



# Audit & Compliance Committee

June 2017

June 8, 2017

3:45 p.m. - 5:15 p.m.

West Committee Room, McNamara Alumni Center

## AUD - JUN 2017

### 1. 2017-18 Internal Audit Plan

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### 2. Internal Audit Update

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### 3. Update on Human Participant Research Protection Implementation Plan

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# BOARD OF REGENTS DOCKET ITEM SUMMARY

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**Audit & Compliance**

**June 8, 2017**

**AGENDA ITEM:** 2017-18 Internal Audit Plan

**Review**

**Review + Action**

**Action**

**Discussion**

*This is a report required by Board policy.*

**PRESENTERS:** Gail Klatt, Chief Auditor

## **PURPOSE & KEY POINTS**

The recommended Internal Audit plan for FY 2018 includes 26 audits of University processes and units. The plan is risk-based and continues to reflect the principles of the Integrated Framework of Internal Control. It maintains audit coverage of University units and includes audits specifically selected to inform institutional leaders and the Board of Regents on areas where institutional risks may exist.

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**

The Audit & Compliance Committee is delegated the responsibility, via its Charter, to review the annual Internal Audit plan on behalf of the Board of Regents.

FISCAL YEAR 2018  
INTERNAL AUDIT ANNUAL PLAN

PURPOSE OF THE ANNUAL PLAN

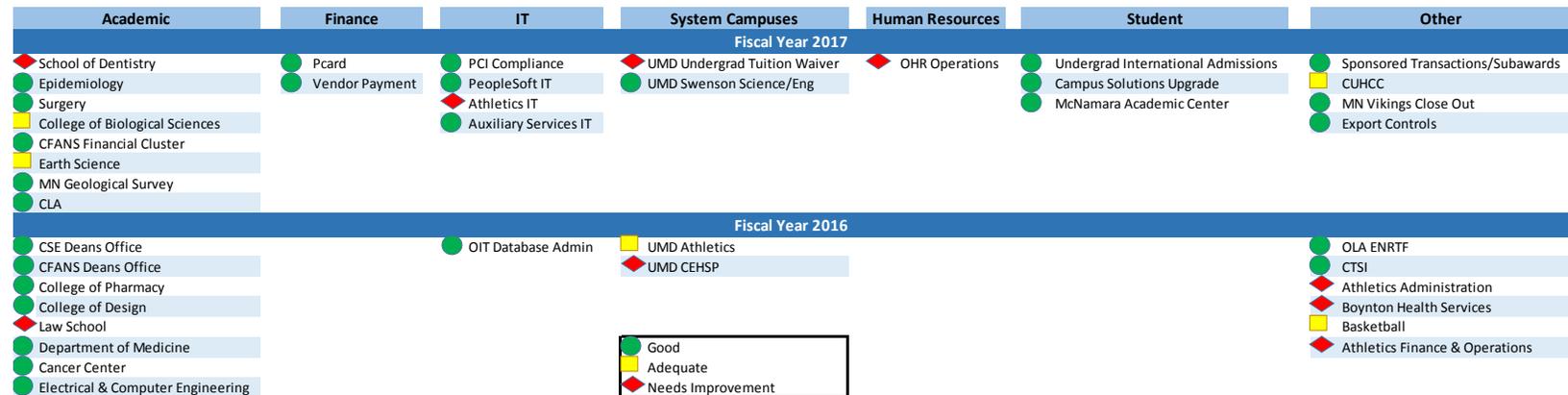
The annual internal audit plan is intended to demonstrate:

- 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.

RECAP OF FY17 INTERNAL AUDIT RESULTS

Our audit planning begins with a review of past audit coverage and results. The following chart recaps the audits completed in FY 16 and 17 and the resulting overall control assessment for each.



## **DEVELOPMENT OF THE FY 18 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:** While audits continue to be performed by the regulatory agencies, and their focus remains on general cost compliance, most of the agencies have been redirected to address new directives and expectations from the Trump administration. Uncertainties regarding their own funding along with proposals to reduce regulations and change funding practices have effectively reduced their capacity to tackle other areas of interest through the audit process. It is important to note that the University of Minnesota will undergo an institution-wide audit by the National Science Foundation this year.

**Research Universities:** For many years research universities have been universally concerned about financial, operational and compliance related risks, most notably in the research, health care, and technology areas. This year our survey of these institutions noted a vastly different risk profile with reputational risk being of greatest concern. Common themes across the institutions were: campus safety, sexual assault and misconduct, student mental health issues, immigration concerns, and cybersecurity. Concerns about decreased funding and the uncertain policy landscape at the federal and state levels were also very prominent, coupled with the financial impact of downward pressure on tuition and the ability to maintain access and affordability.

### **Internal Risk Assessment**

As part of the planning process, we held individual discussions with each member of the Board of Regents to identify areas of risks/concerns at the governance level for audit consideration. The risks most often identified in these discussions were Board governance practices, athletics, admissions and enrollment practices and priorities, and the continued desire for greater integration of MHealth components. Regents also expressed an interest in opportunities for reducing the cost structure within the institution.

We also held discussions with 85 institutional officials from 47 units to solicit input on the University's institutional risks and any specific areas of concern. Themes which emerged from these discussions included the risks associated with: 1) the uncertainty surrounding the state and federal budgets, and the continued direction to cut administrative costs now impacting core academic activities, 2) the potential impact of unionization, 3) the potential federal policy changes, including immigration, foreign travel, and other regulations, 4) space constraints that preclude additional expansion of enrollment and faculty hires, and 5) ensuring ongoing technology security and regulatory compliance.

## **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 176 individual auditable activities, of which 23 are considered to be high risk, 104 moderate risk, and 49 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.

## **ALLOCATION OF AUDIT RESOURCES**

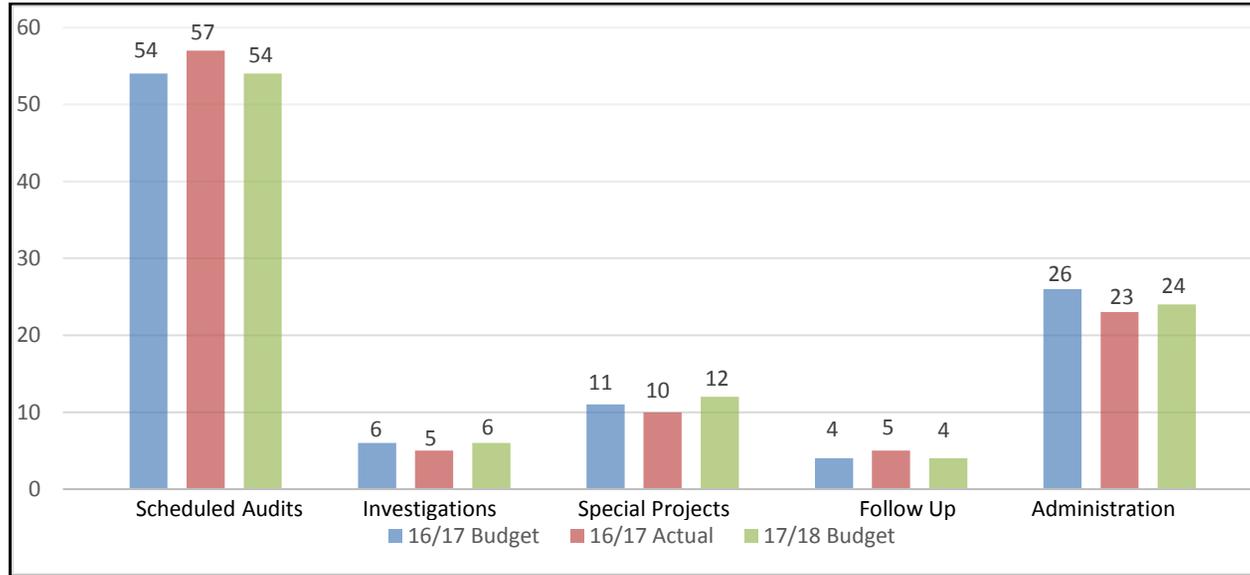
The audit plan is based on a planned staffing complement of 14.75 FTE professionals, which is one FTE less than our FY17 staff complement due to a retirement which we do not plan to replace.

Approximately 54% of the Office of Internal Audit's resources are committed to the completion of planned audit projects. This year 4% of those resources will be needed to complete carry-over work from our FY 2017 audit plan. Eight audit projects are currently in process and will be completed in FY 2018.

The remainder of our FY 2018 audit resources is reserved as follows:

- 12% 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 and Compliance 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 and Compliance Committee. The number of hours remains consistent from previous years.
- 24% has been set aside for internal administrative functions, including our continuous improvement efforts. This remains fairly consistent with the previous year.

**COMPARISON OF AUDIT RESOURCES FOR FY 2017 AND FY 2018**  
**Percent of Available Time**



**OVERALL RISK ASSESSMENT AND IMPACT ON THE FY2018 AUDIT PLAN**

In FY 2017 we focused our audit resources on providing greater coverage of academic units in response to decanal requests as well as to ensure that the control environments in these units remained stable in light of administrative cost reductions. The audit plan also provided continued coverage of Athletics and units impacted by the Human Participant Protection implementation plan.

In addition to maintaining audit coverage of University units, the proposed FY 18 audit plan includes audits specifically selected to inform institutional leaders and the Board of Regents on areas where they feel institutional risks exist. Specifically:

- Activities that have a direct impact on the student experience and affordability (Scholarships/Fellowships, Public Safety, Global Programs and Strategy Alliance, Bookstores, UMD Housing, UMD Police)
- Cost Containment (Consulting Contracts, Utilization of Federal and State Contracts, Family Medical Leave Act (FMLA) policies and processes)
- Effectiveness of Governance (Executive and Regent Expenses, Board of Regents Compliance with Operating Policies)
- Athletics
- Information technology security

In selecting specific activities for inclusion in the audit plan, we recognize there are areas of high risk across the University that we have intentionally excluded because 1) the issues are well known and are being addressed by the administration, 2) the activity lacks the necessary maturity for meaningful auditing, or 3) the issues are receiving extensive external review. This year these risks include those associated with MHealth, student mental health services, and sexual assault/harassment/misconduct. We will continue to monitor these areas outside of the audit process for indications that audit coverage would be helpful.

### **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, annual external financial reporting, and RUMINCO, the University's captive insurance company. Deloitte and Touche, LLP also provides significant coverage of Student Financial Aid as part of its Uniform Guidance Audit which we take into consideration in our risk assessment.

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 and review copies of their reports.

## FY 2018 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 2018 includes the following:

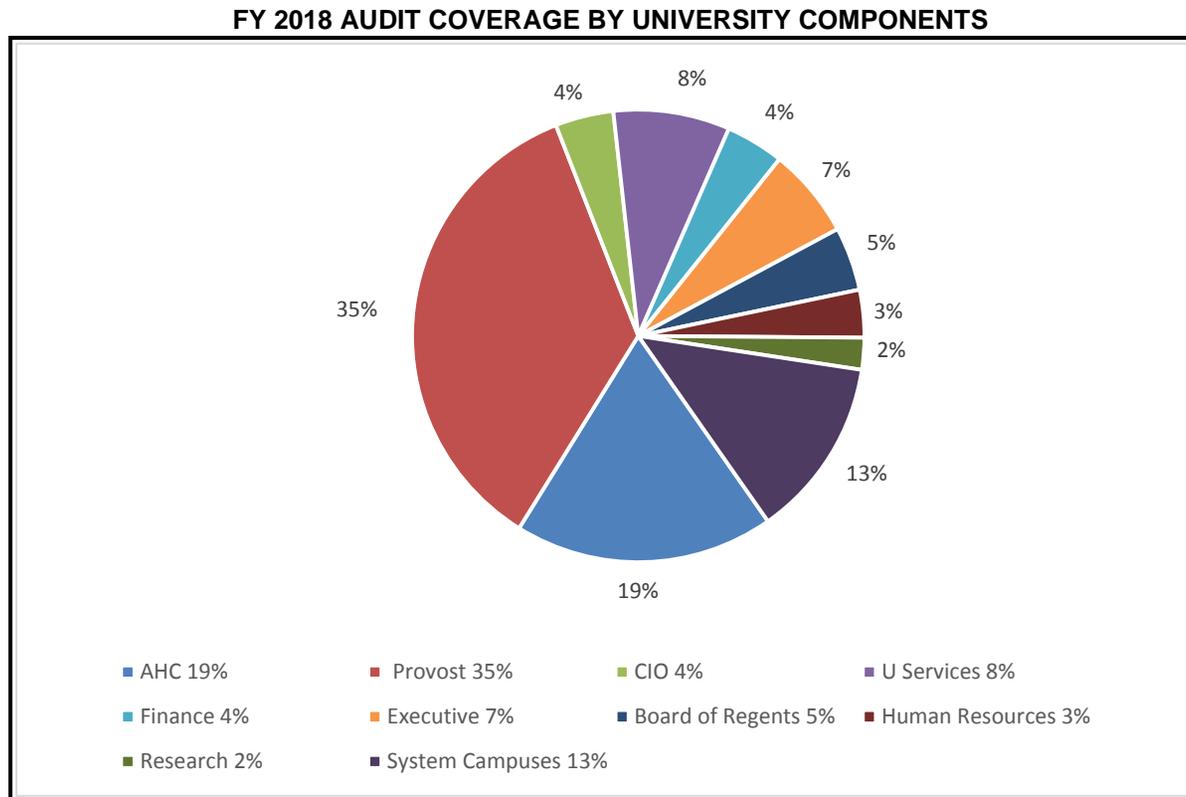
Audits Planned for FY 18	Process/Unit	Risk Area(s) Covered
<b>High Risk Audits:</b>		
Human Subjects (TBD)	Process	Human Subject Research*, Research, AHC, Technology, Compliance
College of Education	Unit	Financial Management, Research, Compliance, Technology, Student Experience, Federal Research Funding*
Global Programs and Strategy Alliance	Unit	Financial Management, Research, Compliance, Student Experience
Athletics (TBD)	Unit	Athletics*, Compliance, Student Experience
AHC IS	Unit	IT Infrastructure*, Technology, Data Privacy/Security*
University Information Security (UIS)	Unit	IT Infrastructure*, Technology, Data Privacy/Security*
OIT Account Management	System	IT Infrastructure*, Technology, Data Privacy/Security*
<b>Moderate Risk Audits:</b>		
Chemical Engineering and Materials Science	Unit	Financial Management, Research, Compliance, Technology, Student Experience, Federal Research Funding*
College of Continuing Education	Unit	Financial Management, Compliance, Technology, Student Experience
HHH School of Public Affairs	Unit	Financial Management, Research, Compliance, Technology, Student Experience, Federal Research Funding*
School of Nursing	Unit	Financial Management, Research, Compliance, AHC, Technology, Student Experience, Federal Research Funding*
Radiology/Ctr. for Magnetic Resonance Res.	Unit	Federal Research Funding*, Financial Mgmt, Compliance, AHC, Technology, Research, Human Subject Research
University of Minnesota Morris	Unit	Financial Management, Compliance, Technology, Student Experience, Campus Safety*, Student Enrollment*
Scholarships and Fellowships	Process (1)	Financial Management, Compliance, Student Experience
Public Safety	Unit	Campus Safety*, Financial Management, Student Experience, Technology
UMD Police	Unit	Campus Safety*, Financial Management, Student Experience, Technology
UMD Housing	Unit	Campus Safety*, Financial Management, Student Experience, Technology
Bookstores	Unit	Financial Management, Technology, Student Experience
Consulting Contracts	Process	Financial Management
Utilization of Fed/State Contracts	Process	Financial Management
Human Resources Family Medical Leave Act	Process (1)	Compliance, Financial Management
NCAA Compliance Sport Audit	Unit	Athletics*, Compliance, Student Experience, Student-Athlete Health and Safety
<b>Low Risk Audit:</b>		
Neurosurgery	Unit	Federal Research Funding*, Financial Management, Compliance, AHC Research
<b>Governance Audits:</b>		
Executive and Regent Expenses	Process (1)	Financial Management, Leadership, Governance
Board of Regent Compliance with Policies	Process	Leadership, Governance
Gift Testing	Process (1)	Financial Management, Governance
OIT Network Upgrade (non report)	System	Technology, IT Infrastructure*

\* This risk is included on the Institutional Risk Profile (Appendix A)

(1) Testing in individual units is planned during this process audit

The proposed audit plan includes 8 process audits (30%), 17 unit-based audits (63%), and 2 system audits (7%). Four (50%) of the process audits will involve unit-level audit testing. One of the process audits is considered high risk. The proposed audit plan also includes significant coverage of selected risks included on the Institutional Risk Profile.

The FY 2018 plan continues to provide well-balanced coverage across the University. The following chart shows the distribution of audit coverage by University component for FY 2018, based on the number of hours allocated to each component.



The proposed FY 2018 internal audit plan appropriately allocates the University’s finite audit resources to a well balanced portfolio of audits which address areas identified as being of significant risk, provides coverage across the breadth of the institution, and will provide information to help inform leadership and governance discussions.

**University of Minnesota Institutional Risk Profile**

The institutional risk profile is used to identify those risks of greatest import to the Board of Regents at a governance level. This profile was created in 2014.

<b>Likelihood</b>	<b>High</b>	<b>G</b> <ul style="list-style-type: none"> <li>• Campus Safety &amp; Security</li> </ul>	<b>D</b> <ul style="list-style-type: none"> <li>• Athletics: Program Integrity &amp; Success of Business Model</li> <li>• IT Infrastructure &amp; Costs</li> <li>• Managing Brand &amp; Reputation</li> </ul>	<b>A</b> <ul style="list-style-type: none"> <li>• Autonomy</li> <li>• Attracting &amp; Retaining Talent</li> <li>• Data Privacy/Security</li> <li>• Student Demographics &amp; Enrollment Strategies</li> </ul>
	<b>Moderate</b>	<b>H</b>	<b>E</b> <ul style="list-style-type: none"> <li>• Maximizing Value of Multiple Campuses</li> <li>• Meeting Expectations on Workforce Development</li> <li>• Preparedness of Students</li> <li>• Public Perception of the Value of Higher Education</li> </ul>	<b>B</b> <ul style="list-style-type: none"> <li>• Facilities: Strategic Needs &amp; Aging Infrastructure</li> <li>• Federal Research Funding</li> <li>• Higher Education Operating Model</li> <li>• Human Subjects Research</li> <li>• Implementation of Strategic Plans</li> <li>• Prioritization: Balancing Breadth &amp; Quality of Offerings</li> <li>• State Funding</li> <li>• UM Health Success</li> </ul>
	<b>Low</b>	<b>I</b>	<b>F</b> <ul style="list-style-type: none"> <li>• Commercialization of Intellectual Property</li> </ul>	<b>C</b> <ul style="list-style-type: none"> <li>• Effective Communication</li> </ul>
		<b>Low</b>	<b>Moderate</b>	<b>High</b>
		<b>Impact</b>		

**Audit Coverage**

	FY 18	FY 17	FY 16		FY 18	FY 17	FY 16
Autonomy				Balancing Offerings			
Attracting and Retaining Talent		X	X	State Funding	X	X	X
Data Privacy/Security	X	X	X	UM Health			
Student Demographics/ Enrollment Strategies	X	X		Athletics	X	X	X
Federal Research Funding	X	X	X	IT Infrastructure & Costs	X	X	X
Higher Education Operating Model	X	X	X	Brand and Reputation			
Human Subject Research	X	X	X	Maximizing Multiple Campuses			
Strategic Plan Implementation				Perception of HE Value			
Student Preparedness				Effective Communication			
Workforce Development Expectations				Commercialization of Intellectual Property			
Campus Safety and Security	X	X	X	Facilities	X	X	



# 2018 Internal Audit Plan

## Office of Internal Audit

Board of Regents Audit and Compliance Committee  
June 8, 2017



UNIVERSITY OF MINNESOTA

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# Topics

- FY 2017 Audit Results
- Risk Assessment and Plan Development
- FY 2018 Audit Plan



# Office of Internal Audit Portfolio

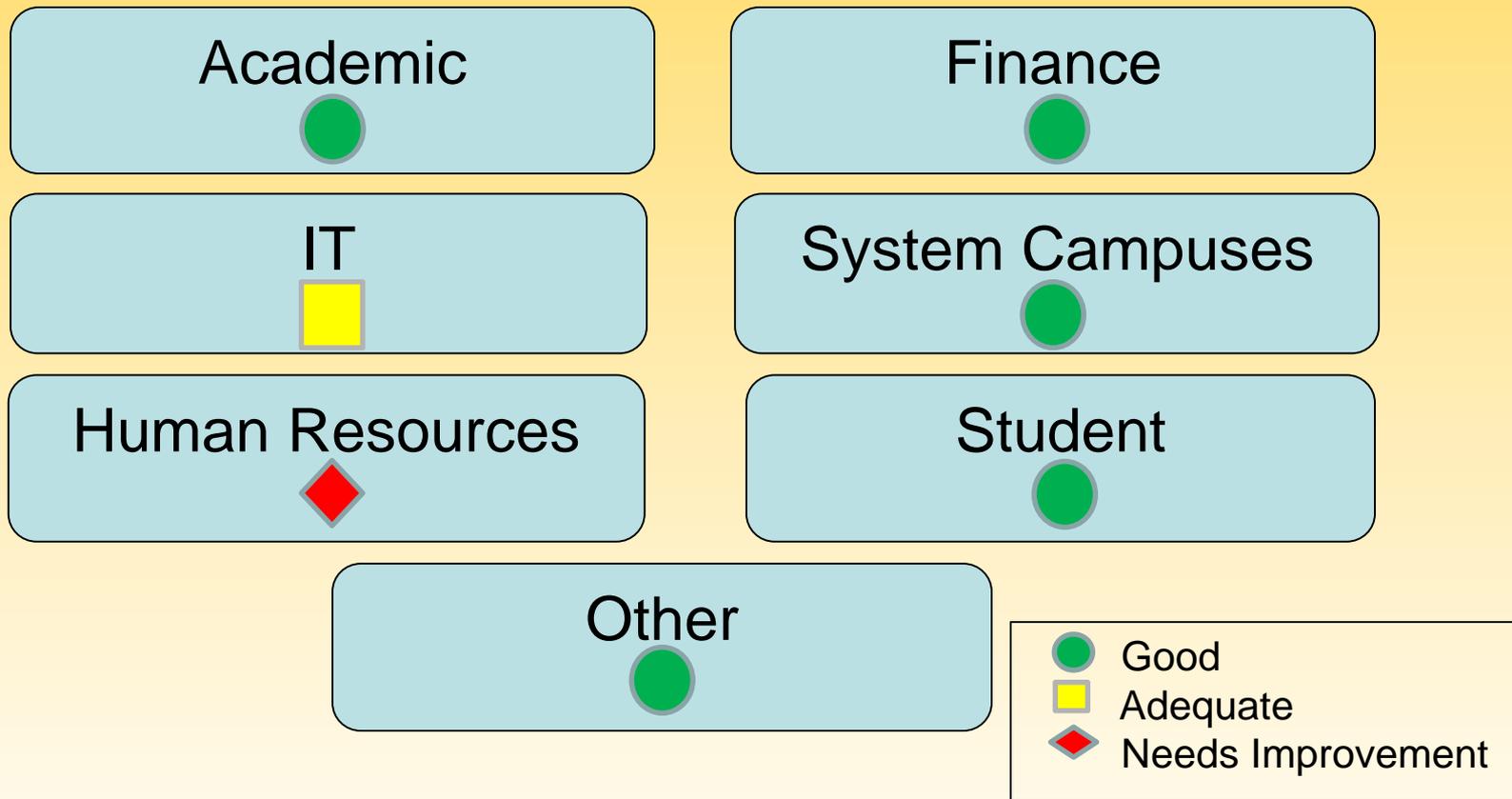
- Audits
- Investigations/Special Projects
- Audit Advisory Services



UNIVERSITY OF MINNESOTA

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# FY 2017 Audit Results



# Developing the Annual Plan

- External Risk Assessment
  - Review of regulatory agencies, externally conducted surveys, professional discussion groups, etc.
  - Survey of research-intensive universities
- Internal Risk Assessment
  - Discussions with Board members
  - Discussions with administrative 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

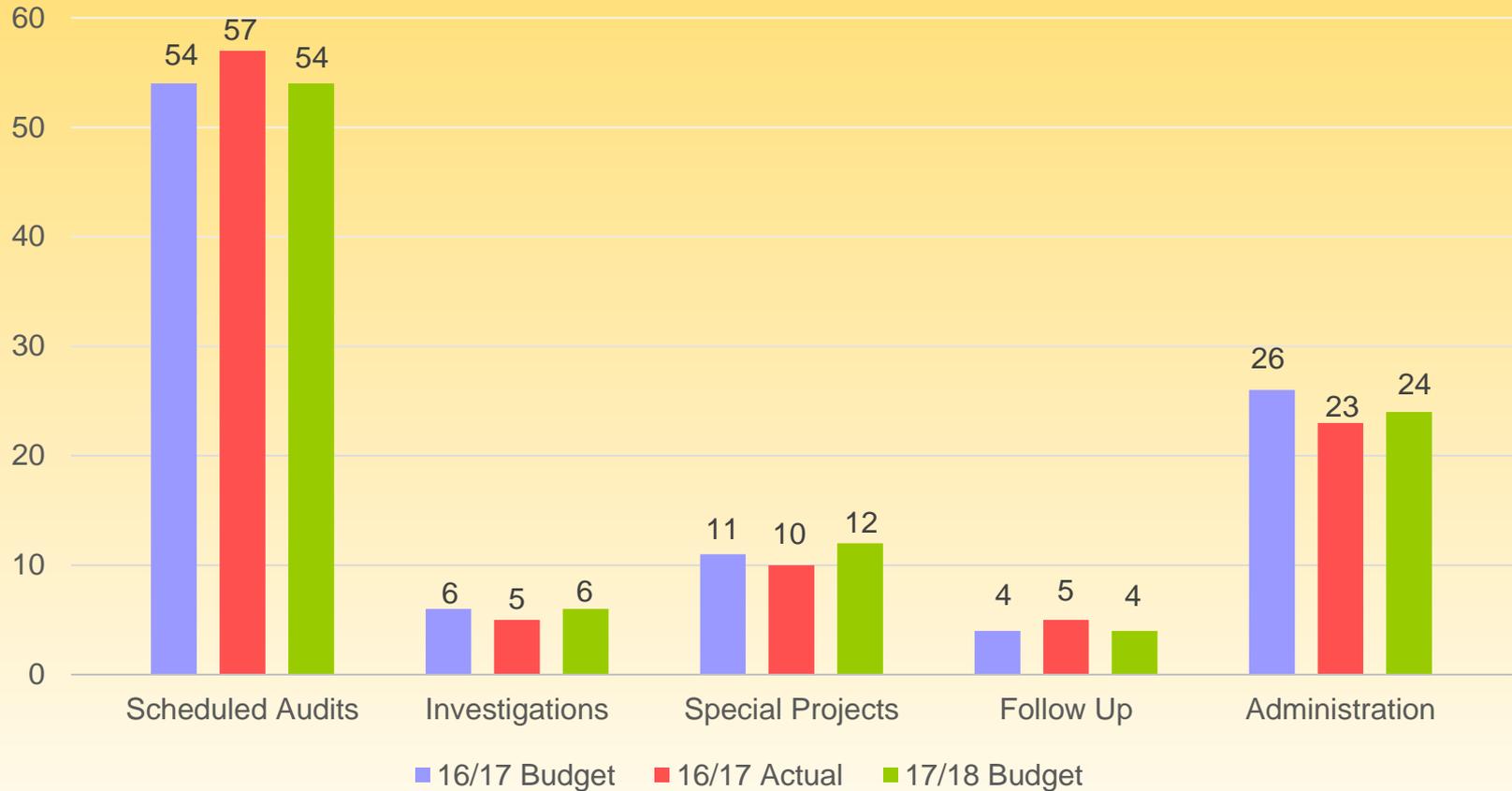
176 auditable activities

- 23 high-risk activities
- 104 moderate-risk activities
- 49 low-risk activities



# FY 2018 Allocation of Resources

## COMPARISON OF AUDIT RESOURCES FOR FY 2017 AND FY 2018 Percent of Available Time



# 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



# Overall Risk Assessment

## Audit Focus for FY 2018

- Student Experience and Affordability
- Cost Containment
- Effectiveness of Governance
- Athletics
- Information Technology Security



# FY 2018 Audit Coverage by Major Component

## Provost

College of Education & Human Development  
Global Programs & Strategy Alliance  
Chemical Engineering & Materials Science  
College of Continuing Education  
Scholarships and Fellowships  
HHH School of Public Affairs

## AHC

AHC Information Systems  
School of Nursing (w/ Provost)  
Radiology/CMRR (w/ Provost)  
Neurosurgery (w/ Provost)

## System Campuses

University of Minnesota Morris  
UMD Housing  
UMD Police

## System-Wide

Executive and Regent Expenses  
Board of Regents Compliance with Policies  
Gift Testing

## Executive

Athletics Sport Compliance  
Athletics TBD

## Research

Human Subjects TBD

## SVP/CIO

University Information Security  
OIT Account Management

## SVP/Human Resources

Family Medical Leave Act

## SVP/Finance

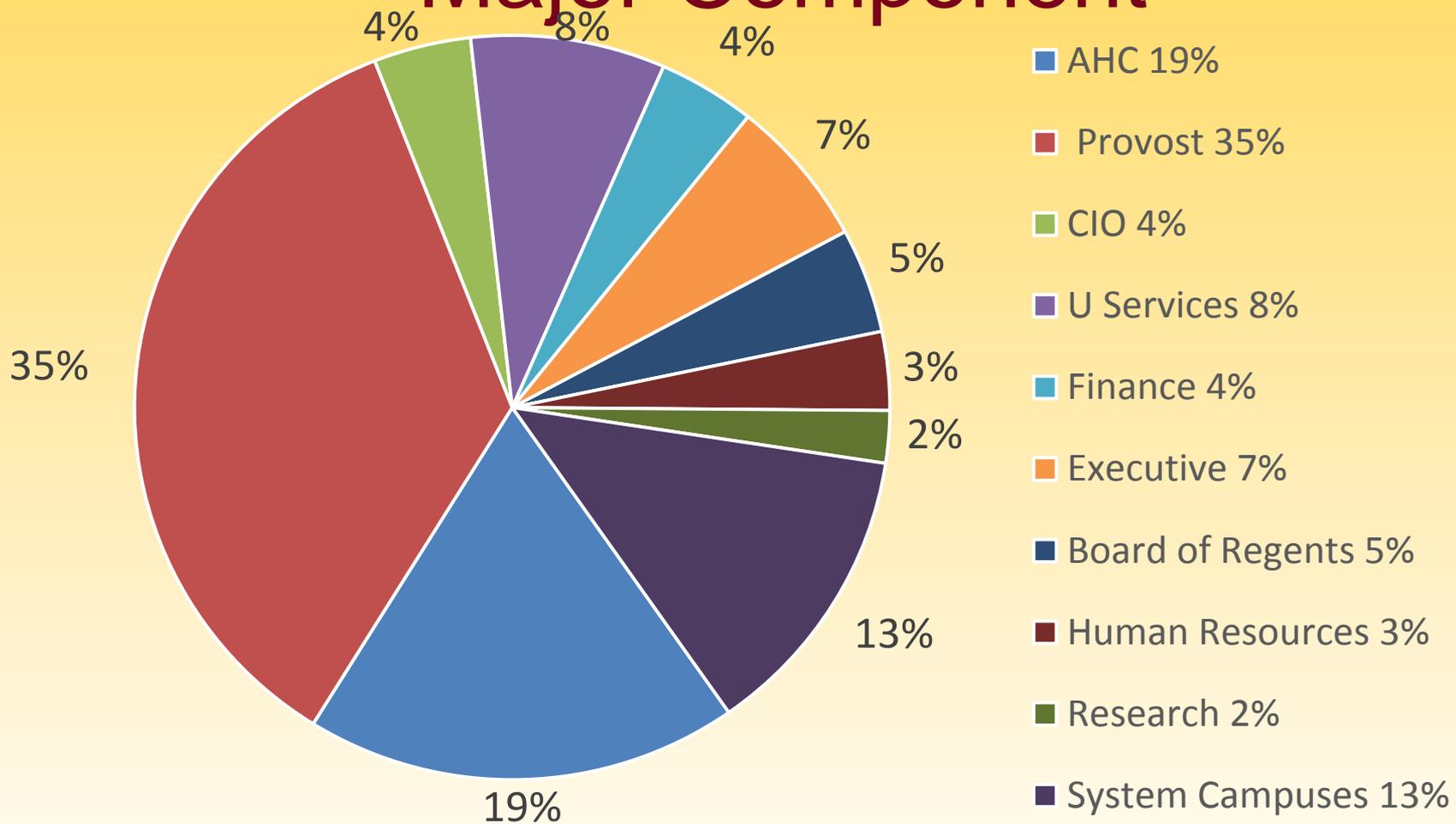
Consulting Contracts  
Utilization of Federal/State Contracts

## SVP/U Services

Public Safety  
Bookstores



# FY 2018 Audit Coverage by Major Component



# Institutional Risk Profile

## University of Minnesota Institutional Risk Profile

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		<b>Low</b>	<b>Moderate</b>	<b>High</b>
		<b>Impact</b>		



# Audit Coverage of Institutional Risks

Risk	FY 18	FY 17	FY 16	Risk	FY 18	FY 17	FY 16
Autonomy				Balancing Offerings			
Attracting and Retaining Talent		x	x	State Funding	x	x	x
Data Privacy/Security	x	x	x	UM Health			
Student Demographics/ Enrollment Strategies	x	x		Athletics	x	x	x
Federal Research Funding	x	x	x	IT Infrastructure & Costs	x	x	x
Higher Education Operating Model	x	x	x	Brand and Reputation			
Human Subject Research	x	x	x	Facilities	x	x	
Strategic Plan Implementation				Maximizing Multiple Campuses			
Student Preparedness				Perception of HE Value			
Workforce Development Expectations				Effective Communication			
Campus Safety and Security	x	x	x	Commercialization of Intellectual Property			



# The 2018 Audit Plan

- Provides reasonable audit coverage across all of the major components of the University.
- Addresses risks currently impacting the University.
- Addresses selective risk areas identified by the Audit and Compliance Committee as important.





Questions?





# BOARD OF REGENTS DOCKET ITEM SUMMARY

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**Audit & Compliance**

**June 8, 2017**

**AGENDA ITEM:** Internal Audit Update

**Review**

**Review + Action**

**Action**

**Discussion**

*This is a report required by Board policy.*

**PRESENTERS:** Gail Klatt, Chief Auditor

## **PURPOSE & KEY POINTS**

The purpose of this item is to discuss Internal Audit activities, results, and observations to help the committee fulfill its fiduciary responsibilities. Key points include:

- Since the February 2017 meeting, 45 percent of the outstanding recommendations rated as “essential” were implemented by University departments. This exceeds the expected implementation rate of 40 percent. Six 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.
- Seven audit reports containing 30 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 committee in conformance with Board of Regents Policy: *Board Operations and Agenda Guidelines*.

## **Internal Audit Update**

University of Minnesota Regents Audit and Compliance Committee  
June 8, 2017

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 2017

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**

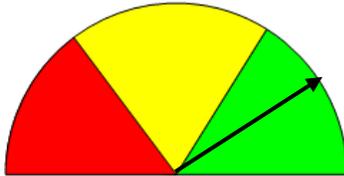
As part of our on-going efforts to provide the Audit and Compliance Committee with critical information in as concise a format as possible, we have developed the following three charts to present a “snap-shot” status report on work performed by the Office of Internal Audit.

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 2017 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).

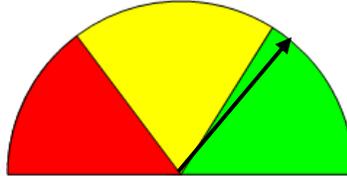
The final chart, “Time Spent on Investigative Activities”, provides a status report on the amount of time consumed by investigative activities. Our annual plan provided an estimated budget for this type of work, and the chart will indicate if we expect that budget to be sufficient. Continued readings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

### Essential Recommendation Implementation



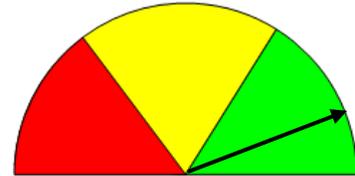
Implementation rates were 45% for the period, slightly better than our expected rate of 40%.

### Progress Towards Annual Audit Plan Completion



Time spent to date on the FY 2017 audit plan is what was expected and budgeted for the year to date.

### Time Spent on Investigative Activities



Time spent on investigative activities and special projects is less than expected and budgeted for the year to date.

### Other Items

- We held initial meetings with members of OIT to discuss the next generation network (NGN) upgrade's project management and plans for security. No issues have been identified to date; the project appears to be well managed and considerate of security concerns.
- Since the February update we experienced turnover in three positions. One employee (with almost 34 years of service) retired from the University. The retiring employee was a member of our management team, and we do not plan to replace the position. We are in the process of recruiting our two other open positions and expect to have them filled by July 1<sup>st</sup>.

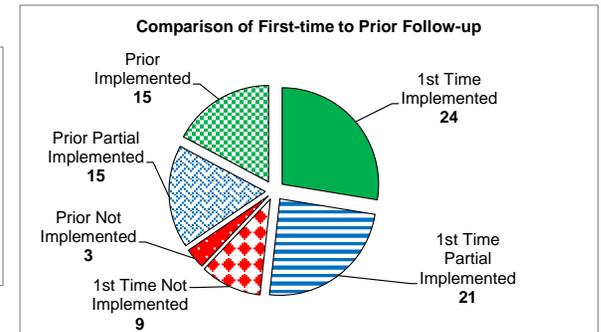
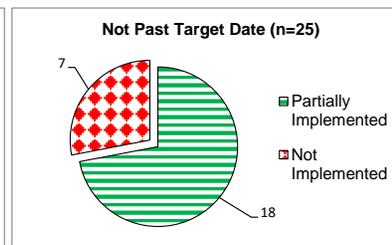
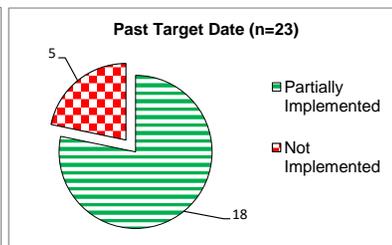
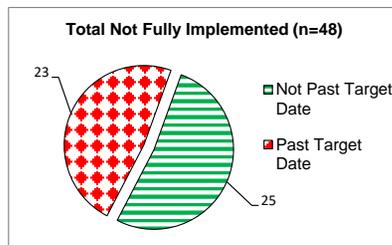
Status of "Essential" Recommendations as of May 26, 2017

Report Date	Audit (P) Indicates a University process audit	Original Report Control Rating	# of Essential Recommendations in the Report	# of Essential Recommendations Remaining From Prior Quarter	Current Quarter Results					Overall Progress Towards Implementation*
					Implemented	Partially Implemented		Not Implemented		
						Not Past Target Date	Past Target Date	Not Past Target Date	Past Target Date	
<i>Audits &gt; 2 years old (see the following report for details on unresolved issues)</i>										
Feb-14	University-wide Purchasing Process (P)	Good	2	1			1			Satisfactory
Jun-14	Identity Management (P)	Needs Improvement	11	1	1					Completed (1)
May-15	Medical School Duluth	Needs Improvement	25	2			1		1	Satisfactory (2)
<i>Audits &lt; 2 years old; have received prior follow-up</i>										
Sep-15	Clinical & Translational Science Institute	Good	4	1	1					Completed
Oct-15	UMD Athletics	Adequate	12	3	3					Completed
Dec-15	Athletics Administration	Needs Improvement	7	3			3			Satisfactory
Feb-16	Boynton Health Service	Needs Improvement	25	6	3		1		2	Satisfactory
Jun-16	OIT Database Administration	Good	7	6	2	3	1			Satisfactory
May-16	UMD College Ed. & Human Service Professions	Needs Improvement	9	7	3	1	3			Satisfactory
Jun-16	Department of Medicine	Good	5	1	1					Completed
Jun-16	Athletics Financial & Operational Review	Needs Improvement	7	1			1			Satisfactory
Aug-16	UMD Undergraduate Tuition Waivers	Needs Improvement	3	1	1					Completed
<i>Audits receiving first-time follow-up</i>										
Oct-16	Office of Human Resources Operations (P)	Needs Improvement	7	7	2	4	1			Satisfactory
Oct-16	School of Dentistry	Needs Improvement	20	20	11	7	1	1		Satisfactory
Nov-16	Community University Health Care Center	Adequate	7	7	2	1	2		2	Satisfactory
Dec-16	Undergraduate International Admissions (P)	Good	4	4	2		2			Satisfactory
Dec-16	PeopleSoft IT Management (P)	Good	6	6		2		4		Satisfactory
Feb-17	College of Biological Sciences	Adequate	7	7	7					Completed
Feb-17	McNamara Academic Center	Good	2	2				2		Satisfactory
Feb-17	Campus Solutions Upgrade (P)	Good	1	1			1			Satisfactory

Total: 171 87 39 18 18 7 5

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

- (1) This process audit sampled and tested several applications including a vendor hosted application used by CUHCC. The vendor could not provide sufficient evidence of Identity Management controls; this risk was reviewed and accepted by Senior University Management until the system can be replaced.
- (2) The remaining recommendations relate to IT issues involving a system used by the Center for Rural Mental Health Studies. The system is planned to be decommissioned by August and its associated data secured.



"Essential" Recommendation Implementation Trends

Month / Year of Follow-up Report

	June 2017	Feb. 2017	Sept. 2016	June 2016	Feb. 2016	Sept. 2015	June 2015	Feb. 2015	Sept. 2014	June 2014	Average
# of Essential Recommendations Receiving Follow-up	87	74	114	108	83	98	60	44	53	34	76
# of Recommendations Considered Fully Implemented	39	41	44	46	34	16	8	16	12	10	27
Implementation Percentage	45%	55%	39%	43%	41%	16%	13%	36%	23%	29%	35%

Current Status of Recommendations Rated as "Essential" That Are Over Two Years Old and Are Not Fully Implemented

Audit/ Report Date	Status- Partially Implemented (P) or Not Implemented (N)	Senior Management Contact	Summary of the Issue/Risk Involved	Current Comments From Management
University-wide Purchasing process Feb-14          # of Items 1	P	Tim Bray Michael Volna	Purchasing Services and the Office for Business & Community Economic Development should work with University senior administration to: <ul style="list-style-type: none"> <li>Establish appropriate institutional goals and metrics regarding purchases from Targeted Business Groups to ensure the institution is meeting the intent of the Regents Policy.</li> <li>Implement steps to measure and ensure compliance with MN. Statute 137.31 subdivision 1.</li> </ul>	Per the Director of Purchasing Services Tim Bray: Tim Bray and Darryl Peal presented a plan at the December 2016 Board of Regents Audit & Compliance Committee meeting. This presentation laid out an action plan to establish goals for the small business program to reach a 20% utilization. The specific steps that would foster these goals include identifying the best procurement categories for small business, flagging small business items in U Market and U Wide contracts and updating the PeopleSoft vendor file for correct designations. We will also benchmark our current program and promote more University opportunities to small business. Since that December 2016 Board of Regents meeting we have updated both U Market and the U Wide contract page with specific designations for small and targeted suppliers. In addition we have engaged a third party supplier who will be updating the PeopleSoft vendor file for current small and targeted business designations. This work will be completed in the fourth quarter of FY17. The Office for Business & Community Economic Development and Purchasing Services have benchmarked our current program with both other Big 10 institutions as well as the State of Minnesota and concluded that we compare very favorably to these entities. We have jointly presented to the RRC on the importance of our small and targeted business program, and OBCED has also met with several colleges to promote the program. The Office for Business & Community Economic Development (OBCED) will design an outreach program to recruit and encourage small and Targeted Business to obtain Small Business Administration (SBE) certification. OBCED will hold the 2017 Construction Expo & Goods and Services Matchmaker on October 3, 2017. At this outreach event certifying agencies recognized by the University of Minnesota, including the Small Business Administration (SBA) will be on hand to help participants begin the certification process. This "Certification Station" will be equipped with information on the University accepted certifications including DBE and 8a as well as an MBid Station for registration.
Medical School Duluth May- 15          # of Items 2	P          P	Paula Termuhlen Alan Johns	MSD should periodically obtain third-party attestations from its external vendors (Empathic, Electronic Billing Management, and Sisu). MSD should review the attestations to ensure the systems are adequately controlled and the attestations cover all critical system and control processes. MSD should also ensure any control processes that are its responsibility (as noted in the third-party attestation or otherwise) are being performed. If attestations cannot be obtained, MSD should consult with the University HIPAA Privacy Officer and the CISO's Office to implement compensating controls and obtain an exception if the risk of doing business with the provider is deemed acceptable.  MSD should develop procedures for performing an evaluation of user activity for business need for the Empathic application. MSD should work with the vendor of Empathic to determine if the vendor can provide and retain application logs in accordance with the University Log Management standard. Logs of update and view activities should be periodically reviewed by an independent party (e.g., a user's manager), and evidence of these reviews should be made in accordance with HIPAA requirements. If logging in Empathic cannot be brought into compliance with HIPAA requirements and University standards, MSD should work with the University CISO's office and the University's HIPAA Privacy Officer to develop compensating controls and obtain a formal exception.	The remaining open items on the Medical School Duluth audit are in the process of being resolved. Because they pertain to noncompliance issues with an electronic health record supporting our Center for Rural Mental Health Studies telemedicine program, we are under obligation to patients and providers to provide a transition period. We made a decision to close this program in March 2017 and since that time have been working to complete scheduled patient appointments and to provide notification to providers and patients impacted by the closure. In addition, we have been providing assistance with locating alternative services. The telemedicine program will close June 30, 2017. The Empathic Clinical Suite software will be decommissioned regarding University of Minnesota data in compliance with University and Empathic corporate standards that are in alignment with federal Health Information Portability and Accountability Act guidelines. This process will be finished by August 1, 2017 at which time we will have no further interaction with the noncompliant software. This will resolve the open items on the audit.

Total: 3

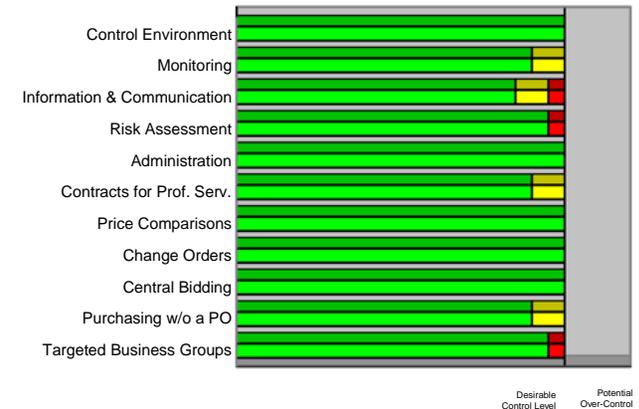
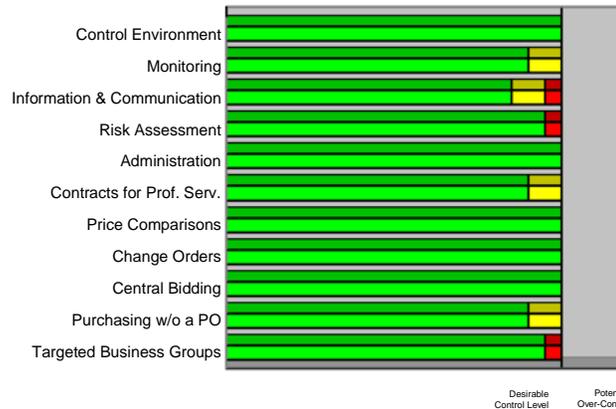
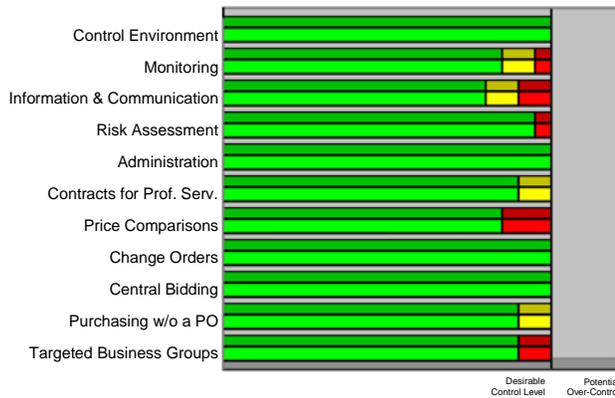
The bar charts shown below are presented to provide pictorial displays of the progress units are making on implementing audit recommendations rated as "essential". The bar chart included in the original report is shown in the left column, along with updated bar charts showing the previous quarter and 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 2017, 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-wide Purchasing Process (February 2014)



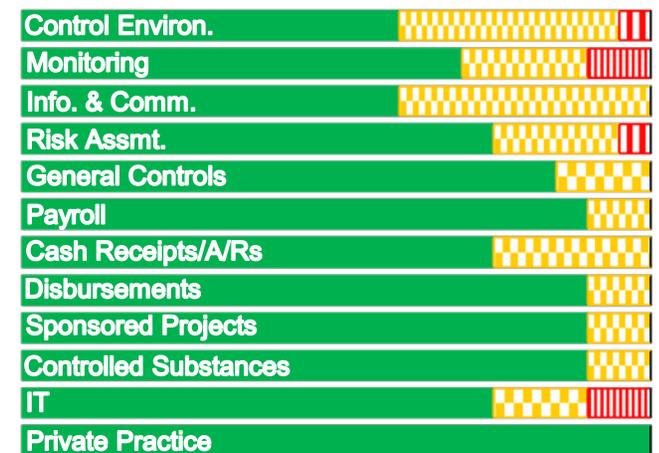
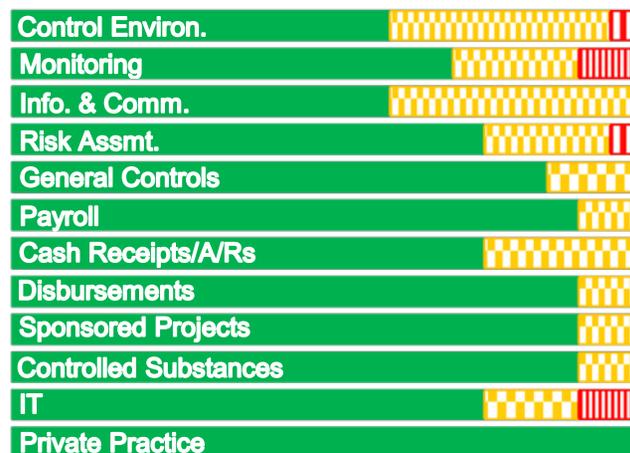
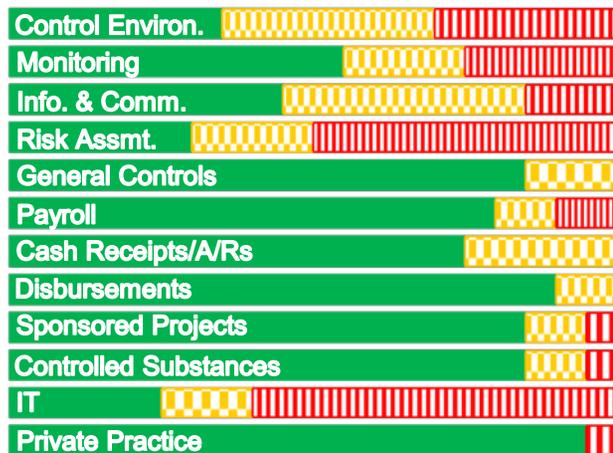
■ Adequate Control

■ Significant Control Level

■ Critical Control Level

■ Potential Over-Control

Medical School Duluth (May 2015)



■ Adequate Control

■ Significant Control Issue(s)

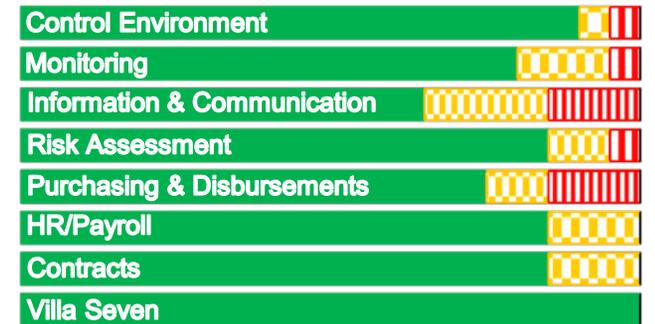
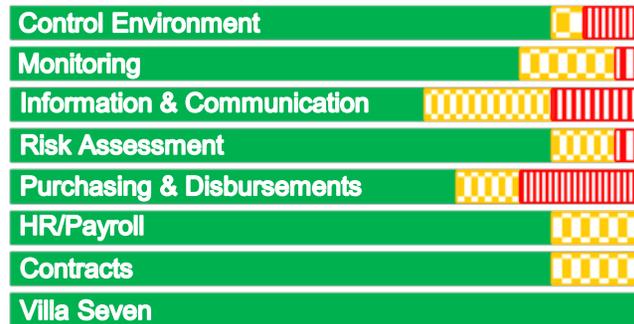
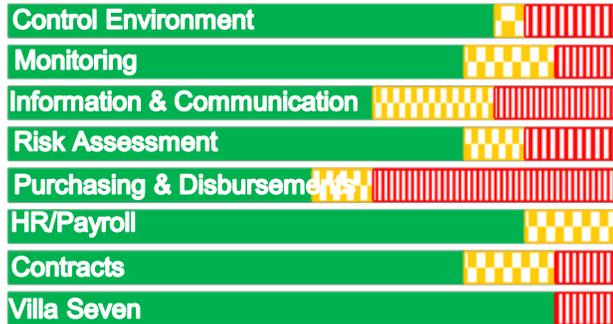
■ Critical Control Issue(s)

Original Report Evaluation

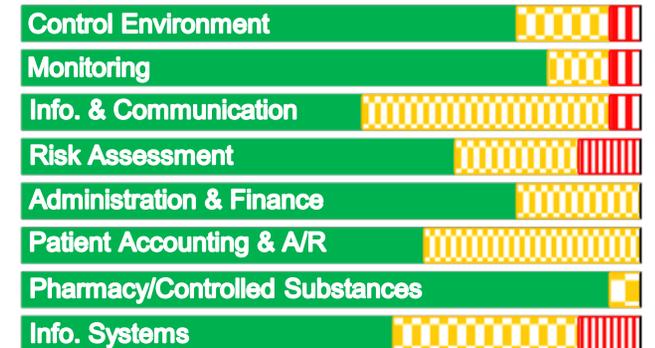
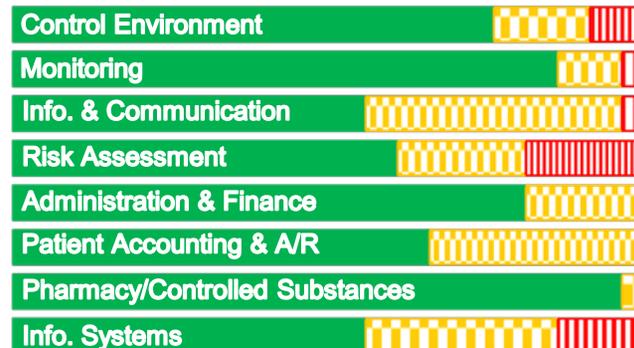
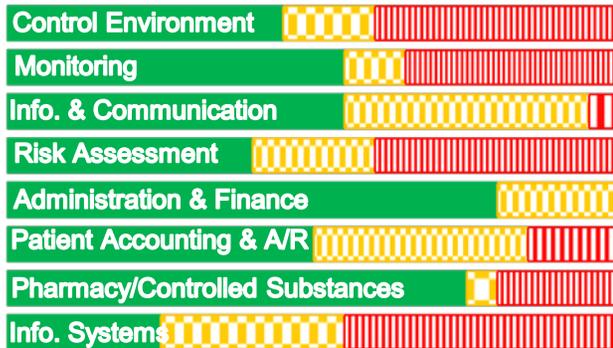
Previous Quarter Evaluation

Current Quarter Evaluation

Athletics Administration (December 2015)



Boynton Health Service (February 2016)



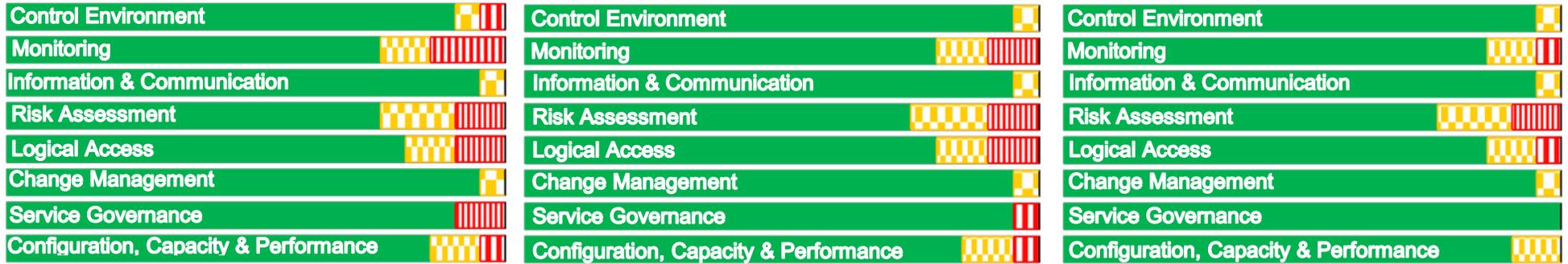
■ Adequate Control    ■ Significant Control Issue(s)    ■ Critical Control Issue(s)

Original Report Evaluation

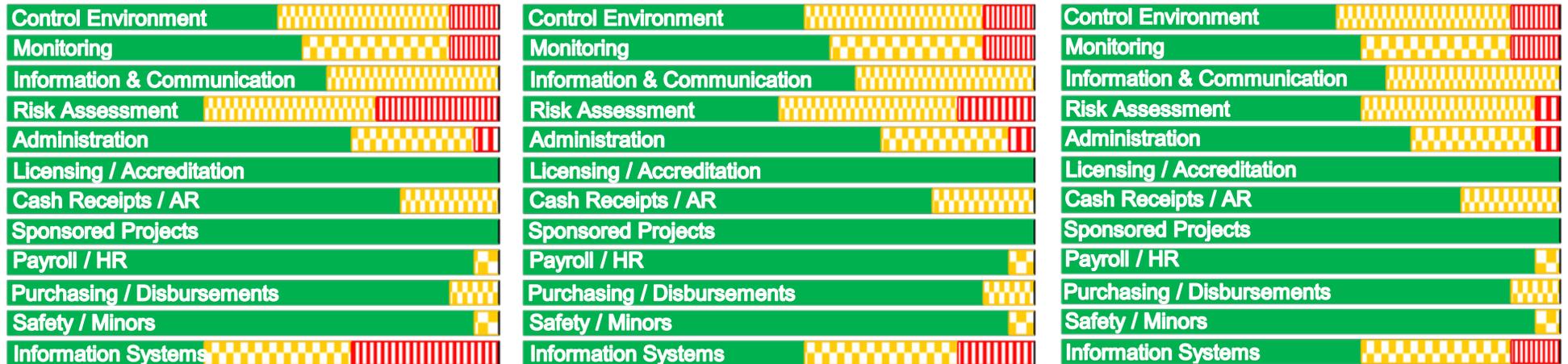
Previous Quarter Evaluation

Current Quarter Evaluation

OIT Database Administration (June 2016)



UMD College Ed. & Human Service Professions (May 2016)



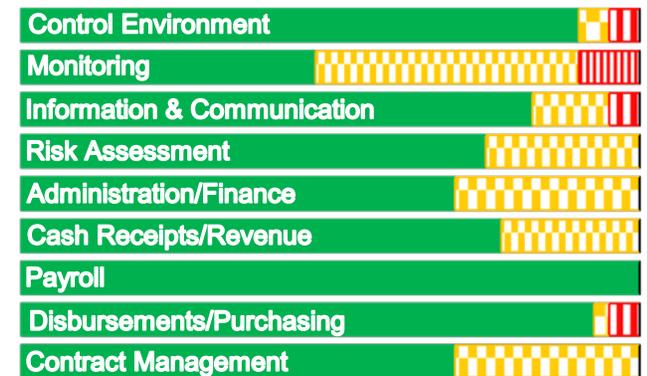
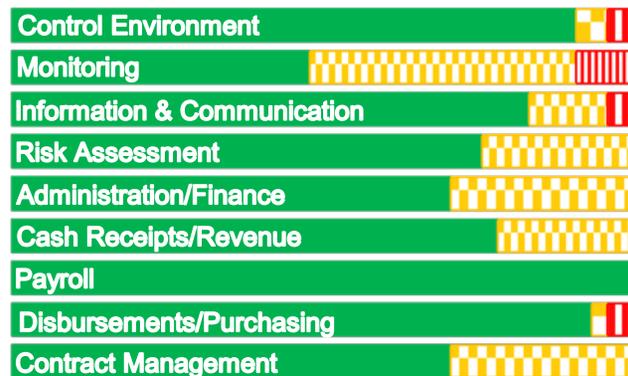
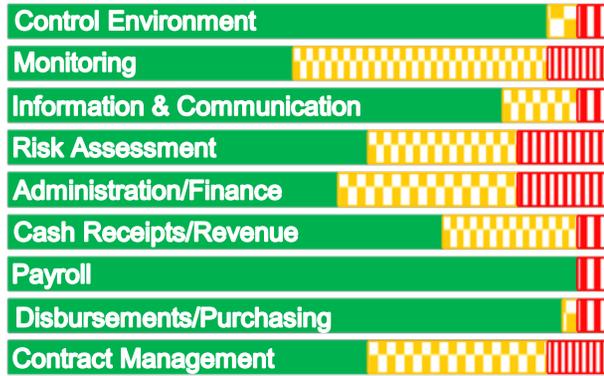
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Original Report Evaluation

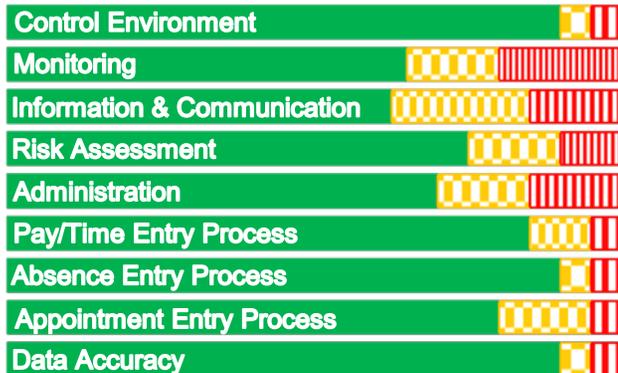
Previous Quarter Evaluation

Current Quarter Evaluation

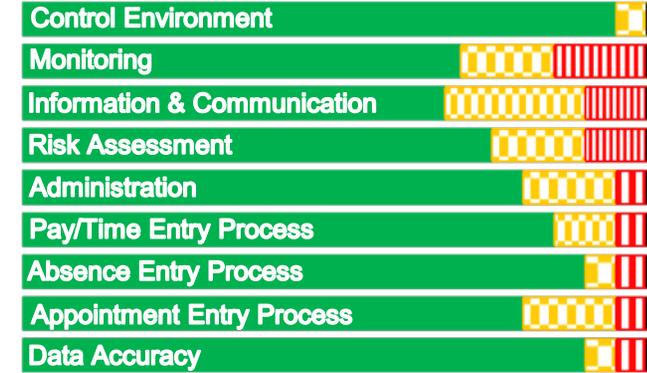
Athletics Financial & Operational Review (June 2016)



Office of Human Resources Operations (Oct 2016)



NO PREVIOUS  
CONTROL EVALUATION  
CHART



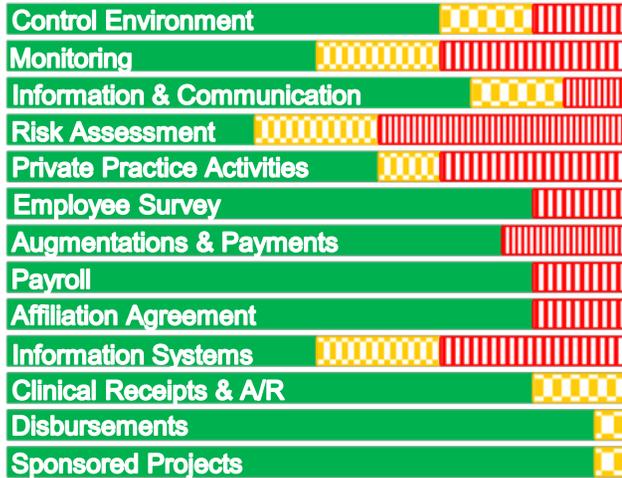
■ Adequate Control   ■ Significant Control Issue(s)   ■ Critical Control Issue(s)

Original Report Evaluation

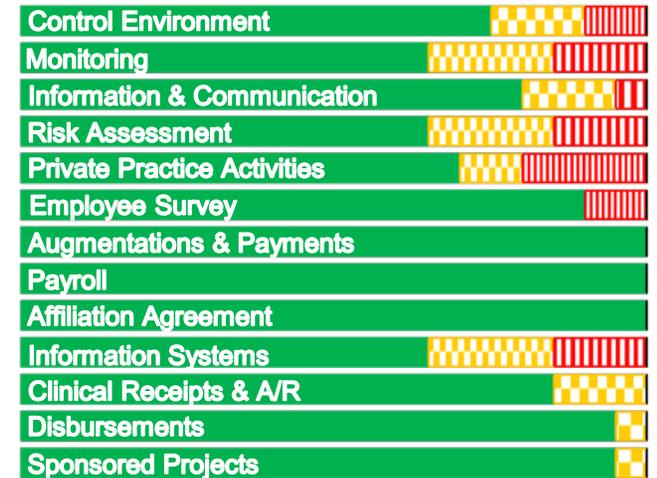
Previous Quarter Evaluation

Current Quarter Evaluation

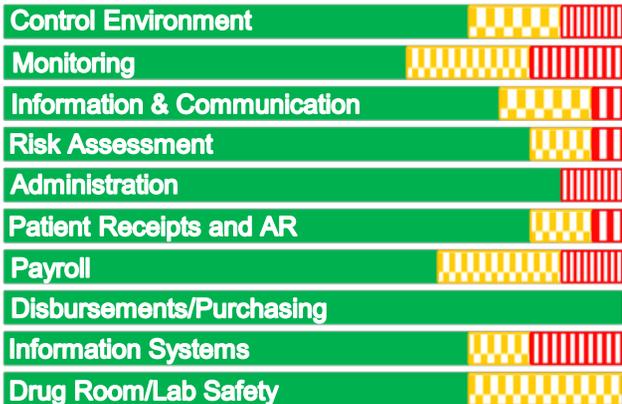
School of Dentistry (Oct 2016)



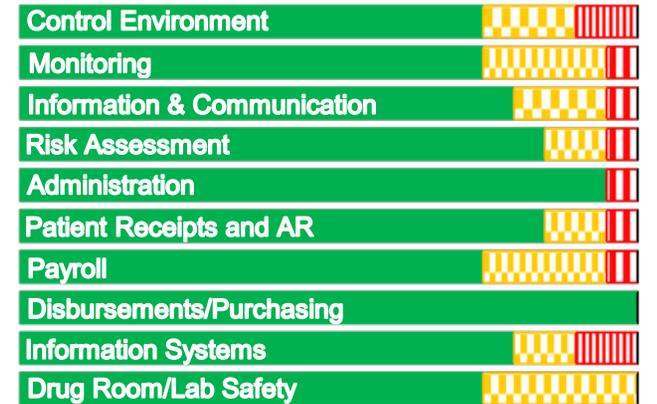
NO PREVIOUS  
CONTROL EVALUATION  
CHART



Community University Health Care Center (Nov 2016)



NO PREVIOUS  
CONTROL EVALUATION  
CHART



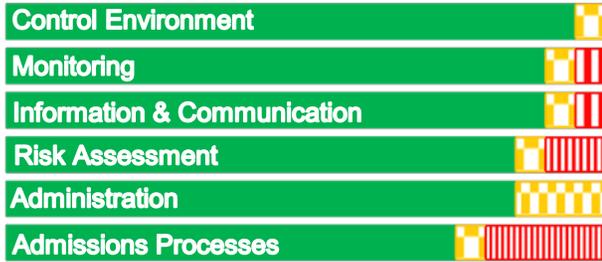
■ Adequate Control    ■ Significant Control Issue(s)    ■ Critical Control Issue(s)

Original Report Evaluation

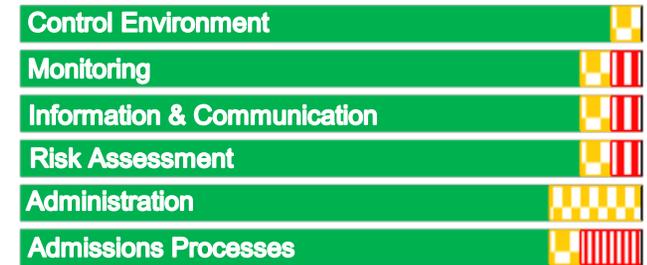
Previous Quarter Evaluation

Current Quarter Evaluation

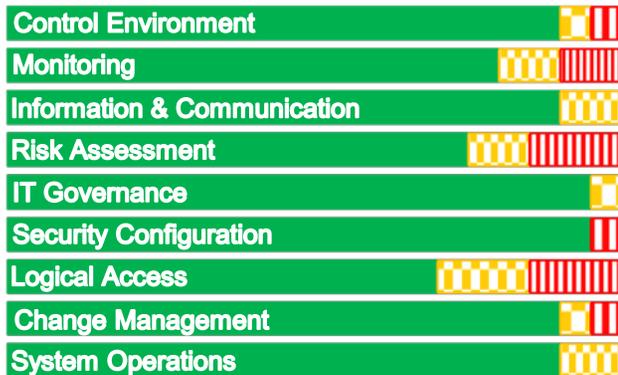
Undergraduate International Admissions (Dec 2016)



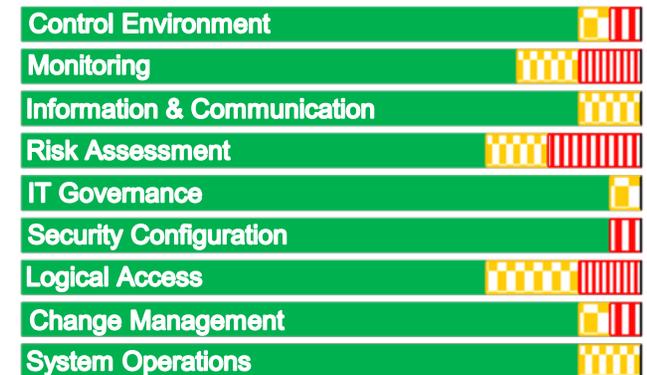
NO PREVIOUS  
CONTROL EVALUATION  
CHART



PeopleSoft IT Management (Dec 2016)



NO PREVIOUS  
CONTROL EVALUATION  
CHART



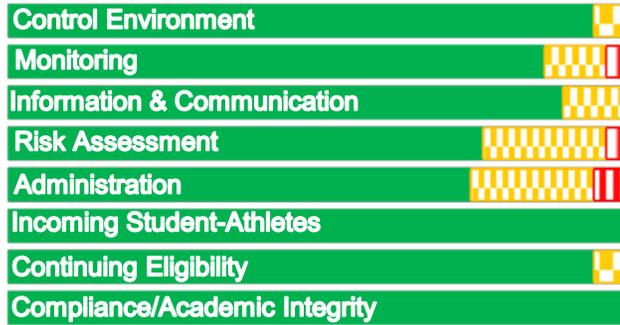
■ Adequate Control    □ Significant Control Issue(s)    ■ Critical Control Issue(s)

Original Report Evaluation

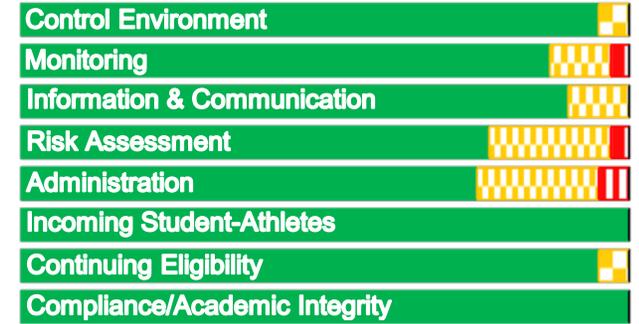
Previous Quarter Evaluation

Current Quarter Evaluation

McNamara Academic Center (Feb 2017)



NO PREVIOUS  
CONTROL EVALUATION  
CHART



Campus Solutions Upgrade (Feb 2017)



NO PREVIOUS  
CONTROL EVALUATION  
CHART



■ Adequate Control   ■ Significant Control Issue(s)   ■ Critical Control Issue(s)

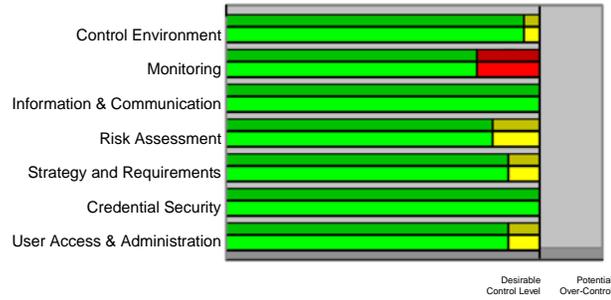
# Units with Charts that Fully Implemented their "Essential" Recommendations During the Past Quarter

Original Report Evaluation

Previous Quarter Evaluation

Current Quarter Evaluation

## Identity Management (June 2014)



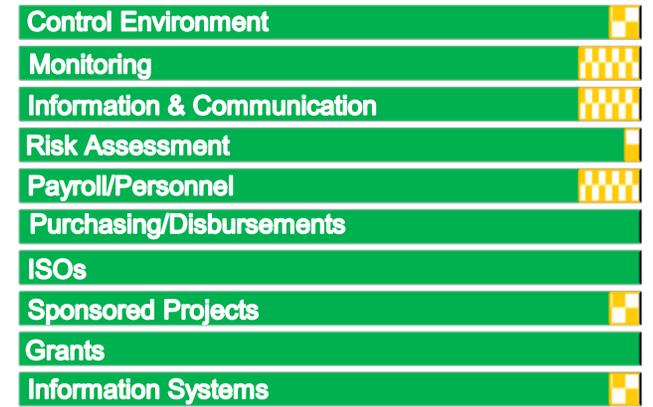
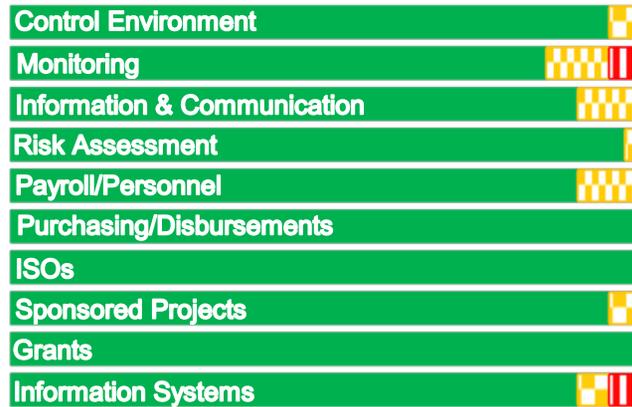
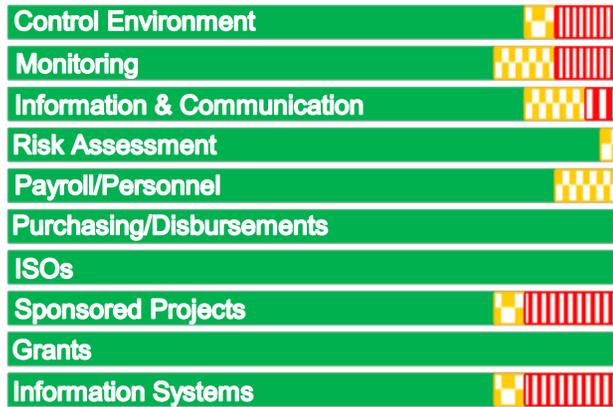
■ Adequate Control

■ Significant Control Level

■ Critical Control Level

■ Potential Over-Control

## Clinical and Translational Science Institute (September 2015)



■ Adequate Control

■ Significant Control Issue(s)

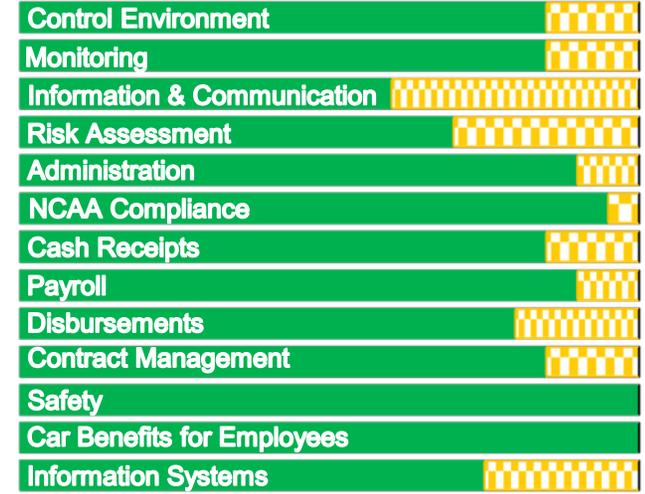
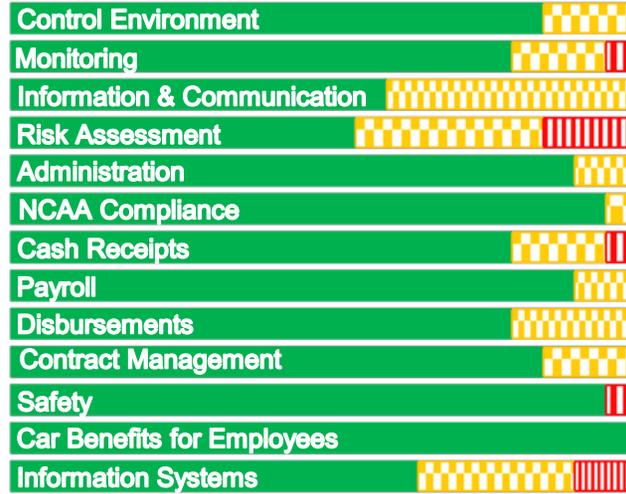
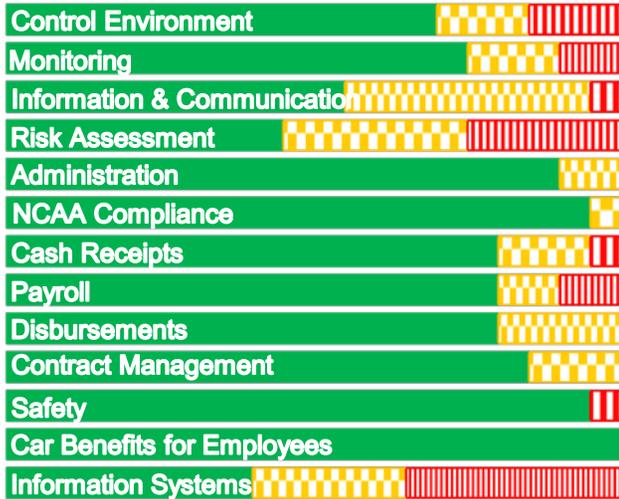
■ Critical Control Issue(s)

Original Report Evaluation

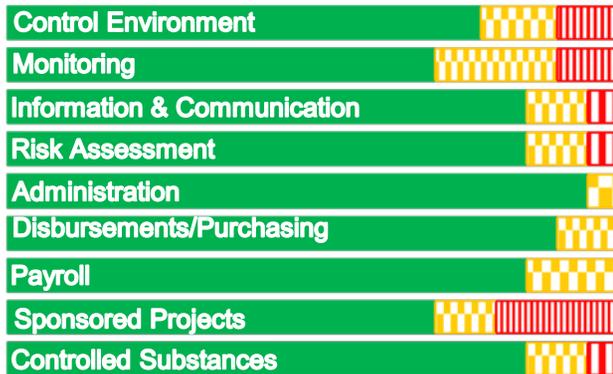
Previous Quarter Evaluation

Current Quarter Evaluation

UMD Athletics (October 2015)

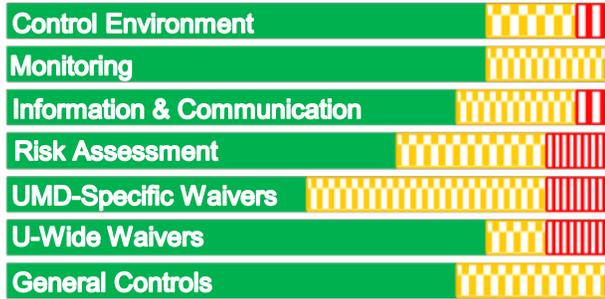


Department of Medicine (June 2016)



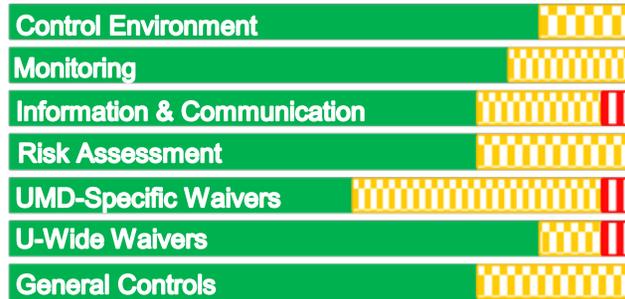
■ Adequate Control    ■ Significant Control Issue(s)    ■ Critical Control Issue(s)

Original Report Evaluation

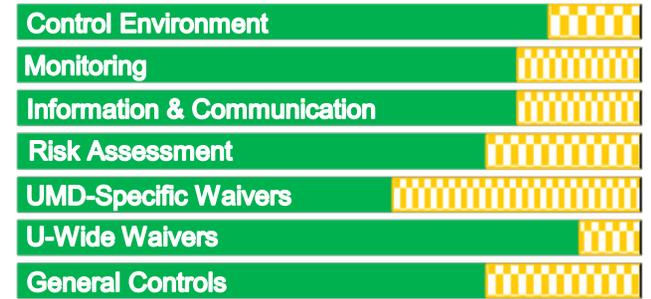


Previous Quarter Evaluation

UMD Undergraduate Tuition Waivers (August 2016)

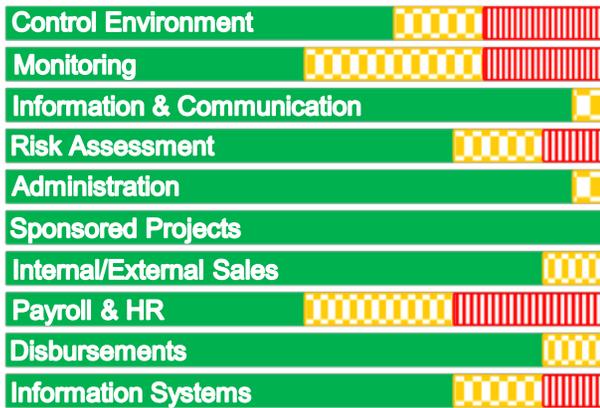


Current Quarter Evaluation



College of Biological Sciences (Feb 2017)

NO PREVIOUS  
CONTROL EVALUATION  
CHART



■ Adequate Control    ■ Significant Control Issue(s)    ■ Critical Control Issue(s)

## **Audit Activity Report**

### **Scheduled Audits**

- Completed audits of:
  - Export Controls and Fly America
  - a College of Food, Agricultural and Natural Resource Sciences financial cluster
  - Athletics IT
  - UMD Swenson College of Science and Engineering
  - College of Liberal Arts
  - Auxiliary Services Information Systems

Details are shown on the following charts.

- Began/continued audits of:
  - Accounts Receivable Services
  - Office of Admissions
  - School of Mathematics and the Institute for Mathematics and its Applications
  - Natural Resources Research Institute
  - Sponsored Financial Reporting
  - Review of Selected Advancing Human Research Protection Items
  - College of Education and Human Development
  - Department of Radiology and Center for Magnetic Resonance Research
  - Review of Faculty Start Up Awards
  
- Continued consultation on the Next Generation Network (NGN) upgrade project.

### **Non-Scheduled Audits**

- Completed a review of the Department of Earth Sciences and the Minnesota Geological Survey. Details are shown on the following chart.

### **Investigations**

- Performed investigative work on seven 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.
- Provided technology consulting in several areas including: vendor management, HIPAA security, access and activity monitoring best practices, and the IT Security Framework.

### **Other Audit Activities**

- Participated in the following:
  - President's Cabinet
  - Senior Leadership Group
  - President's Policy Committee
  - Policy Advisory 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
  - IT Leadership and Operational Excellence Committees
  - Use Case Categorization Scheme Committee
  - Storage Redesign & Restructure Committee
  - Effort Reporting vs. Payroll Verification Committee
  - NSF audit oversight committee

## Audit Reports Issued Since February 2017

### Export Controls and Fly America Act Processes



Report #	1717	Issue Date	Feb-17
# of Essential Recs.	1	Total # of Recs.	7
Overall Assessment	Good	Adequacy of MAP	Satisfactory

Export controls are multiple federal statutes and regulations that govern the transfer of certain goods, technologies, services, and money to non-U.S. persons and locations. Adherence to export controls are managed by the Export Controls & International Projects Officer (ECO). The ECO reports to the Associate Vice President for Research. From the results of the audit work performed, we believe the ECO, along with the Research Compliance Office has developed a control environment and a system of internal control that generally addresses most business and compliance risks associated with the operation of the export controls program and Fly America Act; however, compliance with Fly America Act should be enhanced. A review of 15 trips on federal funds using a non-U.S. carrier noted 80% (12 out of 15 trips) did not obtain Fly America Act exception certification from the ECO, as required by the Act.

### CFANS Financial Cluster



Report #	1718	Issue Date	Mar-17
# of Essential Recs.	3	Total # of Recs.	9
Overall Assessment	Good	Adequacy of MAP	Satisfactory

This audit covered one of three CFANS financial clusters that serves the following departments: Animal Science, Applied Economics, Agricultural Education, Food Science & Nutrition, and the Center for Farm Financial Management. The audit also reviewed and tested controls at the Dairy and Meat Salesroom, which sells dairy and meat products to the public and the University community. Results of the audit indicate the CFANS financial cluster, and the departments it serves, have developed a control environment that addresses most major business, compliance and information technology risks. However, controls over the cash receipts processes for meat and dairy sales, as well as, payment processing and reconciliation functions at the Center for Farm Financial Management, should be strengthened.

■ Adequate Control   
 ■ Significant Control Issue(s)   
 ■ Critical Control Issue(s)

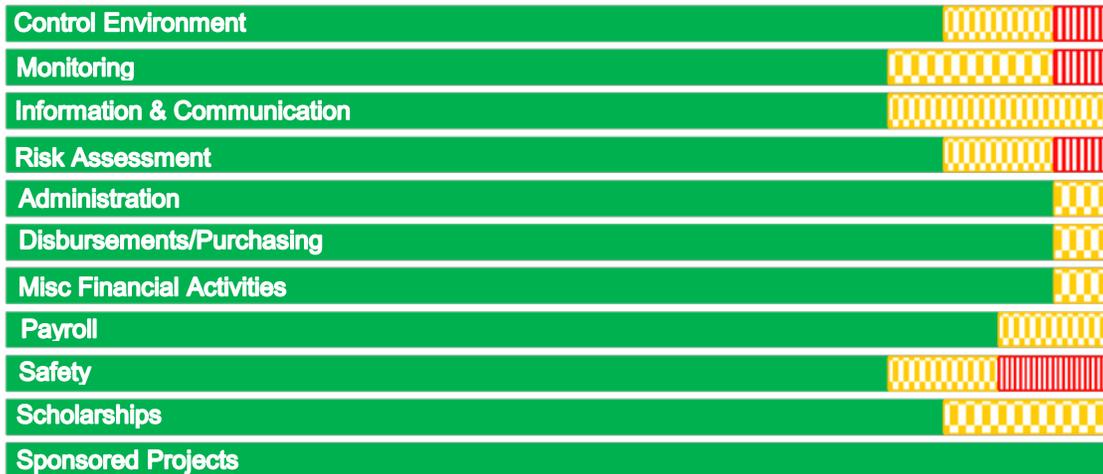
## Athletics IT



Report #	1719	Issue Date	May-17
# of Essential Recs.	10	Total # of Recs.	13
Overall Assessment	Needs Improvement	Adequacy of MAP	Satisfactory

Athletics' IT governance and control processes need improvement. Control processes are inconsistent, weak or do not exist. This inconsistency is likely in part due to the insufficient oversight, coordination and communication between responsible staff. Technology for the Athletics department is managed by a combination of OIT, outside software as a service (i.e., "SaaS") vendors, and Athletics staff members in multiple units. Several SaaS applications are used by Athletics, including AudienceView (an athletic event ticketing system), and an Athlete Health Management System (AHMS). The AudienceView application has some robust control processes in place; however, issues which could jeopardize the integrity, confidentiality and availability of systems and data were identified for both the critical AudienceView and AHMS applications. These issues include inadequate logical access controls, log monitoring, and oversight of SaaS vendors.

## UMD Swenson College of Science and Engineering



Report #	1720	Issue Date	May-17
# of Essential Recs.	2	Total # of Recs.	13
Overall Assessment	Good	Adequacy of MAP	Satisfactory

The UMD Swenson College of Science and Engineering is comprised of ten academic departments and four programs, including the Large Lakes Observatory. The size and the breadth of its teaching, research, and outreach activities create a complex operating environment. We concluded controls within the college are good, and the dean's office strives to provide effective monitoring and oversight of the college's operations and risks. The one area in need of strengthening is safety; our review of safety disclosed that processes for effectively managing safety risks have not been established. Specific concerns were identified related to communication of lab inspection issues and monitoring their remediation, inspecting teaching labs, and the discussion of safety issues amongst lab coordinators/safety officers.

■ Adequate Control   
 ■ Significant Control Issue(s)   
 ■ Critical Control Issue(s)

## College of Liberal Arts



Report #	1721	Issue Date	May-17
# of Essential Recs.	8	Total # of Recs.	21
Overall Assessment	Good	Adequacy of MAP	Satisfactory

We believe the control environment and system of internal control within the College of Liberal Arts (CLA) are good. There has been considerable improvement in CLA's IT operations since our last audit, as operations are now more integrated and effectively leverage OIT resources. However, control processes remain inadequate for several systems handling sensitive research and clinical data managed by independent IT units in CLA. Improvements are needed in server security, logging processes, activity monitoring, implementing patient record review monitoring, user administration processes, access reviews, change management, and ensuring all workstations do not use shared accounts.

## Department of Earth Sciences and the MN Geological Survey



Report #	1722	Issue Date	May-17
# of Essential Recs.	2	Total # of Recs.	6
Overall Assessment	Adequate	Adequacy of MAP	Satisfactory

The MN Geological Survey (MGS) is part of Earth Sciences; however, MGS reports directly to the Dean of the College of Science and Engineering. Each area operates mostly independent of the other, and both units are included in this audit. MGS has developed a control environment and a system of internal control that addresses its major business and compliance risks. There were no audit issues pertaining to the MGS. The Department of Earth Sciences has also developed a control environment and system of internal control that addresses most major business and compliance risks; however, improvement is needed in the operation of the department's internal and external sales activities (ISO/ESO), as well as payroll operations. Four ISO/ESOs in Earth Sciences face financial challenges with deficits as of the close of FY 2016 totaling \$624,000. Our audit also noted \$12,707 in salary overpayments made to two employees.

■ Adequate Control   
 ■ Significant Control Issue(s)   
 ■ Critical Control Issue(s)

## Auxiliary Services Information Systems



Report #	1723	Issue Date	Jun-17
# of Essential Recs.	4	Total # of Recs.	12
Overall Assessment	Good	Adequacy of MAP	Satisfactory

Auxiliary Services has \$159 million operating budget generated from the sale of a large volume of goods and services to internal and external customers across all campuses. IT support in Auxiliary Services is distributed between IT personnel reporting to its various departments and a central unit referred to as Auxiliary Services Information Systems (ASIS). ASIS operations and control environment are well managed. The team has implemented well-designed control processes to address most major risks, and is committed to continual improvement of its systems security and operations. Positive aspects of the team’s control environment include: a highly-competent support staff, comprehensive system interfaces controls, secured logs of most access and activity, and a well-designed change management process for some application changes. There are however some processes that are still not in compliance with the Information Security Policy and require further improvements, including: access and account management controls and the expansion of new change management processes to all ASIS supported systems.

■ Adequate Control   
 ■ Significant Control Issue(s)   
 ■ Critical Control Issue(s)

**INTERNAL AUDIT RESULTS FISCAL YEAR 2017**

**FY 2017 RESULTS**

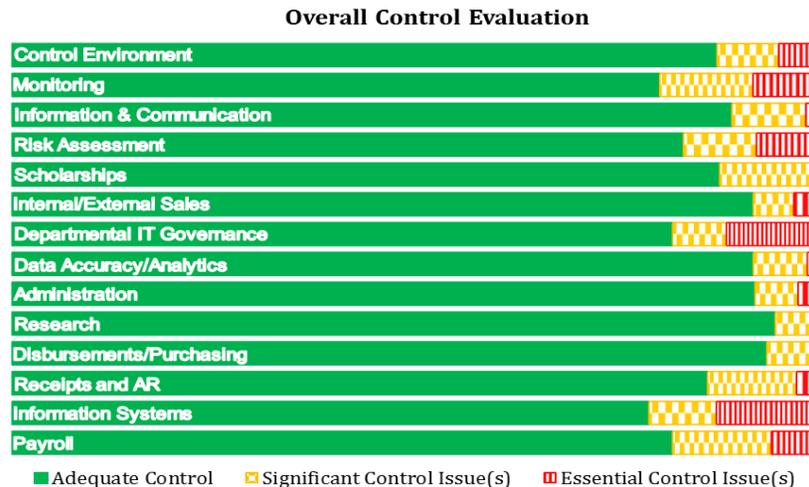
For FY 2017, we will have issued 24 audit reports which were the result of planned reviews and requests from management (See Appendix A).

In addition,

- Nine audits are currently in the planning or fieldwork stages and will be completed in FY 2018.
- Two audits were deferred to FY 2018.
- Four audits were not completed due to changes in the associated risks.

During the past fiscal year we conducted eight 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.

The following control evaluation chart is a composite of all of the control evaluations resulting from audits completed in FY 17. It reflects the state of the internal control environment based on the audit work performed.



## **INDEPENDENCE**

The Office of Internal Audit's Charter, approved by the Chair of the Audit and Compliance Committee in 2014, states that "To provide for the independence of the Office of Internal Audit, the Board of Regents delegates directly to the Director of the Office of Internal Audit the authorities necessary to perform the duties set forth in the mission and scope of work. Additionally, the Director of the Office of Internal Audit is delegated administrative and operational authorities by the President of the University. The Office of Internal Audit is to be free from undue influence in the selection of activities to be examined and the audit techniques and procedures to be used."

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

## **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, annual external financial reporting, 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 partners, the Office of Research Education and Oversight (now part of the Research Compliance Office), the Human Research Protection Program, the Department of Environmental Health and Safety, University Information Security, 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 2017, a total of 9,800 employee surveys were sent out as part of our audit process, with a 47% response rate. Along with the Office of Institutional Compliance, we serve as a triage office for managing UReport, the University's confidential reporting line.

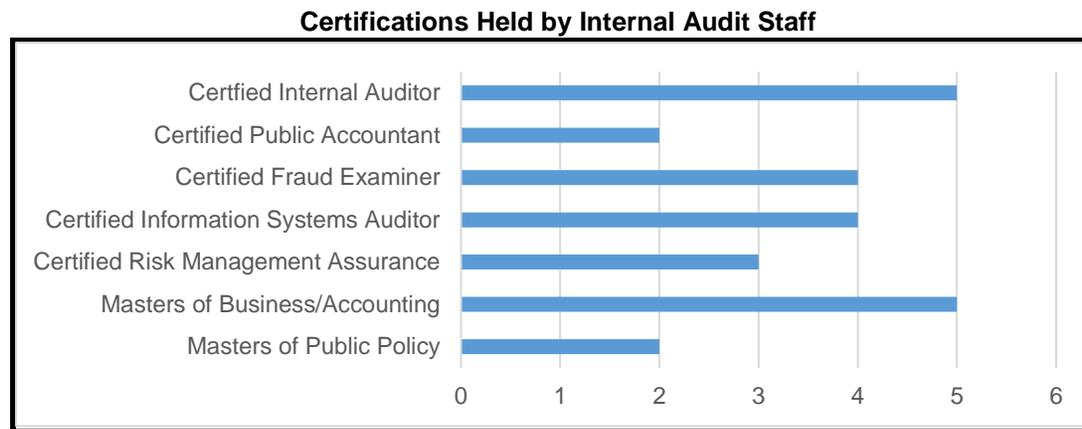
Audit results are also shared with central support units such as the Office of Information Technology, Sponsored Projects Administration, Payroll, Controller's Office, Training Services, and Human Resources when policy non-compliance or when the need for process enhancements are identified. Best practices 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 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 but two of the professional internal audit staff are professionally credentialed or hold advanced degrees. Specifically,



In the first 10 months of FY 2017, the Office of Internal Audit provided over 2200 hours of formal and informal training (an average of 130 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 2018, 850 hours have been budgeted for formal staff training, an average of over 50 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 is also required to comply with the Institute's **Code of Conduct for Internal Auditors**.

## **INTERNAL QUALITY ASSURANCE PROGRAM**

We have established an internal quality assurance program within the Office of Internal Audit. This program is structured around the robust supervision of audit staff and their work products. In addition, internal practices and tools are routinely evaluated for their effectiveness and efficiency and changes are made when potential improvements are identified. Our quality assurance measures throughout the year confirmed our practices met the requirements of our professional **Standards**.

## **EXTERNAL QUALITY ASSURANCE REVIEW**

Our professional standards require that our audit practice undergo an external quality assurance review every five years. Our most current external review was conducted in February 2015 and determined that 1) our work was in full compliance with the **Standards**, and 2) University management and the Board of Regents can appropriately rely on the assurance provided by the work performed by the Office. The review team also opined that they had seldom been as impressed with an internal audit activity as they were with the Office of Internal Audit and the quality and level of performance they observed over all aspects of our practice. Our next external quality assurance review will be completed in 2020.

## **OFFICE OF INTERNAL AUDIT FY 2017 STAFFING**

We experienced 22% turnover (four positions) in FY 2017. This is higher than our normal turnover rate of 13%. One of the departures involved a retirement. We expect to successfully fill the one staff position that is currently open and begin FY 2018 at a full staff complement.

## **OFFICE OF INTERNAL AUDIT BUDGET STATUS**

The Office of Internal Audit received additional funding for a 2.0% compensation increase, consistent with the administration's pay plans. The Office's overall budget was reduced by a net \$4,000 as part of the administrative cost reduction initiative.

We appreciate the continued financial and operational support we receive from the administration.

**Audits Completed**

**High Risk**

PCI Compliance  
 Purchasing Card Process  
 Vendor Payment Process  
 Office of Human Resources Operations  
 School of Dentistry  
 Uniform Guidance Sponsored Transactions/Subawards  
 PeopleSoft IT: Gen Controls, Infrastructure & Governance

**Moderate Risk**

Tuition Waivers  
 Epidemiology  
 School of Earth Sciences & MN Geological Survey  
 Community University Health Care Center  
 Undergraduate International Admissions  
 Department of Surgery  
 College of Biological Sciences  
 College of Liberal Arts  
 McNamara Academic Center  
 Campus Solutions Upgrade  
 Export Controls  
 CFANS Financial Cluster  
 Auxiliary Services IT  
 UMD Swenson College of Science & Engineering  
 Athletics IT

**Monitoring**

Identity Management Upgrade Oversight (non-report)  
 Athletics Expense Review (non-report)  
 OIT Network Upgrade Oversight (non-report)

**System-Wide Audits/Reviews**

Vikings Close Out  
 Testing of UMF Transactions FY 16

**Audits Expected to be Completed in FY 17**

**High Risk**

Accounts Receivable Services  
 Review of Select Advancing Human Research Protection Items

**Audits Started in FY17 but will be Completed in FY18**

**High Risk**

Sponsored Financial Reporting  
 Public Health IT  
 NCAA Sport Compliance Review - Volleyball  
 ETHOS IRB Submission System

**Moderate Risk**

UMD Natural Resources Research Institute  
 Admissions  
 School of Mathematics

**System-Wide Audits/Reviews**

Review of Faculty Retention, Set-Ups & Awards  
 Testing of UMF Transactions FY 17

**Audits Deferred and in 2018 Audit Plan**

Radiology/CMRR (Surgery was substituted)  
 UMD Housing

**Audits Not Completed**

Google Email  
 ADA Technology Accessibility Compliance  
 Destiny One (replaced by ETHOS)  
 Student Judicial



# BOARD OF REGENTS DOCKET ITEM SUMMARY

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**Audit & Compliance**

**June 8, 2017**

**AGENDA ITEM:** Update on Human Participant Research Protection Implementation Plan

**Review**

**Review + Action**

**Action**

**Discussion**

*This is a report required by Board policy.*

**PRESENTERS:** Allen Levine, Vice President for Research  
Brooks Jackson, Vice President for Health Sciences  
Tim Schacker, Director, Clinical Translational Research Services, Professor,  
Department of Medicine

## **PURPOSE & KEY POINTS**

The purpose of this item is to share and discuss progress made on the Board resolution, passed June 2015, related to the Human Participant Research Protection Program implementation plan.

### **The New Electronic IRB System**

ETHOS, the Institutional Review Board’s (IRB) new electronic system, launched in March 2017. ETHOS is an online platform that allows researchers to submit applications to the University’s IRB for review and approval. The system will serve nearly 10,000 faculty, staff, and students engaged in human participant research, as well as researchers conducting similar studies at Fairview Health Services and Gillette Children’s Specialty Healthcare. Both institutions send studies for review at the University’s IRB. The ETHOS system marks the culmination of a comprehensive effort to strengthen human participant research practices.

### **A Culture of Research Ethics**

ETHOS is part of a University-wide mission to cultivate a culture of research ethics. This effort began in early 2015, centered on protecting human research participants, upholding the highest ethical standards, and improving research oversight at every step of the process. Since then, the University has implemented more than 60 improvements to its human participant research protections.

In March, the University hosted workshops and trainings as a part of the first Research Ethics Day, an annual event focused on research ethics. In establishing a day to focus on these issues, the University joins a group of peer institutions with similar traditions, including Rutgers University, the University of Illinois, and the University of Alberta.

## **Research Compliance Office Change in Reporting Line**

Effective April 12, 2017, the Research Compliance Office will once again report directly to the Vice President for Research, who also serves as the University's Institutional Official. This change will ensure the office has the authority and independence to perform its role. A direct reporting line to the Vice President for Research allows that role to be more personally involved in the management and vision of this office.

## **Psychiatry Department Monitoring – Progress and Results**

The Clinical Translational Science Institute (CTSI) has taken over management of psychiatry research to ensure consistent and comprehensive monitoring, good clinical practices, and resources to assist investigators in conducting high-quality, ethical research. CTSI has hired a new Clinical Research Manager, who is now on-site to ensure faculty have access to real-time support for compliance and reporting, study set-up, and study management questions. The Clinical Research Manager is also finalizing processes for volunteer and student onboarding and training. CTSI meets regularly with research coordinators and has registered all active studies in OnCore, the University's clinical trials management system. A piloted course on informed consent was well received by the department and all studies continued to be monitored by CTSI monitors.

The University will continue to evaluate the effectiveness of these new processes and ensure the highest standards around human research protections are maintained.

## **Fetal Tissue Research**

This year's Higher Education Omnibus Bill, S.F. 943, requires that all fetal tissue research be approved by the Fetal Tissue Research Committee; a review of the committee's decision be reviewed by the IRB; and annual reporting on fetal tissue research. It requests that the University develop an education program on applicable laws and policies for faculty, staff and students involved in fetal tissue research. This language was a compromise between the legislature and the University.

## **BACKGROUND INFORMATION**

On February 23, 2015, an external review panel issued a report containing 63 recommendations for improving the human subjects protection program at the University. The language of that report was strong in its statement that while the current program is in many respects adequate, the University must make changes if it wishes to have a leading program in human subjects protection. The external panel's report is available [here](#).

On March 12, 2015, President Kaler charged Brian Herman, Vice President for Research, and Brooks Jackson, Vice President for Health Sciences, with oversight of the implementation of the recommendations of an external review panel by establishing an Implementation Team (Team) of internal and external individuals with the qualifications and expertise to review the recommendations and develop a plan to implement them. At its March 2015 meeting, the Board approved immediate and longer-term action plans to implement the recommendations.

The Team was chaired by Dr. William Tremaine, Professor of Medicine, Mayo Clinic and Director, Mayo Clinic IRB. During the time of the Team's work, two additional reports were made available: 1) a May 5, 2015 draft report from the Office of the Legislative Auditor, which presented findings from all industry-sponsored studies at the University from 2004-2014; and 2) Final IRB Investigation Report Into Fairview Concerns Regarding Psychiatry Research Studies at the University of Minnesota, referred to as the "Oakes report." Team members considered the

information from these reports in their recommendations. Report #2 above is publically available on the Advancing Human Subjects Research website.

The Team submitted a draft report to President Kaler on May 15, 2015. This report was made available for public comment on May 18, 2015; the comment period closed on June 1, 2015.

The report recommended significant and disruptive changes to the University's human participant research protection program. These changes are intended to cultivate a culture of ethics, ensuring the primacy of the University and each investigator's duty to keep the well-being of patients who become research participants at the center of policies and procedures, while ensuring the institution's commitment to clinical research and the faculty

Key components of the report were:

- Cultivating a culture of ethics
- Strengthening Institutional Review Board (IRB) membership and review process
- Scientific review
- Post-Approval monitoring
- For-cause investigation
- Research with subjects who have impaired or fluctuating capacity to consent
- Department of Psychiatry
- Engaging research subjects
- Education and training of investigators
- Accounting metrics
- Managing Conflicts of Interest
- Community Oversight Board
- External advisor
- Required resources

The Team received over 60 comments to the draft report. The comments reflected concerns about undue burden and the proposed policy change regarding Conflict of Interest; suggestions for community engagement; concerns about changes to scientific review; and questions about the applicability to the Social and Behavioral IRB. The final report reflects those submissions.

At its June 2015 meeting, the Board reviewed and discussed the final work plan's key recommendations and passed a resolution endorsing the final work plan. The Board also stated it would take an active role in providing ongoing oversight and monitoring of these activities by receiving regular progress reports through its Audit & Compliance Committee at each of the committee's meetings until the work plan has been fully implemented. Those progress reports are online at the [Advancing HRP website](#).

At its September 2015 meeting, the committee received an update about several recommendations from the external review and implementation plan that had been addressed and reported to the Regents and the Legislature over the summer. Those items included:

- Establishment of the Fairview University Research Oversight Committee (FUROC).
- Retaining an external advisor (Dr. David Strauss) from the external advisory panel to assess progress on the original recommendations.
- Outsourcing review of Psychiatry clinical trials.
- Hiring Compass Point to randomly review 100 psychiatric trials.
- IRB meeting changes: quorum, number of meetings, number of protocol reviews per meeting.

- Policy change: 72-hour hold practice.

The December 2015 committee meeting included updates from Vice President for Research Brian Herman; Professor Steve Miles; and Lynn Zentner, Director of the Office of Internal Compliance.

Continued monthly reporting to the Legislature included updates about:

- Status of IRB Membership, Research Compliance Office and For Cause Investigations final deliverables including review by David Strauss, external reviewer for the implementation. Development of four medical IRB rosters and nominees to serve.
- Updates about a more stringent Conflict of Interest policy and broad consultation of the changes.
- A national conference on December 2, 2015, hosted by the University's Consortium on Law and Values entitled "Research with Human Participants."
- Research Compliance Office structure and operations that became effective on October 2, 2015.
- Appointment of a new Community Oversight Board chair, Paul Mattessich.
- Development of new coursework by the Center for Bioethics that includes standards for research with human participants and the hiring of a new education and outreach specialist for researchers and IRB member training and communications.

At the February 2016 meeting, Paul Mattessich, Executive Director of Wilder Research and Chair of the Community Oversight Board, discussed implementation of the new COB board. The following updates were also covered:

- The Clinical and Translational Science Institute (CTSI) continuing its evaluation of the Department of Psychiatry and has begun a gap analysis and curriculum design plan for human participation research training and education at the University in collaboration with the OVPR, IRB, and Center for Bioethics.
- Presented the results of a recent external consultant's review of the Department of Psychiatry. CTSI hired the consultant to assess the status of clinical trials in the department early last fall and assist in developing a management plan. The consultant's final report was received in January and made observations similar to previous reports on this topic. To address those observations, the University has increased monitoring of clinical research in the department, including assisting faculty in understanding and using GCP guidelines, and is moving forward on transferring the management of this clinical research to CTSI.
- HRPP beginning the first phase of implementing an electronic IRB. The eIRB, when fully implemented, will speed up reviews for researchers, add capacity, and ensure proper documentation.
- Continued consultation of the Conflict of Interest policy changes. This policy will be voted on at the April 2016 University Faculty Senate meeting.
- Plans to make the successful December conference entitled "Research with Human Participants" an annual event.
- The Scientific Review submitting their final report and move forward to discontinue departmental review and create a process in the Human Research Protection Program (HRPP) for this review, eliminating real or perceived conflict.
- Recruiting of membership for the Community Oversight Board. The board is diverse with members representing health care providers, patient advocates, the State, the University and the non-profit community.

The May 2016 meeting included a full list of all accomplishments since the June 2015 Board resolution. Updates included the:

### **Department of Psychiatry**

- New department head, Dr. Sophia Vinogradov, starts July 31, 2016 and is already engaging with the University community.
- Department faculty have adopted new policies: requiring Good Clinical Practice (GCP) standards for all studies, implementation of a new checklist to ensure better collaboration with clinical staff, and a requirement that a treating clinician of a potential study participant cannot be involved in consent for a research study.
- The department has endorsed Clinical and Translational Science Institute (CTSI) management of all clinical trials and begun that transition.
- A full-time CTSI research project manager, already embedded in Psychiatry, is working with investigators on all aspects of design and execution of clinical trials.
- New accountability standards require that any problems identified with studies and not quickly corrected by the Principal Investigator are reported to the department head and then, if still not corrected, to the Vice Presidents of Health Sciences and Research.
- The department continues to work with the Center on Bioethics on recruitment and other ethical issues.

### **Internal Review Board (IRB)**

- Reconstituted to form eight medical committees, broadened membership to ensure adequate expertise, and implemented compensation for faculty participants.
- Revised the format of meeting minutes to ensure adequate documentation.
- Reviewed best practices of peer organizations.
- Began implementation of an electronic IRB to ensure better and faster review of study protocols.
- New monitors have been hired through the Post Approval Review function to increase and improve PAR monitoring.
- All psychiatric interventional drug trials were suspended and re-reviewed by an external IRB. Quorum IRB continues as the IRB of record for these trials.
- Implemented a policy stating the University will not recruit individuals or patients on a 72-hour hold.
- An external consulting firm, Compass Point Research, submitted a final report of their independent review of close to 100 IRB protocols for active studies. Overall, the report indicates that the University does not have a systemic issue with the conduct of clinical research.

### **New Oversight Structure**

- Research Compliance Office (RCO) – Effective as of October 2015, RCO has responsibility for conducting for-cause investigations to ensure separation from the IRB.
- Fairview University Research Oversight Committee (FUROC) – This committee is composed of leaders of the University and Fairview Health Services to ensure better communication about and oversight of research in Fairview facilities and involving Fairview patients and staff. The committee is co-chair by Brooks Jackson, Vice President of Health Sciences and Dean of the Medical School, and Beth Thomas, Chief Medical Officer of Fairview.
- Community Oversight Board (COB) – The COB was created to allow greater community input into research involving human participants at the University on ethics, community engagement, policies, communication and dissemination of research finding. The board is chaired by Paul Mattessich of Wilder Research and has a diverse membership representing health care providers, patient advocates, the University, the non-profit community.

- External Advisor – Dr. David Strauss continues reviewing progress with each work team and spent time on campus in March consulting and discussing accomplishments.

### **Education and Training**

- New “best clinical practices” training is in final stages of development and will be required in the Department of Psychiatry starting this summer.
- Needs assessment and gap analysis on Human Research Protections and Ethics training complete.
- New model for human research protection education coordination and enforcement approved.

### **Culture**

- Convened a national conference in December 2015 entitled, “Research with Human Participants: The National Debates.” This will be an annual event and include an educational component.
- Created language describing the University’s core ethical commitments. This statement is being discussed and published throughout the University, particularly within clinical and research units.

At the June 2016 meeting, the committee received an update on the following progress:

- The Engaging Research Participant work group is drafting the work area’s final report that adopts a systems approach, identifying expectations of researchers in engaging participants and the public as well as evaluating participant and public responses related to research. The recommendations focus on the informed consent process documents and the on-going engagement of research participants. The work group is in the process of finalizing participant contact cards for study coordinators to give to participants and their family members at each visit, and a participant feedback survey that will provide real-time feedback and trends about participant’s experience in research studies to University leadership, the Community Oversight Board (COB) and the public. Feedback from participants and the public will also help inform education and training for investigators and their study teams. The work group is also finalizing recommendations about the dissemination of research results to participants and the broader public.
- The COB held its second quarterly meeting on May 12, 2016. Key agenda items included the Compass Point Report, the Department of Psychiatry Assessment Report and CTSI Management Plan and the composition of the board.
- Progress continues with changes to the IRB structure and process improvements. IRB member assignments for four of the eight planned biomedical panels have been finalized and will start in July. Additional member orientation meetings and training sessions were held during in May.

At the September 2016 committee meeting, the update included the following:

- Overall, the work remains on schedule. The implementation teams have completed their reports and moved into the operationalization phase. Progress on operationalization is being monitored. Work areas remain engaged with key faculty stakeholders and work is consulted broadly to ensure engagement and adoption of the changes.
- Eight IRB medical panels have been recruited and will provide more rigorous and timely reviews. Policies and supporting documents under “Human Research Participants Who Have Impaired or Fluctuating Capacity to Consent” have also been released.

- The IRB developed new policies and procedures to establish requirements for assessing capacity to consent to research and to promote the protection of potentially vulnerable participants.
- HRP-110 “Research Involving Adults with Absent, Diminished, or Fluctuating Capacity to Consent to Participate in Research” establishes requirements for investigators enrolling these types of adults. This includes the requirement that one of the following validated tools be used to assess capacity to consent in research studies: MacArthur Competence Assessment Tool for Clinical Research (MacCAT-CR) for greater than minimal risk research; or UCSD Brief Assessment of Capacity to Consent (UBACC) for minimal risk research.
- HRP-111: Research Involving Adults under Court Jurisdiction establishes conditions under which potential subjects may not be enrolled in any psychiatric drug, device, or biological trial, including adults under a hold, including those subject to a commitment petition and/or temporarily confined involuntarily under 72-hour emergency holds, “intent to leave” periods, or detainment under a Peace Officer/Health Officer Authority.
- Policy HRP-403C reflects two changes to Minnesota law effective August 1, 2016:
  1. The first change prohibits investigators from enrolling a patient on an involuntary hold (72- hour emergency admission hold, peace officer transport hold, or court apprehend and hold order) into any clinical drug trial. This change extends IRB policy that has, since 2015, prohibited enrolling patients on an involuntary hold from being enrolled in any psychiatry clinical drug, device, or biological trial.
  2. The second change requires investigators in the Department of Psychiatry conducting clinical drug trials to notify the Minnesota Ombudsman for Mental Health and Disabilities within 24 hours of a research participant’s death or serious injury. The Ombudsman has authority to recommend actions to the University to prevent a recurrence of deaths; receive and investigate complaints from any source related to an individual’s participation in a psychiatric drug trial and recommend actions to the University; and monitor psychiatric drug trials to assure the protection of participants.
- An online, interactive course, “Assessing Capacity to Consent to Research,” has been developed to support the education and training needs of the research and IRB community in the adoption of the new policies and procedures. The course was vetted by University stakeholders including the Center for Bioethics, Department of Psychiatry, and Paul Appelbaum, MD, co-author of the MacArthur Competence Assessment Tool for Clinical Research.

At its February 2017 meeting, the committee received a summary of the completed 18-month implementation, including these areas of progress:

- New leadership in the department of psychiatry, with Dr. Sophia Vinogradov joining the University in July 2016.
- Expanded Institutional Review Board (IRB) panels, including eight medical panels and two social behavioral panels, totaling more than 80 members with expertise in psychiatry, pediatrics, and oncology research.
- Professional training provided to researchers and their staff, including the Consortium on Law and Values’ annual ethics conference and training to facilitate implementation of new requirements associated with enhanced consent protections.
- Newly implemented checklists, worksheets, and tools to provide transparency to the community of researchers.
- Expanded oversight and post-approval review activities to monitor and support compliance.
- The University will have fully integrated to a new electronic IRB system with new efficiencies and more transparent communication between researchers and the IRB. The system is undergoing usability testing and is on track for formal launch in March 2017.

Ancillary Review Matrix				
NUMBER	DATE	AUTHOR	APPROVED BY	PAGE
HRP-309	3/27/17	L. Anderson	D. Dykhuis	1 of 5

### Ancillary Reviews Matrix

Ancillary reviews may inform the IRB’s review of a new study or a modification to an existing study. The table below highlights the ancillary reviews available to assign in ETHOS, the circumstances the trigger these reviews and the impact on the review or issuing final approval for a study.

Organization	Review type	Investigator Prompt	Analyst Action Triggered by	Submission types affected	Public or Private Ancillary Review	Response Required	Hold Review, Pre-Review Request for Clarifications	Hold Approval
<b>CTSI</b>	Ct.gov registration compliance	Smartform	If response to question 2 on study scope page is “NO”	New studies only	Public	<b>Yes</b>	No	Yes
<a href="#">OnCore</a>	OnCore registration compliance	Smartform	If response to question 2 on study scope page is “No” or “I don’t know”	New studies only	Public	<b>Yes</b>	No	Yes
<b>Office of Institutional Compliance</b>	Conflict of Interest	Smartform	Indication that any study team member affiliated with the University of Minnesota has a conflict of interest	New studies Modifications CRs	Public	<b>Conditional</b> <b>Yes</b> if no management plan. <b>No</b> if a management plan provided	No	Yes
<b>AURPC</b>	Radiation Safety	Protocol or supplement	Protocol indicates use of: x-ray imaging, radiopharmaceuticals, external beam or brachytherapy)	New Studies	Public	Yes if documentation of AURPC approval not provided. No if documentation of AURPAC	Yes if missing documentation	Determined by ancillary review feedback

Ancillary Review Matrix				
NUMBER	DATE	AUTHOR	APPROVED BY	PAGE
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						approval provided		
<b>Gillette</b>	Gillette Compliance	Smartform	When Gillette staff, locations or resources are indicated on the ETHOS smartform or in protocol (see PI affiliation, study staff and sites and resources pages)	New studies Modifications if adding Gillette staff/resources	Public	<b>Conditional</b> Yes if no documentation of Gillette Approval provided. No documentation of Gillette approval provided	Yes	n/a
<b>Fairview</b>	Fairview Compliance – billing compliance, recruitment, IDS compliance	Smartform	When Fairview/ MHealth staff, locations or resources are indicated on the ETHOS smartform or in protocol (see PI affiliation, study staff and sites and resources pages)	New studies Modification RNI Continuing Review	Public	Yes	Yes	n/a
<b>Regulatory Review</b>	Drug/Device Guidance	Smartform	All studies involving drugs or devices.	New studies. Modifications proposing significant changes to the protocol. RNIs that trigger FDA correspondence	Public	Yes	1. Yes 2. Yes 3. Conditional	Yes
<b>Health Information and Privacy</b>	HIPAA compliance	Protocol or Site Supplement	Protocol indicates use of Individually Identifiable Health	New studies	Public	Yes	In most cases, no, unless	Yes

**Ancillary Review Matrix**

NUMBER	DATE	AUTHOR	APPROVED BY	PAGE
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			Information, including Protected Health Information (PHI)				communicated otherwise by the Privacy Office.	
<b>Cancer Protocol Review Committee</b>	Protocols related to cancer	Protocol or Site Supplement	Protocol description	New studies Modifications proposing changes to the study design, study endpoint(s) or the statistical method	Public	Conditional – Yes if submitted without documentation of CPRC approval. No if documentation of approval is provided	Yes	n/a
<b>CMRR Safety Committee</b>	CMRR Safety Approval	Smartform	UMN Center for Magnetic Resonance Research (CMRR) selected on the sites and resources page of the smart form	New Applications. Modifications which add CMRR	Public	Yes – if lacking documentation of safety committee approval – NO if documentation provided	No	Yes
<b>CTSI</b>	AHC-IE Oversight	Smartform	Yes to question 3 on Sites and Resources page, “Are you utilizing data from the Academic Health Center Information Exchange (AHC-IE)	New Applications. Modifications to approved studies utilizing data from AHC-IE	Public	Conditional – if analyst has concerns about appropriate access.	No	Yes

<b>Ancillary Review Matrix</b>				
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<b>IBC</b>	IBC Oversight rDNA Advisory Committee	Protocol or Site Supplement	Protocol indicates use of: Potential biohazards including recombinant and synthetic nucleic acid, human gene transfer, biologically-derived toxins or infectious agents  Biologically-derived toxins (including truncated or mutated toxins)  Infectious agents (bacteria, viruses, protozoans, fungi)	New Applications	Public	Yes – if documentati on of IBC approval is not provided.	Yes	
<b>CTSI</b>	BioNET Oversight	Protocol or Site Supplement	When use of specimens from BioNET is indicated in the protocol	New applications Modifications to the protocol that adds new additional specimens	Public	Yes – if there are questions regarding legitimate access	No	Yes
<b>HRPP Scientific Assessment</b>	Research Design, Merit	Smartform- Supporting Documents	When supporting documents	New applications or substantial modifications	Private	Yes	Yes	n/a
<b>Research Compliance Office</b>	Oversight	None	External to the smartform and protocol	Any	Private	No	n/a	n/a

**Ancillary Review Matrix**

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<b>Post Approval Review Program</b>	Oversight	None	External to the smartform and protocol	Any	Private	Yes-if related to SAV No-in general	n/a	n/a
<b>Vulnerable Populations Expert Consult</b>	Consultation Service	SAV Instrument	Analyst/Manager/chair questions about SAV score	Primarily new applications but could be any submission	Private	Yes	Yes	n/a
<b>Expert Consult</b>	Consultation Service	Study-by-study basis	Analyst/Manager/chair think additional expertise is needed	Primarily new applications but could be any submission	Private	Yes	Yes	n/a



# BOARD OF REGENTS DOCKET ITEM SUMMARY

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**Audit & Compliance**

**June 8, 2017**

**AGENDA ITEM:** Information Items

**Review**

**Review + Action**

**Action**

**Discussion**

*This is a report required by Board policy.*

**PRESENTERS:** Gail Klatt, Chief Auditor

## **PURPOSE & KEY POINTS**

The purpose of this item is to deliver the semi-annual Controller’s Report.

### **Semi-Annual Controller’s Report**

The semi-annual Controller’s Report provides information regarding recent activities in University financial operations 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. Highlights include:

- An update on the new travel and expense system project.
- A summary of the external review of the University’s management of the Payment Card Program and Payment Card Industry Data Security Standards (PCI DSS) Compliance practices.
- An overview of the implementation of the pre-paid debit card program, new reporting tool, and selected process improvements.
- A discussion of new accounting and reporting standards issued by the Governmental Accounting Standards Board (GASB), which the University has not implemented at this time. The administration is working to determine whether these standards apply to the University, as well as the likely effects on the University’s accounting and reporting.

## **BACKGROUND INFORMATION**

The Controller’s Report is prepared semi-annually and presented to the Audit & Compliance Committee in conformance with Board of Regents Policy: *Board Operations and Agenda Guidelines*.

**University of Minnesota  
Board of Regents Audit Committee  
Semi-Annual Controller's Report  
June, 2017**

During the last six months, the Controller's Office has continued our work to maximize the institution's financial resources and enhance financial operations. This report presents a summary of activities completed to enhance internal controls, assess and implement new accounting and reporting standards, and better manage financial risks

**I. Activities to enhance internal controls, better manage financial risks, reduce costs, and improve services to the University community**

***Travel and Expense System Implementation***

The travel and expense system project altered its implementation plan from a single go-live date to a phased rollout. The team will create one best-practice path through the entire travel process using new tools and integrating them with PeopleSoft. This provides maximum flexibility for people to choose to enter/exit the procedures and tools at key points. The phased approach allows for a limited release with targeted groups beginning to use the new tools and redesigned procedures as soon as they're available. Processes and tools will be designed to enhance efficiency, maximize the traveler experience, and create a model for the rest of the University. Subsequent phases will include broader rollout of the new tools and redesigned procedures including comprehensive review and redesign of policy.

This project was chartered as a result of the Administrative Services Benchmarking and Diagnostic Study completed in June 2013. The implementation project began in October 2016 and will finish its work in 2018.

***Payment Card Program and Payment Card Industry Data Security Standards (PCI DSS) Compliance***

For the second consecutive year, an external review of the University's compliance with PCI DSS showed all requirements to be in place or not applicable to the University.

Annually, 110 University departments accept 3,437,000 payment card transactions (Visa, MasterCard, Discover, and American Express) for the payment of goods and services, totaling \$154,650,000 in revenue. The ability to accept payment cards is a valuable tool for University departments but it also creates risk. Payment card information represents valuable data that can be exploited to create fraudulent transactions or for identity theft.

While this result is an important achievement, it is only part of the University's payment card and compliance program. Threats, technology, and the PCI DSS requirements themselves are continually changing and the University and departments that accept payment cards must stay vigilant in order to minimize the risk of a data breach and its associated costs.

This assessment was conducted the week of November 14, 2016 and the week of January 30, 2017. The completed report was received in March 2017.

### ***Pre-Paid Debit Card Program***

Purchasing Services, in collaboration with research study coordinators, successfully rolled out a prepaid debit card program. The reloadable prepaid card is available to a limited number of research study coordinators as a payment option for study participants beginning February 2017. The card offers a faster and safer method of paying study participants and provides an alternative to checks, gift cards and petty cash. The benefits include: direct on-site disbursement to study participants; reduced payment administration; improved funds workflow security and approval; enhanced processing, tracking, and reporting; increased participant retention; and central accounting and tax reporting support. A system-wide rollout and exploration of expanded uses of the debit card program is planned for summer 2017.

### ***Financial Reports***

In May 2017, Finance released the UM Analytics versions of the *Account Budget Status* and *Transaction Detail* reports for targeted use. Collegiate finance leadership and their designees are testing use of the reports in their day to day activities for a complete business cycle and will provide feedback prior to a broader system-wide roll out. The new report versions represent Finance's first release of reports in the new reporting tool, UM Analytics. This is the first step toward the future conversion of over 50 financial reports and creation of new financial reports and dashboards based on consumer need. This collaboration by finance leaders in central units, colleges, system-wide report consumers, and the Office of Information Technology created better, more efficient financial reports with additional functionality, for generating and viewing reports or exporting the data.

### ***Sponsored Financial Reporting (SFR) Process Improvements***

#### ***Electronic Approvals on Sponsor Invoices and Reports***

In January 2017, to further streamline its paperless process, SFR accountants implemented an electronic process for managers to review and sign invoices and reports to be sent to sponsors. On average, the unit processes 1,300 invoices/reports a month. The new process saves 108 hours per month.

#### ***Non-Sponsored Accounts Receivable Process Improvements***

During this past fiscal year, Accounts Receivable Services worked with Office of the Vice President for Research and the Office for Technology Commercialization (OTC) to convert OTC's accounts receivable and billing activity to the Enterprise Financial System (EFS).

The mission of OTC is to facilitate the transfer of University research to licensees for development of new products and services that benefit the public good, foster economic growth and generate revenue to support the University's research and education goals. OTC bills licensees for reimbursement of patent related expenses and for licensing fees and royalties.

OTC now uses the centralized invoicing and cash handling processes. Invoices are generated from EFS, all check payments are directed to the bank lockbox, and EFT payments have been consolidated into a single bank account. Revenue and AR transactions are booked to the EFS General Ledger at the time of invoicing. This has resulted in more accurate and timely revenue and receivables reporting for the University's financial statements; improved internal control and segregation of duties over cash receipts; more timely deposit; improved tracking and reconciling of EFT payments; and streamlined processing of invoices, many of which are automatically e-mailed to licensees from EFS.

Overall this change will improve the quality of financial information, save time and effort in tracking receivables and collecting payments, and allow OTC staff to focus on its core mission of technology commercialization and relationship with licensees.

## **II. Accounting and Financial Reporting Matters**

The Governmental Accounting Standards Board (GASB) issued the following accounting and reporting standards. Management is in the process of determining if they apply to the University and if so, what impact they may have. These standards and the related implementation dates are explained below.

- In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68 (GASB 68), and Amendments to Certain Provisions of GASB Statements 67 (GASB 67) and 68*. This establishes requirements for defined benefit pensions that were not within the scope of GASB 68, as well as for assets accumulated for providing those pensions. It establishes requirements for defined contribution pensions that are not within the scope of GASB 68. It also amends certain provisions of GASB 67 and GASB 68 for pension plans and pensions that are within their respective scopes. The provisions of GASB 73 that address employers and governmental non-employer contributing entities for pensions that are not within the scope of GASB 68 are effective for fiscal year ending June 30, 2017. The remaining provisions were effective for fiscal ended June 30, 2016.

Management is still determining the remaining impact this statement will have on the University. We anticipate the impact of GASB 73 to involve further refinement to the existing pension footnote disclosure for defined contribution plans.

- In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This replaces the requirements of two existing standards (GASB 45 and 57). It establishes new requirements for governments whose employees are provided with other postemployment benefits (OPEB), and for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This statement is effective for the fiscal year ending June 30, 2018.
- In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This amends the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of*

*GASB Statement No. 27*, to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meet three criteria: 1) not a state or local governmental pension plan; 2) used to provide such pensions to both employees of state or local governments and non-state or non-local governments; and 3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). Due to this exception, GASB 78 establishes the requirements for recognition and measurement of pension expense, liabilities, note disclosures, and required supplementary information for these plans. This statement is effective for the fiscal year ending June 30, 2017.

GASB 78 applies to the University's federal retirement plans: Civil Service Retirement System (CSRS), Civil Service Retirement System Offset Retirement (CSRS Offset), and Federal Employees Retirement System (FERS). The impact related to GASB 78 is limited to refinement to the existing pension footnote disclosure and required supplementary information (RSI).

- In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*. This amends the blending requirements for the financial statement presentation of component units established in GASB Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the University would be a sole corporate member. This statement is effective for the fiscal year ending June 30, 2017.

The University has a newly formed entity, Minnesota Global, to report as a blended component unit in addition to RUMINCO. GASB 80 provides the guidance to direct this blended component unit designation. As a result of being a blended component unit, additional footnote disclosures are necessary, including a condensed statement of net position; statement of revenues, expenses, and changes in net position; and statement of cash flows.

- In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This requires the University to recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement, if it receives resources from an irrevocable split-interest agreement (used by donors to provide resources to two or more beneficiaries). The University would also be required to recognize assets representing beneficial interests in such agreements when administered by a third-party, if the University controls the present service capacity of the beneficial interests. This statement is effective for the fiscal year ending June 30, 2018.
- In March 2016, the GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. This addresses issues related to three areas: 1) presentation of payroll-related measures in required supplementary information; 2) selection of assumptions and treatment of deviations from guidance in an Actuarial Standard of Practice for financial reporting; and 3) classification of payments made by employers to satisfy employee (plan member) contributions requirements. The provisions related to payroll related measures and classification of payments related to required contributions are effective for fiscal year ending June 30, 2017. The provisions for actuarial assumptions are effective for the fiscal year ending June 30, 2018.

Management is still determining the impact this statement will have on the University, but we anticipate no impact to the University's financial statements.

- In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This addresses certain asset retirement obligations (AROs), a legally enforceable liability associated with the retirement of a tangible capital asset. It establishes the criteria for recognition of a liability and corresponding deferred outflow of resources, as well as requiring disclosure of information related to AROs. This statement is effective for the fiscal year ending June 30, 2019.
- In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This establishes criteria for identifying when (1) the University is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria apply to fiduciary component units and postemployment benefit arrangements. An activity meeting the criteria will require the University to present a statement of fiduciary net position and a statement of changes in fiduciary net position. GASB 84 also provides guidance on recognition of a liability to the beneficiaries in a fiduciary fund when the University is obligated to disburse fiduciary resources. This statement is effective for the fiscal year ending June 30, 2020.
- In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. This addresses practice issues identified during the implementation and application of certain GASB Statements. It addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. This statement is effective for the fiscal year ending June 30, 2018.