/Executive Requests - 10%
- Follow Up - 4%
- Administration - 25%
FY 2015 Allocation of Resources

Comparison of Audit Resources for FY 2014 and FY 2015

Percent of Available Time

- Scheduled Audits: 58% (2014 Budget), 50% (2014 Actual), 55% (2014 Budget)
- Investigations: 6% (2014 Budget), 6% (2014 Actual), 6% (2014 Budget)
- Special Projects: 10% (2014 Budget), 15% (2014 Actual), 10% (2014 Budget)
- Follow Up: 4% (2014 Budget), 2% (2014 Actual), 4% (2014 Budget)
- Administration: 22% (2014 Budget), 27% (2014 Actual), 25% (2014 Budget)
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
FY 2015 Breakdown by Type of Audit

90% of the planned process audits will involve unit testing.

- Process 40%
- Unit 56%
- System 4%
FY 2015 Audit Coverage by Major Component

- AHC 24%
- Provost 21%
- CIO 13%
- U Services 3%
- Finance 7%
- Executive 13%
- Human Resources 3%
- Research 10%
- System Campuses 6%
## Audit Coverage of Institutional Risks

<table>
<thead>
<tr>
<th>Unit</th>
<th>FY 15</th>
<th>FY 14</th>
<th>FY 13</th>
<th>FY 12</th>
<th>FY 11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research – Infrastructure</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<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>
</tr>
<tr>
<td>Tech Transfer</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Strategic Decisions</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Academic Quality</td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Quality of Faculty and Staff</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Leadership/Succession</td>
<td>X</td>
<td></td>
<td></td>
<td>X</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>
<td>X</td>
</tr>
<tr>
<td>Technology</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<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>Campus Safety</td>
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<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Asset Optimization</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
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<tr>
<td>Associated Organizations</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Public Information</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>
The 2015 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.
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.
Our Commitment to Accountability

The Office of Internal Audit is committed to its accountability for the professional conduct of its work.

In FY 2014:
- 26 audits completed
- 4 audits currently in process
- 5 audits were deferred to FY 2014
- 6 audits were not completed due to lack of resources
- 16 investigations conducted
Our Commitment to Accountability

The Office of Internal Audit is committed to its accountability for the professional conduct of its work.

All of the professional staff are professionally certified or hold advanced degrees.

- Twelve are professionally certified as a CPA, CIA, CFE, or CISA
- Seven have master’s degrees
- One is pursuing professional certification
- The audit staff has on average 18.5 years of audit experience
Our Commitment to Accountability

The Office of Internal Audit is committed to its accountability for the professional conduct of its work.

- We routinely benchmark our practices/ performance against other audit functions.
- We request a post-audit evaluation of our services after each audit.
- We have rigorous internal quality assurance processes in place.
- We undergo an external quality assurance review every five years.
Quality Assurance Review Conclusions

• “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?
BOARD OF REGENTS
DOCKET ITEM SUMMARY

Audit

June 12, 2014

Agenda Item: Internal Audit Update

☐ Review ☐ Review + Action ☐ Action ☒ Discussion

☐ This is a report required by Board policy.

Presenters: Associate Vice President Gail Klatt

Purpose & Key Points

To update the Audit Committee on internal audit activities, results, and observations, and assist the committing in fulfilling its fiduciary responsibilities as defined by Board of Regents Policy: Audit Committee Charter. Updates include:

- Since our last follow-up at the February 2014 meeting, University departments implemented 29% of the outstanding recommendations rated as “essential”. This is less than our expected implementation rate of 40%. Five 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.
- Six audit reports containing 29 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.
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 2014

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 2014 Annual Audit Plan. Readings less than green could be influenced by a variety of factors (i.e. insufficient staff resources; increased time spent on non-scheduled audits or investigations).

The final chart, “Time Spent on Investigative Activities”, provides a status report on the amount of time consumed by investigative activities. Our annual plan provided an estimated budget for this type of work, and the chart will indicate if we expect that budget to be sufficient. Continued readings in the yellow or red may result in seeking Audit Committee approval for modifying the Annual Audit Plan.
Implementation rates were 29% for the period, less than our expected rate of 40%.

Time spent to date on the FY 2014 audit plan is less than what was expected and budgeted. One vacant auditor position, as discussed with the Audit Committee at its June 2013 meeting, is now being filled in June. An additional open IT auditor position is also in the process of being filled.

Time spent on investigative activities and special projects is about what was expected and budgeted for the year to date.
### Status of "Essential" Recommendations as of May 30, 2014

<table>
<thead>
<tr>
<th>Audit</th>
<th>Original Report Rating</th>
<th># of Essential Recommendations in the Report</th>
<th># of Essential Recommendations Remaining From Prior Quarter</th>
<th>Overall Progress Towards Implementation*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug-09 School of Dentistry</td>
<td>Adequate</td>
<td>11</td>
<td>2</td>
<td>Completed</td>
</tr>
<tr>
<td>Oct-11 UMD School of Fine Arts</td>
<td>Adequate</td>
<td>10</td>
<td>2</td>
<td>Not Past Target Date</td>
</tr>
<tr>
<td>Nov-11 Intercollegiate Athletics</td>
<td>Needs Improvement</td>
<td>5</td>
<td>2</td>
<td>Past Target Date</td>
</tr>
<tr>
<td>Feb-12 Dentistry - axiUm System (P)</td>
<td>Adequate</td>
<td>14</td>
<td>2</td>
<td>Past Target Date</td>
</tr>
<tr>
<td>Feb-12 University Contract Management (P)</td>
<td>Adequate</td>
<td>17</td>
<td>1</td>
<td>Past Target Date</td>
</tr>
</tbody>
</table>

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

(a) Significant progress has been made regarding Dentistry's reconciliation of their axiUm clinical system to the University general ledger. Details are provided in the following report of "Issues Greater Than Two Years Old".
### Current Status of Recommendations Rated as "Essential" That Are Over Two Years Old and Are Not Fully Implemented

<table>
<thead>
<tr>
<th>Audit/Report Date</th>
<th>Status-Partially Implemented (P) or Not Implemented (N)</th>
<th>Senior Management Contact</th>
<th>Summary of the Issue/Risk Involved</th>
<th>Current Comments From Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>UMD School of Fine Arts Oct-11</td>
<td>P</td>
<td>William Payne Bilin Tsai</td>
<td>Glensheen should update and expand its inventory records with the ultimate goal of having a complete record of the entire collection. Periodically, the presence and location of inventory items should be verified on at least a sample basis.</td>
<td>According to the interim director of Glensheen, the physical inventory is scheduled to begin May 28. It will be completed during calendar year 2014.</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>William Payne Bilin Tsai</td>
<td>Glensheen management should work with Accounting Services to develop procedures for reporting the value of its collection.</td>
<td>Efforts to appraise the collection will commence after the inventory has been completed.</td>
</tr>
<tr>
<td># of Items</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Intercollegiate Athletics Financial Nov-11 | P | Norwood Teague | Athletics management should review season comp/discounted ticket policies and procedures to address the issues noted below:  
  • Review criteria for Athletics department employees receiving season comp/discounted tickets for each sport.  
  • Establish criteria for other University staff receiving season comp/discounted tickets.  
  • Review criteria for retired Athletic department employees or other retired University staff receiving season comp/discounted tickets (job title, years of service, etc.).  
  • Review criteria on how preferred seating points will be awarded, if at all, to Athletics staff who receive comp/discounted tickets. | A complimentary/discounted ticket policy has not been finalized by Athletics for all sports nor has it been approved by the Athletics Director. |
| | P | Norwood Teague | Athletics management should establish procedures to formally review and approve lists of season comp/discounted ticket recipients for the three major revenue sports. | Since no formal complimentary/discounted ticket policy has been developed the Office of Internal Audit cannot test the application of the policy. The Office of Internal Audit will call this complete when a policy has been formalized and a season's distribution of complimentary/discounted tickets can be reviewed. |
| # of Items | 2 | | | |
Reporting and oversight mechanism should be enhanced to ensure completeness, accuracy, consistency, and timeliness of the admissions, registration, treatment, and approval processes. In particular, completeness of electronic records, verification of insurance, confirmation of appropriate registration status, validation of charges for visits and services, and approval of treatment records should be periodically reviewed to identify concerns. Action should be taken promptly when concerns are identified.

Dentistry should investigate the $8,642 difference between axiUm accounts receivable and the general ledger. Going forward, the reconciliation between axiUm accounts receivable to the general ledger should be completed monthly. Any errors or reconciling items should be investigated and corrected timely. Oversight to ensure completeness and timeliness of reconciliations should be established. Discrepancies between the axiUm aging report and the patient detail accounts should also be investigated. Dentistry should determine whether any processes (i.e., held payments, unapplied adjustments, etc.) need to be modified based upon their findings.

About 30-40% of 2b is already being done by Jane Netteberg. The rest is a compliance issue which required an additional position. There have been multiple delays in getting this position up and running. The position was posted as a standalone position for a while with minimal applicants who were not qualified for the position. Recently, with the pending change in Dr. Seldin’s status, we incorporated these duties into a new position, which was finally posted this week. We already have some excellent candidates and hope to start interviewing soon.

The School hired a consultant from Robert Half Salaried Consultants on February 3, 2014 through April 4th. In consultation with the consultant and Patient Accounting staff, axiUm I.T. staff created a new report, which comprehensively lists all A/R activity and places it into a single report. Pivot tables and an exhaustive analysis of the axiUm and PeopleSoft GL data allowed the consultant to I.D. the nuances and quirks of the axiUm system. The consultant was able to identify all reconciling items from July 1, 2013 through March, 2014. They are all identified on the March reconcile. Several meetings were held with Central A/R and Central Accounting throughout the consulting process. ARRF forms were completed for the 2nd and 3rd quarters of FY’14.

Additionally, a new reconciler was trained by the consultant. The manager of the division also received training. April was the first month on our own. The new process and training were successful: April productivity was reconciled by the new reconciler, and manager, and entered into PeopleSoft by the 5th business day of the month. axiUm was fully reconciled with PeopleSoft for the month of April, and the ARRF form was turned in to Central A/R by April 16th.

Additionally, a new method to identify bad debt on a monthly basis was created, and an entry into the GL to catch us up will be made in June in consultation with Central A/R. Also, in consultation with Central A/R, unreconciled items through March, some of which are unable to be reconciled, will be brought into balance prior to year end.

The reconcile showed that patient refunds and insurance refunds were problematic. Now, these refunds will be reconciled between axiUm and PeopleSoft monthly, and methods to improve the timing of when refunds hit axiUm vs. PeopleSoft are being explored with Accounts Payable.

The new reconciler and manager will be taking the EFS GL Upload class to make the entry of productivity more accurate and timely.

Cash is being fully reconciled throughout the month and identified problems are investigated and corrected, and the reconciliation being verified by the manager each month.

Because of the new report tools and reconciliation process, we anticipate that there will not be items identified in May or June that will not be identified and reconciled. We are working closely with Central A/R to ensure a smooth year-end reconciliation and closing. The School will fill out the ARRF form monthly instead of quarterly.
Intercollegiate Athletics should ensure that adequate information is obtained, documented, and regularly monitored regarding:

- Expenses incurred for Learfield’s on-air talent.
- Advertising time to be provided by Learfield (which should be valued $100,000 annually) solely for the promotion of the University, athletic departments, or ticket sales.
- Expenses for obtaining permits, licenses, and bonds to comply with pertinent laws and regulations.

Additional royalty of 50% of combined AGR (Adjusted Gross Revenue as defined by the contract) that exceeds the “hurdle” levels as set forth by the contract.

The Office of Internal Audit did not receive documentation from Athletics verifying the usage of advertising time. Athletics needs to internally track the advertising time spent to ensure the University is receiving its $100,000 annually. The Office of Internal Audit will call this complete when documentation can be provided showing proper tracking of advertising dollars.
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 2014, 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.
Network Segments Not Managed By OIT (December 2012)

Travel & Employee Expense Reimbursement Process (May 2013)
U of MN Duluth - College of Liberal Arts (May 2013)

Current Quarter Evaluation

Research Data Storage (June 2013)

Supporting Services

Adequate Control

Significant Control Level

Critical Control Level

Potential Over-Control
University-wide Purchasing Process (February 2014)

NO PREVIOUS CONTROL EVALUATION CHART

[Diagram showing control levels for various business groups such as Control Environment, Monitoring, Information & Communication, Risk Assessment, Administration, Contracts for Prof. Serv., Price Comparisons, Change Orders, Central Bidding, Purchasing w/o a PO, and Targeted Business Groups. The chart indicates levels from Adequate Control to 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

School of Dentistry (August 2009)

Vendor Payment and Imaging Process (August 2012)

Legend:
- **Adequate Control**
- **Significant Control Level**
- **Critical Control Level**
- **Potential Over-Control**
U of MN Duluth - Kirby Student Center (December 2013)

NO PREVIOUS CONTROL EVALUATION CHART
Audit Activity Report

Scheduled Audits

- Completed audits of: the University’s state and federal appropriation draw process, UM – Crookston campus, the College of Liberal Arts East Bank 1 Financial Services Team, UMD Parking Services, Identity Management, and Parking & Transportation Services (Twin Cities). Details are shown on the following charts.

- Began/continued audits of: Research Animal Resources, University Recreation & Wellness, UMD MN Sea Grant, new technology due diligence, the processes being used to develop and implement the University’s grading system upgrade, the University’s new receipts depositing process, vendor file maintenance, the U Market strategic purchasing initiative and the top University researchers.

Non-Scheduled Audits

- Continued a requested audit of the St. Anthony Falls Lab NSF Renovation Grant.

- Began a requested audit of the UMD University for Seniors program.

Investigations

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

Special Projects

- Completed a requested cash cutoff and control review at the UMD Cashier’s Office.

- 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
  - Investigational New Drug & Investigational Device Exemption Process Review Group
  - Global Operations Advisory Team
  - Uniform Guidance Steering Committee
The purpose of this audit was to assess whether the current processes used for the draw of state and federal appropriations are efficient, well controlled, and ensure compliance with applicable laws, regulations and policies. We believe these processes are governed by a control environment and a system of internal control that addresses their major business and compliance risks.

We believe UMC has developed a control environment and a system of internal control that addresses its major business and compliance risks. During the audit we observed a climate that supports and encourages compliance with University policies and procedures. However, opportunities exist for UMC to further strengthen procedures and controls; the issues of greatest concern were identified in the areas of accounts receivable, safety, and information technology.
The CLA East Bank 1 Financial Services Team services all of the Dean’s office, administrative and student service offices, as well as approximately eight academic departments and various programs. We believe CLA EB1 and the units they serve have developed a control environment and a system of internal control that adequately addresses most major business and compliance risks. The one recommendation rated "essential" concerns the need for improvements in the human subject consenting process. CLA has, in recent years, experienced significant financial issues but for FY 2014 is projecting to end the year with a slight surplus. For FY 2015, CLA has developed investment and reallocation options that are felt to present viable options and choices for University and CLA leadership to consider and take action on.

UMD - Parking Services

We believe UMD Parking Services has developed a control environment and a system of internal control that addresses most major business and compliance risks. We feel the issues in this report are not indicative of serious deficiencies in the overall control environment. We did, however, identify an issue for which resolution is considered "essential" relating to parking enforcement options and unpaid parking tickets.
Identity Management

Our audit evaluated a sample of central and non-central identity management components on the Twin Cities Campus. We determined there is insufficient formal direction, requirements and oversight for identity management tools and processes. While a number of controls and management processes do exist, tactical issues were identified in all identity management components evaluated. Specific issues identified includes: user ID and passwords being shared, weak system password requirements, credentialing system bypasses, inconsistent user administration practices, and insufficient monitoring.

Parking and Transportation Services

Parking and Transportation Services (PTS) has developed a control environment and a system of internal control that addresses most major business and compliance risks related to their key revenue processes. However, controls related to information systems and operation activities need to be strengthened. PTS has many complex systems that all need to be working together in order for PTS operations to be efficient, effective and secure. These multifaceted systems coupled with a high reliance on information system vendors because of a small PTS IT staff have impacted the number of essential issues in this report.
Audit

Agenda Item: Updated Research Risk Profile

☐ Review  ☐ Review + Action  ☐ Action  ☒ Discussion

This is a report required by Board policy.

Presenter: Vice President for Research Brian Herman

Purpose & Key Points

The 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.

Key Points

- The risk profile for the research enterprise has changed due to environmental shifts and intentional risk management activities.
- These changes are positive for the most part with several new areas emerging because of the University’s strong internal control structure.
- Managing research risk proactively and effectively continues to be a high priority for University leadership, faculty, staff, and students.
- Risk management requires partnership at all levels. A current example is the pilot project aimed at reducing administrative burden system-wide.

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. These principles have provided a framework that has guided the University community toward a more strategic risk management approach to all aspects of its operations.

Over the past two academic years, the Audit Committee reviewed and discussed the risks associated with each of the major operational components of the University. Previous risk discussions by the committee include:

- Research (December 2012)
• Human Resources (February 2013)
• Information Technology (May 2013)
• University Operations (June 2013)
• Finance (September 2013)
• Intercollegiate Athletics (December 2013)
• Compliance (February 2014)
• Health Sciences (February 2014)
• Academics (May 2014)
Research Enterprise Risk Profile
Threats and Opportunities
June 2014

- Maintain U’s strong reputation and research ranking
- Increased collaborations
- Changing needs of public sector
- Changing Funding Environment
- Aging Research Infrastructure
- Clinical Trials Oversight
- Regulatory & Administrative Burden
- International Research

- Research Data Management
- Public/Private partnerships: lack of shared strategic vision
- Culture clash between academy and public
- Loss of talent due to increased competition

Likelihood

High
Moderate
Low

Impact

Low
Moderate
High
Purpose & Key Points

The University's Office of Facilities Management proposes to engage Deloitte Consulting to provide advisory services to the University's Enterprise Asset Management (EAM) project. The EAM project will develop new business processes and systems for maintaining the University's physical plant and infrastructure assets. This engagement is for the project establishment and preliminary planning phase of the project.

The fees for this engagement are estimated to be $318,000 (including a 10% contingency), plus expenses estimated at $37,000.

The Controller's Office has reviewed the scope, deliverables, and Deloitte's proposed role for this engagement. Engaging Deloitte for this engagement would not impair the firm's independence with respect to their role as independent external auditor of the University of Minnesota.

Background Information

Approval is sought in compliance with Board of Regents Policy: Audit Committee Charter

President's Recommendation

The President recommends approval of the Deloitte consulting engagement.
Audit

June 12, 2014

Agenda Item: Information Items

☐ Review  ☐ Review + Action  ☐ Action  ☒ Discussion

☒ This is a report required by Board policy.

Presenters: Associate Vice President Gail Klatt

Purpose & Key Points

Semi-Annual Controller's Report
The semi-annual Controller’s Report provides information to the Board of Regents regarding recent activities in University financial operations which have strengthened financial reporting, enhanced internal controls, improved the management of financial risks, provided better services to the University community, and maximized the institution's financial resources. Highlights include:

• Analysis of new accounting standards that will be adopted by the University, and the likely impact to the University's annual audited financial reports (if known).
• Implementation of a new procurement card contract with U.S. Bank.
• The results of the federally required biennial capital equipment inventory.
• Status of the finance system upgrade (being conducted as a part of the Enterprise Systems Upgrade Program).

Background Information

The Controller's Report is prepared semi-annually and presented to the 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, improved the management of financial risks, provided better services to the University community, and maximized the institution’s financial resources and financial operations.

I. Accounting and Financial Reporting Matters

The Governmental Accounting Standards Board (GASB) has issued a number of new accounting and reporting standards that will be effective for fiscal years 2014 and 2015. The following provides a brief summary of each new standard, and where known, the likely impact.

For adoption in fiscal year ended June 30, 2014:

- **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. We expect the impact of this standard to be limited to the University’s reporting of debt issuance costs, and the refunding of debt.

- **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. We expect **no impact** to the University’s financial reporting as a result of adopting this standard.

- **GASB Statement No. 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25**, establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. For defined benefit pension plans, this Statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented. This Statement also details the note disclosure requirements for defined contribution pension plans administered through trusts that meet the identified criteria. We expect adopting this standard will
have an impact, albeit minimal, as the University’s Supplemental Benefits Plan is impacted but it is a closed plan with only 171 active participants at the end of last fiscal year.

- **GASB Statement No. 70,** *Accounting and Financial Reporting for Nonexchange Financial Guarantees,* was issued in April 2013. This standard addresses financial guarantees in situations where the University would commit to indemnify an external entity that issued an obligation and whereby does not fulfill its payment requirements, or when an external entity commits to indemnify the University in a comparable transaction. We expect no impact to the University’s financial reporting as a result of adopting this standard.

For adoption in fiscal year ended June 30, 2015:

- **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.

- **GASB Statement No. 69,** *Government Combinations and Disposals of Government Operations,* was issued in January 2013. It establishes accounting and financial reporting standards related to combinations and disposals of government operations, such as mergers, acquisitions, and transfers of operations. This statement is effective for the fiscal year ending June 30, 2015.

The University is planning for adoption of these standards in the respective fiscal years, and is analyzing the potential impact on our financial accounting and reporting practices for future fiscal years.

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

**Purchasing Card Program**

The University’s procurement card program is utilized for small dollar purchases, generally under $2,500 per transaction. Approximately $64 million in purchasing activity is conducted annually. Purchasing Services conducted a review of the program and decided to issue a Request for Proposal process to select a vendor. Using a cross-organizational evaluation team of University personnel, U.S. Bank was selected as the new supplier. The new relationship provides the University with the following benefits:

- Better on-line tools for day-to-day card maintenance.
- More robust reporting to identify transactions that are violations of policy.
- Full review of cardholder data to ensure accuracy and provide better alignment of data between US Bank and PeopleSoft.
- The new vendor relationship is expected to generate an increase of between $350,000 and $400,000 annually in the rebate paid to the University.

The conversion from Wells Fargo to took place between January and April 2014. During that time approximately 5,200 new cards were issued, and about 200 dormant cards were eliminated. A hierarchy was also created in U.S. Bank’s systems, based on RRC structure, for all cardholders and Department Card Administrators (DCA). This provides DCAs with ‘up to the minute’ view only access of cardholder activity, for better monitoring of card activity and fraud prevention.

**Capital Equipment Inventories**

Under federal regulations applicable to institutions receiving federal funds, the University is required to conduct a complete physical inventory of all capital assets every two years. The most recent two-year cycle was completed last summer. The statistics for that inventory cycle, with comparative data for the prior 3 inventory cycles, are set forth in the table below.

<table>
<thead>
<tr>
<th>Count Cycle</th>
<th>7/11-6/13</th>
<th>7/09-6/11</th>
<th>7/07-6/09</th>
<th>7/05-6/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets Inventoried ($)</td>
<td>$561,933,078</td>
<td>$674,315,903</td>
<td>$563,805,818</td>
<td>$544,909,812</td>
</tr>
<tr>
<td>Total Assets Inventoried (#)</td>
<td>41,592</td>
<td>66,960</td>
<td>70,227 items</td>
<td>80,187 items</td>
</tr>
<tr>
<td>Total Assets Missing ($)</td>
<td>$653,447</td>
<td>$2,409,885</td>
<td>$1,282,818</td>
<td>$641,710</td>
</tr>
<tr>
<td>Missing as a % of Total $</td>
<td>0.12%</td>
<td>0.30%</td>
<td>0.23%</td>
<td>0.12%</td>
</tr>
<tr>
<td>Total Assets Missing (# items)</td>
<td>61</td>
<td>125</td>
<td>398</td>
<td>196</td>
</tr>
<tr>
<td>Missing as a % of Total #</td>
<td>0.15%</td>
<td>0.19%</td>
<td>0.57%</td>
<td>0.24%</td>
</tr>
</tbody>
</table>

The decrease in total assets inventoried between the two most recent inventory cycles (7/09 - 6/11 and 7/11 – 6/13) reflects a concerted effort to write off small dollar assets which have reached the end of their useful life and are thus fully depreciated. This reduces the amount of work required to continue inventorizing assets with no remaining economic life. As the data shows, the University’s compliance with these requirements is excellent. On average, our asset tracking system and procedures result in a successful tracking rate of better than 99.5%. This compares very favorable to an industry average of 97-98%, as cited by HCA Asset Management, a commercial firm specializing in capital asset work of this nature.
Enterprise Systems Upgrade Program (ESUP) – Finance Project Status & Summary

During FY 2014 a major priority for the Finance organization has been the PeopleSoft Enterprise Financial System (EFS) upgrade, from version 8.9 to 9.2. The EFS portion of the upgrade is primarily a technical upgrade which rolls existing functionality forward into the new version. However, a handful of business processes that are “pain points” for end users have been targeted for improvements.

Finance has worked with the ESUP project leadership, the EFS Functional Steering Committee and our internal business process owners to ensure a successful financial system upgrade. Approximately 220 individuals from the Finance community have participated on work groups to propose, review, and confirm recommendations for addressing the users’ pain points. We have had additional participants from the other ESUP teams collaborate with us on the evaluation and redesign of those processes that must be integrated between the financial, HR/payroll, and student systems.

With respect to the Finance team’s progress on the EFS upgrade, the following table summarizes the status of application development and related testing, as of May 2014:

<table>
<thead>
<tr>
<th>Upgrade Status</th>
<th>Number (by Status)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>In Functional Specifications</td>
<td>15</td>
<td>4%</td>
</tr>
<tr>
<td>In Technical Assessment</td>
<td>1</td>
<td>0%</td>
</tr>
<tr>
<td>Ready for Development</td>
<td>92</td>
<td>22%</td>
</tr>
<tr>
<td>In Development</td>
<td>25</td>
<td>6%</td>
</tr>
<tr>
<td>Review</td>
<td>17</td>
<td>4%</td>
</tr>
<tr>
<td>Business Validation</td>
<td>1</td>
<td>0%</td>
</tr>
<tr>
<td>Pending Migration to testing environment</td>
<td>1</td>
<td>0%</td>
</tr>
<tr>
<td>Functional Testing</td>
<td>86</td>
<td>21%</td>
</tr>
<tr>
<td>Pending Migration to Quality Assurance Testing</td>
<td>115</td>
<td>28%</td>
</tr>
<tr>
<td>Requiring rework</td>
<td>43</td>
<td>10%</td>
</tr>
<tr>
<td>On Hold</td>
<td>6</td>
<td>1%</td>
</tr>
<tr>
<td>Withdrawn / Canceled</td>
<td>14</td>
<td>3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>416</strong></td>
<td></td>
</tr>
</tbody>
</table>

Generally, the EFS portion of the project is on schedule and within budget. A full status report on all aspects of the Enterprise Systems Upgrade Program will be provided on Thursday, June 12 to the Finance Committee of the Board of Regents.