



Audit & Compliance Committee

June 2018

June 7, 2018

11:00 a.m. - 12:30 p.m.

West Committee Room, McNamara Alumni Center

AUD - JUN 2018

1. 2018-19 Internal Audit Plan

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BOARD OF REGENTS DOCKET ITEM SUMMARY

Audit & Compliance

June 7, 2018

AGENDA ITEM: 2018-19 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 2019 includes 34 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 INFORMATION

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 2019
INTERNAL AUDIT ANNUAL PLAN**

PURPOSE OF THE ANNUAL PLAN

The annual internal audit plan is intended 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 reported concerns.

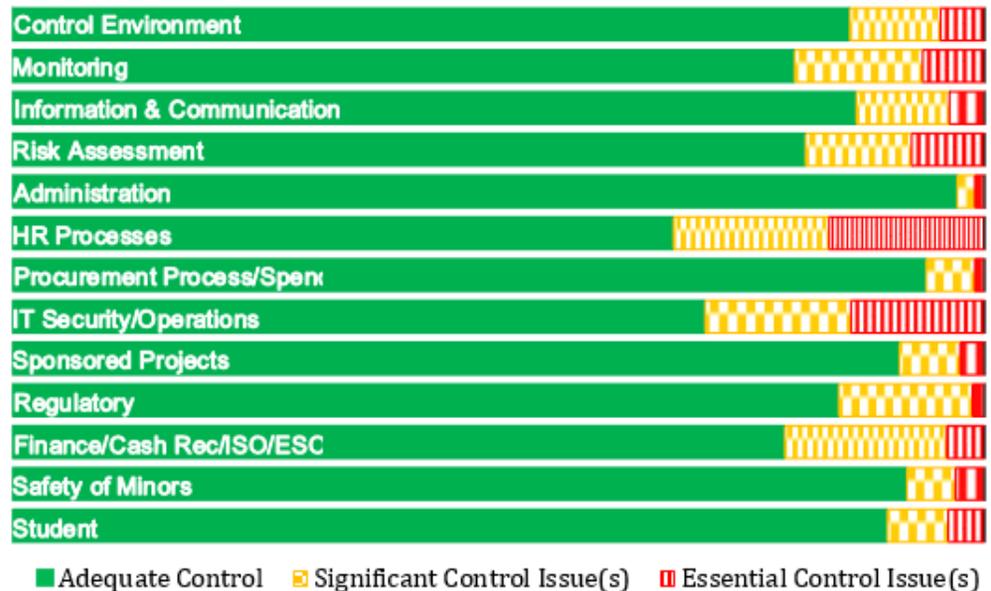
The plan also includes information that demonstrates our accountability for our resources and our ongoing efforts to continually improve the University's internal audit program.

RECAP OF FY18 INTERNAL AUDIT RESULTS

Our audit planning begins with a review of past audit coverage and results. Appendix A recaps the audits completed in FYs 16-18 and the resulting overall control assessment for each. 83% of the audits completed in FY 18 had satisfactory results. 9% of the activities audited were determined to need improvement in their risk management and control environment.

The Overall Control Evaluation is a composite of all of the control evaluations resulting from audits completed in FY 18. It reflects the state of the internal control environment based on the audit work performed.

Overall Control Evaluation



DEVELOPMENT OF THE FY 19 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 survey other research universities regarding the assessment of risks within their institutions.

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

Regulatory Agencies: The majority of the audit work undertaken by the Inspector Generals of the National Institute of Health (NIH) and the National Science Foundation (NSF) for FYs 16 and 17 have focused on sub-recipient monitoring and incurred costs. Recent sub-recipient monitoring audits have focused specifically on international sub-recipients. The NSF continues to carry out sponsored funding expense audits using its intensive data analytics approach.

Research Universities: While campus safety and sexual misconduct continue to be noted as significant risks by some of the research universities surveyed, other risks were more commonly identified. These included leadership transitions, declining or unstable state support, cybersecurity, decentralization, and reputation.

Internal Risk Assessment

We held discussions with 61 institutional officials from 34 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 continued direction to cut administrative costs now impacting core academic activities, 2) shifting enrollment patterns and increasing costs straining financial viability for some units, 3) uncertainty surrounding MHealth and other clinical partnerships as well as healthcare disruption in the marketplace, 4) space constraints that preclude additional expansion of enrollment and faculty hires, 5) ongoing concerns about reliability and use of HR data, and 6) major IT initiatives and ongoing work to improve coordination of distributed IT support.

Operational Risk Assessment

Our annual planning process includes re-examining the University's "audit universe" to ensure that all University activities are considered when determining how audit resources can best 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 considered in prioritizing institutional activities include:

- 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 24 are considered to be high-risk, 99 moderate-risk, and 53 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.

Finally, we utilized the recently completed Institutional Risk Profile extensively to assess the relationship of individual University activities to the 21 identified risks included in the Profile.

ALLOCATION OF AUDIT RESOURCES

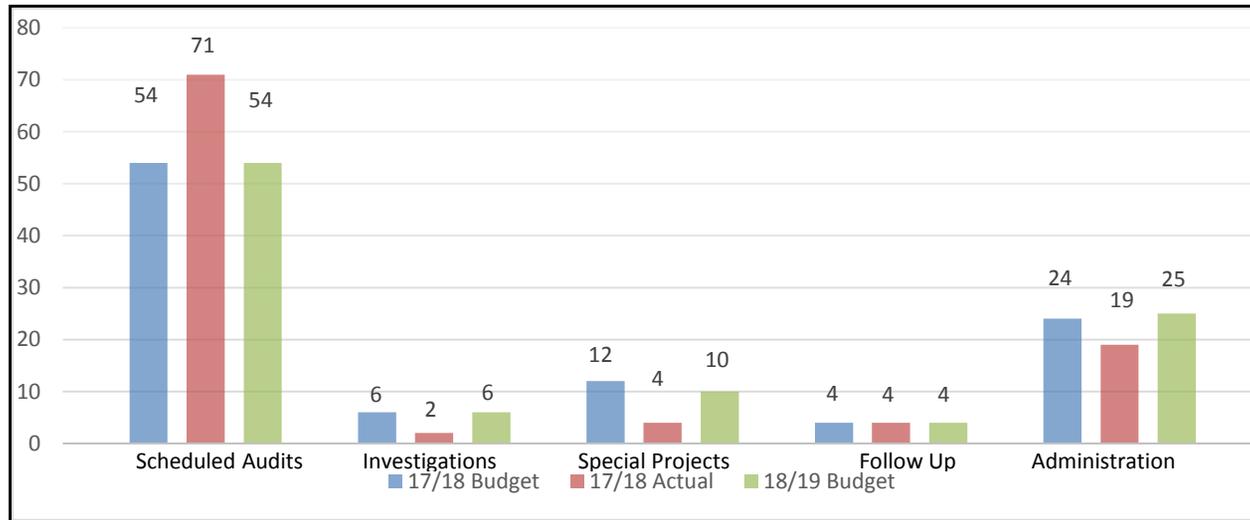
The audit plan is based on a planned staffing complement of 15.75 FTE professionals.

Approximately 55% of the Office of Internal Audit’s resources are committed to the completion of planned audit projects. This year 2% of those resources will be needed to complete carry-over work from our FY 2018 audit plan. Eight audit projects are currently in process and will be reported in FY 2019.

The remainder of our FY 2019 audit resources is reserved as follows:

- 10% has been reserved to accommodate requests from the President, the Board, or members of the senior leadership team. This has been supported by the Audit 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.
- 25% 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 2018 AND FY 2019
Percent of Available Time



OVERALL RISK ASSESSMENT AND IMPACT ON THE FY 2019 AUDIT PLAN

In FY 2018 our audit plan focused on activities that had a direct impact on the student experience and affordability, cost containment, effectiveness of governance, athletics, and information security.

In addition to maintaining audit coverage of University units, the **proposed audit plan for FY 2019** was significantly informed by the work and discussions surrounding the development of the Institutional Risk Profile and the resulting risk mitigation plans. The audit plan includes activities that have a bearing on 14 of the 21 institutional risks included in the Profile. Audits will continue to focus on opportunities for cost containment/reduction and revenue enhancements.

PROPOSED FISCAL YEAR 2019 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 2019 includes the following:

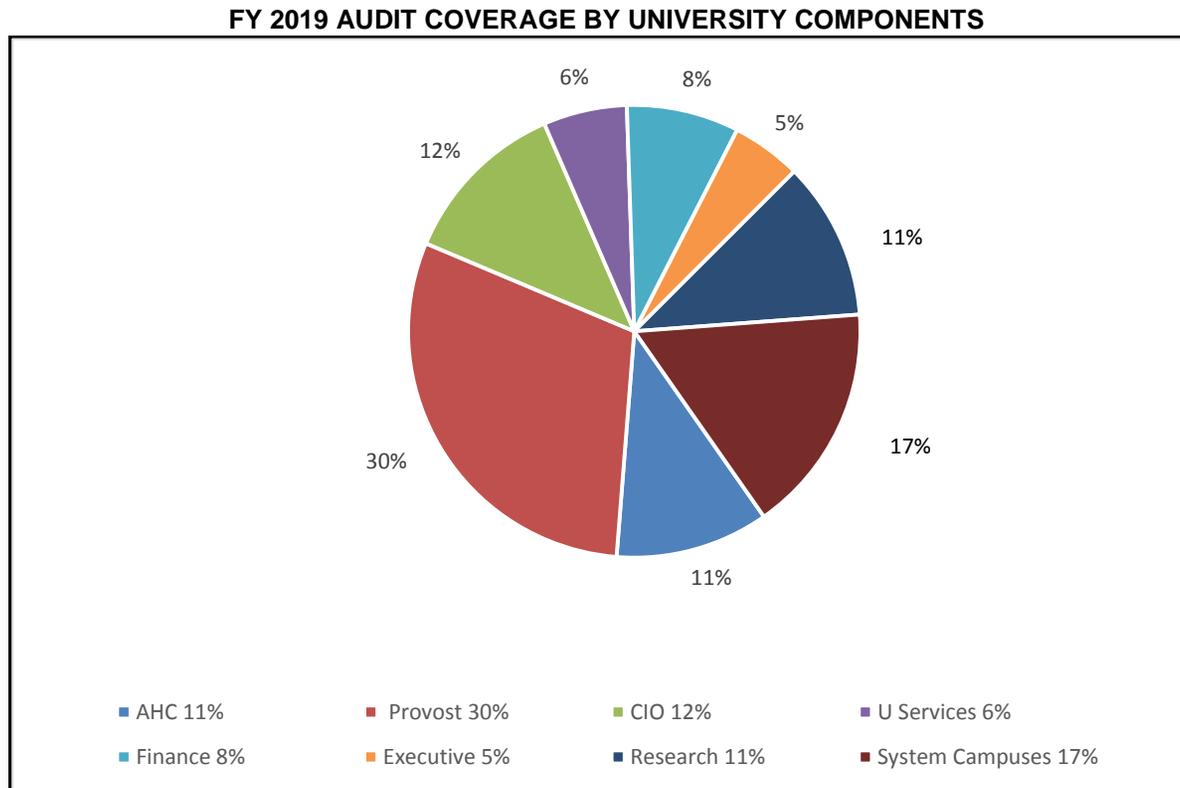
Unit Audits		Process Audits	
High Risk		High Risk	
Investments and Banking	SVP-CFO	Advancing Human Research Protection #3	VP-Research, VP-AHC
Athletics TBD	President	OIT Account Management	SVP-CIO
Public Safety IT	SVP-University Services	Disaster Recovery/Operation Continuity/Crisis Mgmt	System Wide
Psychiatry	VP-AHC/EVPP	Close Out of Fixed Price Awards	System Wide
Facilities Management Districts	SVP-University Services	Residency Determination	System Wide
Moderate Risk		Moderate Risk	
Mechanical Engineering	EVPP	Hospitality	System Wide
Physics and Astronomy	EVPP	Hospitality #2	System Wide
Office of Technology Commercialization	VP-Research	Controlled Substances	System Wide
MN Extension Services	EVPP	Consulting/External Activities - ROCs/REPAs	EVPP/President
University Libraries	EVPP	Travel Expenses	System Wide
Vet Med Admin	EVPP	Office of Community Standards	EVPP
UMD Student Life Administration	UMD Chancellor	NCAA Compliance Sport	OGC/Athletics
University of Minnesota Crookston	UMC Chancellor	Gift Testing	System Wide
OIT Business Office	SVP-CIO	Mental Health Investments	System Wide
CFANS Cluster	EVPP		
UMD Stores	UMD Chancellor		
UMD Admissions	UMD Chancellor		
Low Risk			
Obstetrics and Gynecology	VP-AHC/EVPP		
Weisman Art Museum	EVPP		
UMD School of Fine Arts	UMD Chancellor		

The proposed audit plan includes 14 process audits (41%) and 20 unit-based audits (59%). Eight (57%) of the process audits will involve unit-level audit testing.

The proposed audit plan as shown above also includes significant coverage of selected risks included on the recently created Institutional Risk Profile.

	FY 19	FY 18	FY 17
Clinical Partnerships			
Collaboration w/ Externalities & Joint Ventures	X		X
Decentralization	X	X	X
Employee Demographics / Succession Planning			
Facilities – Maintenance, Scope, & Alignment	X		
Faculty Retention			X
Information Technology – Security / Failure / Resilience / Cost	X	X	X
Intercollegiate Athletics	X	X	X
International Activities		X	X
Legal & Regulatory Compliance	X	X	X
New & Disruptive Educational Models			
Public Funding Reliability, Economic Climate & Financial Sustainability	X		
Representational Diversity			
Shifting Enrollment Patterns	X		X
High Risk Research	X	X	X
Research or Clinical Misconduct	X	X	X
Brand & Reputation Management	X	X	X
Campus Safety	X	X	
Campus Climate & Free Speech			
Crisis Management	X		
Sexual Misconduct – Prevention, Training, & Response	X		

The FY 2019 plan continues to provide well-balanced coverage across the University. The following chart shows the distribution of audit coverage by University component for FY 2019, based on the number of hours allocated to each component.



The proposed FY 2019 internal audit plan rationally allocates the University’s finite audit resources to a well-balanced portfolio of audits that 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.

INDEPENDENCE

The Office of Internal Audit's Charter, approved by the Chair of the Audit and Compliance Committee in 2017 states "To provide for the independence of the Office of Internal Audit, the Board of Regents delegates directly to the Chief Auditor the authorities necessary to perform the duties set forth in the mission and scope of work. Additionally, the Chief Auditor 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.

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, LLP in the areas of investments, annual external financial reporting, and RUMINCO (the University's captive insurance company). Deloitte, 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.

COORDINATION WITH OTHER INTERNAL UNIVERSITY 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 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 conducted during audits with the Compliance Officer. During fiscal year 2018, a total of 2,348 employee surveys were sent out as part of our audit process, with a 69% response rate. Along with the Office of Institutional Compliance, we serve on the triage team for managing UReport, the University's anonymous hotline. During the last year the Institutional Compliance Office has begun completing compliance risk assessments. We are working with the Office to ensure that duplication does not occur between the risk assessments and audits. Both offices are committed to sharing information and leveraging each other's work as appropriate, to optimize the resources of both of the offices as well as those of the operational units involved.

Audit results are also shared with central support units such as the Office of Information Technology, Sponsored Projects Administration, Payroll, Controller’s Office, 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.

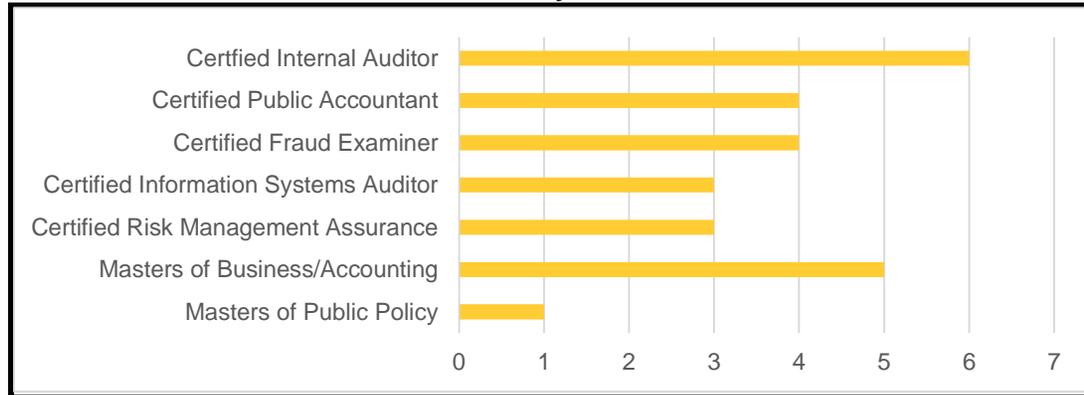
STAFF DEVELOPMENT, QUALIFICATIONS AND PROFESSIONAL INVOLVEMENT

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 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 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) provide 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 three of the professional internal audit staff are professionally credentialed or hold advanced degrees, and two of those are in the process of obtaining credentials. The number and combinations of certifications held by staff demonstrate a high-level of competency in the skills needed to provide quality audit work in the University’s complex environment.

Certifications Held by Internal Audit Staff



In the first 10 months of FY 2018, the Office of Internal Audit provided over 1,400 hours of formal and informal training (an average of 88 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 2019, 960 hours have been budgeted for formal staff training, an average of over 60 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 6% turnover (one position) in FY 2018. This is less than our normal turnover rate of 13%. In addition one position turned over in late FY 17, after our last annual report.

OFFICE OF INTERNAL AUDIT BUDGET STATUS

The Office of Internal Audit received preliminary funding for a 2.0% compensation increase, consistent with the administration's expected pay plans. The Office's overall budget was reduced by \$16,000 as part of the administrative cost reduction initiative.

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

FY 2018 AUDIT PLAN COMPLETION

For FY 2018, we will have issued 31 audit reports which were the result of planned reviews and requests from management

(See Appendix B).

In addition,

- Eight audits are currently in the planning or fieldwork stages and will be completed in FY 2019.
- One audit was deferred to FY 2019.

During the past fiscal year we conducted six 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.

AUDIT ASSESSMENTS FY 16-18

APPENDIX A

Academic	Finance	Information Technology	System Campuses	Human Resources	Student	Other
Fiscal Year 2018						
<ul style="list-style-type: none"> ● CEMS ● CCAPS ● CEHD ● IMA ● Neurosurgery ● School of Math ● School of Nursing ● Radiology and CMRR 	<ul style="list-style-type: none"> ● Consulting Contracts ● Sponsored Financial Reporting ○ Utilize Fed/State Procure Contract 	<ul style="list-style-type: none"> ● ETHOS ■ School of Public Health IT ● University Information Security 	<ul style="list-style-type: none"> ● UMD Housing & Residential Life ● UMD NRRI ● University of Minnesota Morris 	<ul style="list-style-type: none"> ■ FMLA 	<ul style="list-style-type: none"> ◆ Admissions ● GPS Alliance 	<ul style="list-style-type: none"> ● Faculty Start Ups ● NCAA - Volleyball ● Public Safety
Fiscal Year 2017						
<ul style="list-style-type: none"> ◆ School of Dentistry ● Epidemiology ● Surgery ■ College of Biological Sciences ● CFANS Financial Cluster ■ Earth Science ● MN Geological Survey ● CLA 	<ul style="list-style-type: none"> ● Pcard ● Vendor Payment ● Accounts Receivable Services 	<ul style="list-style-type: none"> ● PCI Compliance ● PeopleSoft IT ◆ Athletics IT ● Auxiliary Services IT 	<ul style="list-style-type: none"> ◆ UMD Undergrad Tuition Waiver ● UMD Swenson Science/Eng. 	<ul style="list-style-type: none"> ◆ OHR Operations 	<ul style="list-style-type: none"> ● Undergrad Intl. Admissions ● Campus Solutions Upgrade ● McNamara Academic Center 	<ul style="list-style-type: none"> ● Sponsored Trans./Subawards ■ CUHCC ● MN Vikings Close Out ● Export Controls ● Advancing HRP
Fiscal Year 2016						
<ul style="list-style-type: none"> ● CSE Deans Office ● CFANS Deans Office ● College of Pharmacy ● College of Design ◆ Law School ● Department of Medicine ● Cancer Center ● ECE 		<ul style="list-style-type: none"> ● OIT Database Admin 	<ul style="list-style-type: none"> ■ UMD Athletics ◆ UMD CEHSP 			<ul style="list-style-type: none"> ● OLA ENRTF ● CTSI ◆ Athletics Administration ◆ Boynton Health Services ■ Basketball ◆ Athletics Finance & Operations
<div style="border: 1px solid black; padding: 5px; display: inline-block;"> <ul style="list-style-type: none"> ● Good ■ Adequate ◆ Needs Improvement </div>						

STATUS OF FY 2018 AUDIT PLAN

APPENDIX B

Audits Completed

Audits Expected to be Completed in FY 18

High Risk

- Accounts Receivable Services
- Review of Select Adv Human Research Protection Items FY 17
- Sponsored Financial Reporting
- School of Public Health IT
- University Information Security
- NCAA Sport Compliance Review - Volleyball
- College of Education and Human Development
- Global Programs & Strategy Alliance

High Risk

- Athletic Executive and Senior Staff Expenses

Moderate Risk

- Humphrey School of Public Affairs
- Bookstores
- Executive and Regents Expenses
- Scholarships and Fellowships

Moderate Risk

- UMD NRR I
- Admissions
- School of Mathematics
- Institute for Mathematics and its Applications
- Department of Radiology/CMRR
- UMD Housing
- Chemical Engineering & Materials Science/MRSEC
- School of Nursing
- University of Minnesota Morris
- Family Medical Leave Act
- Consulting Contracts
- Utilization of Federal and State Procurement Contracts
- College of Continuing and Professional Studies
- Department of Public Safety
- ETHOS

Audits Started in FY18 but will be Completed in FY19

High Risk

- Review of Select Adv Human Research Protection Items FY 18
- Academic Health Center Information Systems

Moderate Risk

- Athletics Compliance Office
- UMD Police
- Employment Eligibility Verification
- Destiny One

Low Risk

- Department of Neurosurgery
- System-Wide Audits/Reviews**
- Review of Faculty Retention, Set-Ups & Awards
 - Testing of UMF Transactions FY 17

System-Wide Audits/Reviews

- Testing of UMF Transactions FY 18
- Board of Regents Compliance with Operational Policies

SNAP Audits to be Finalized

- Non-Recurring Lump Sum Payments
- Augmentations
- Vacation Reporting
- Background Checks
- Inaccurate Reports-To and Unapproved Absences
- Workers Compensation
- Inaccurate Faculty/P&A Retirement Plans
- Minimum Wage
- 1098-T Reporting
- Work Study

Audits Deferred and in 2019 Audit Plan

- OIT Account Management

2019 Internal Audit Plan

Office of Internal Audit

Board of Regents Audit and Compliance Committee
June 7, 2018



UNIVERSITY OF MINNESOTA

Driven to DiscoverSM

Topics

- FY 2018 Audit Results
- Risk Assessment and Plan Development
- FY 2019 Audit Plan

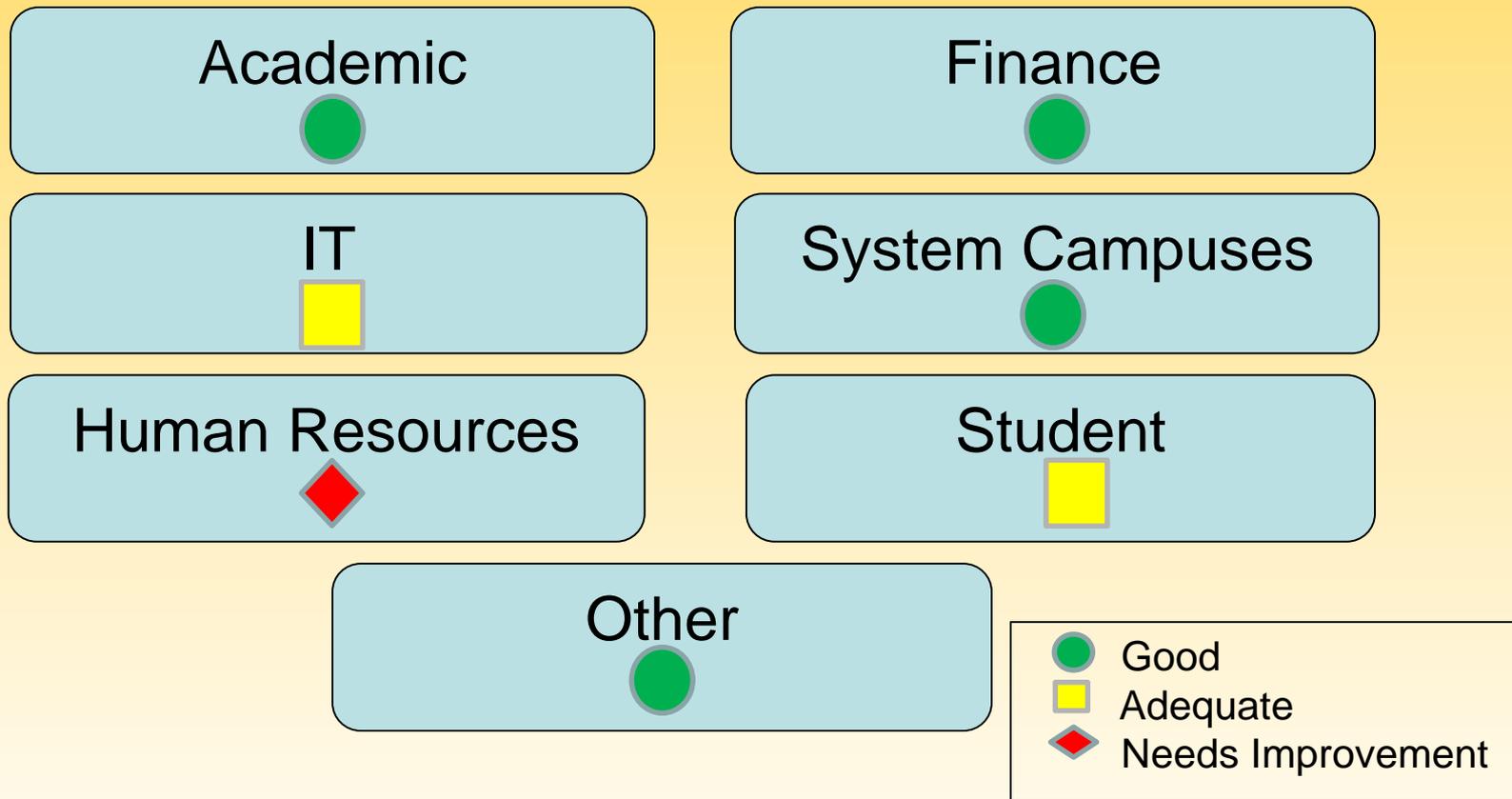


Office of Internal Audit Portfolio

- Audits
- Investigations/Special Projects
- Audit Advisory Services



FY 2018 Audit Results



incurred costs
subrecipients
data analytics



leadership transitions

incurred costs

reputation

state support

cybersecurity

subrecipients

decentralization

data analytics



space

leadership transitions

HR data

incurred costs

MHealth

reputation

cybersecurity

subrecipients

state support

admin cost reductions

IT initiatives

data analytics

decentralization

shifting enrollment patterns



Institutional Risk Profile

space

MHealth

leadership transitions

HR data

incurred costs

reputation

cybersecurity

state support

admin cost reductions

subrecipients

IT initiatives

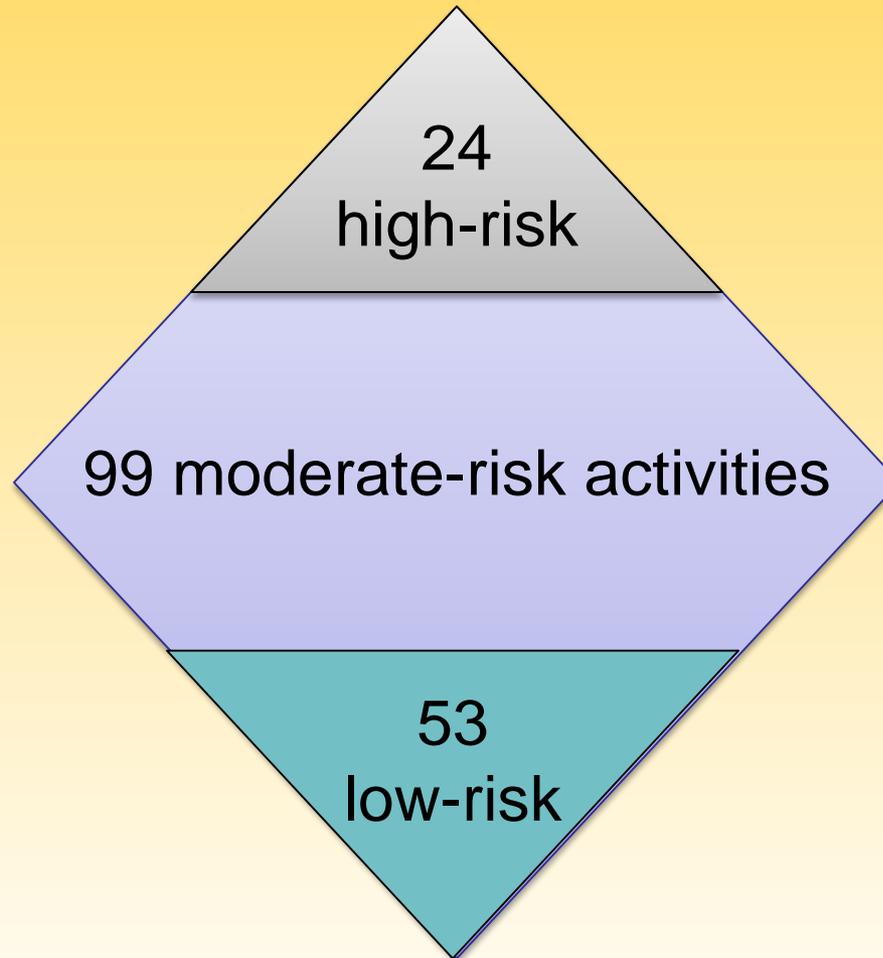
data analytics

decentralization

shifting enrollment patterns

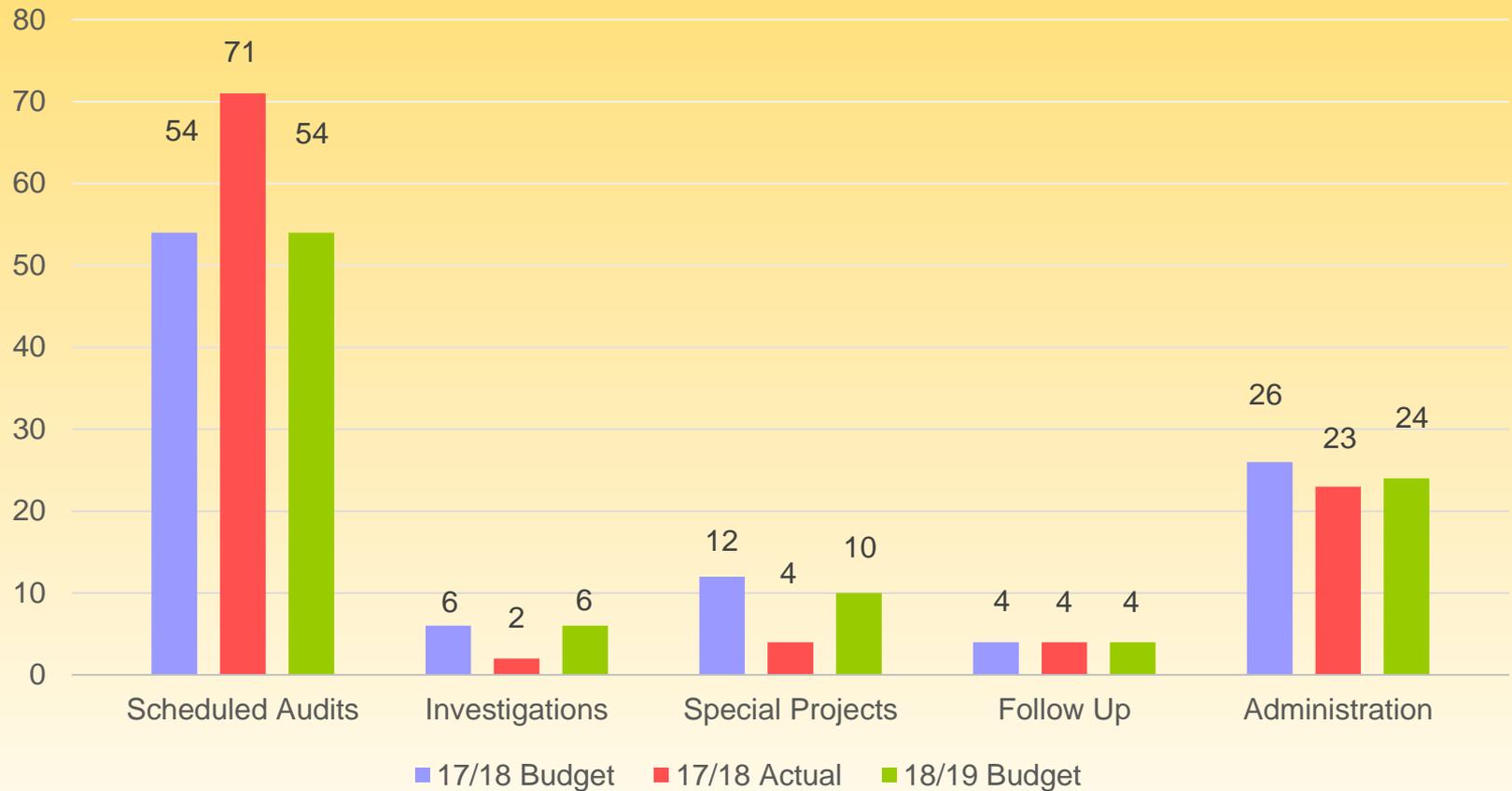


Audit Universe



FY 2019 Allocation of Resources

COMPARISON OF AUDIT RESOURCES FOR FY 2018 AND FY 2019
Percent of Available Time



Deploying Audit Resources

- High-risk activities
- Major organizational components
- Institutional risk profile/ risk mitigation plans
- Areas of strategic priority
- Management requests



Overall Risk Assessment

Audit Focus for FY 2019

- Informed by work and discussions surrounding the development of the Institutional Risk Profile and the resulting risk mitigation plans
- Cost reduction/containment
- Revenue enhancement



FY 2019 Annual Audit Plan

Unit Audits		Process Audits	
High Risk		High Risk	
Investments and Banking	SVP-CFO	Advancing Human Research Protection #3	VP-Research, VP-AHC
Athletics TBD	President	OIT Account Management	SVP-CIO
Public Safety IT	SVP-University Services	Disaster Recovery/Operation Continuity/Crisis Mgmt	System Wide
Psychiatry	VP-AHC/EVPP	Close Out of Fixed Price Awards	System Wide
Facilities Management Districts	SVP-University Services	Residency Determination	System Wide
Moderate Risk		Moderate Risk	
Mechanical Engineering	EVPP	Hospitality	System Wide
Physics and Astronomy	EVPP	Hospitality #2	System Wide
Office of Technology Commercialization	VP-Research	Controlled Substances	System Wide
MN Extension Services	EVPP	Consulting/External Activities - ROCs/REPAs	EVPP/President
University Libraries	EVPP	Travel Expenses	System Wide
Vet Med Admin	EVPP	Office of Community Standards	EVPP
UMD Student Life Administration	UMD Chancellor	NCAA Compliance Sport	OGC/Athletics
University of Minnesota Crookston	UMC Chancellor	Gift Testing	System Wide
OIT Business Office	SVP-CIO	Mental Health Investments	System Wide
CFANS Cluster	EVPP		
UMD Stores	UMD Chancellor		
UMD Admissions	UMD Chancellor		
Low Risk			
Obstetrics and Gynecology	VP-AHC/EVPP		
Weisman Art Museum	EVPP		
UMD School of Fine Arts	UMD Chancellor		



Audit Coverage of Institutional Risks

	FY 19	FY 18	FY 17
Clinical Partnerships			
Collaboration w/ Externalities & Joint Ventures	X		X
Decentralization	X	X	X
Employee Demographics / Succession Planning			
Facilities – Maintenance, Scope, & Alignment	X		
Faculty Retention			X
Information Technology – Security / Failure / Resilience / Cost	X	X	X
Intercollegiate Athletics	X	X	X
International Activities		X	X
Legal & Regulatory Compliance	X	X	X
New & Disruptive Educational Models			
Public Funding Reliability, Economic Climate & Financial Sustainability	X		
Representational Diversity			
Shifting Enrollment Patterns	X		X
High Risk Research	X	X	X
Research or Clinical Misconduct	X	X	X
Brand & Reputation Management	X	X	X
Campus Safety	X	X	
Campus Climate & Free Speech			
Crisis Management	X		
Sexual Misconduct – Prevention, Training, & Response	X		



Institutional Risk Profile

Audit Coverage

High Risk Research/Research or Clinical Misconduct

- Review of Advancing Human Research Protection
- Department of Psychiatry
- Close out of Fixed Price Contracts
- Controlled Substances

Collaboration w/ Externalities & Joint Ventures

- Office of Technology Commercialization
- Consulting/External Activities – ROCs/REPAs
- Minnesota Extension Service



Sexual Misconduct – Prevention, Training & Response

- Office of Community Standards

Information Technology - Security/Failure/Resilience/Cost

- OIT Account Management
- Disaster Recovery/Operational Cont/Crisis Mgmt
- Public Safety IT
- Libraries

Shifting Enrollment Patterns

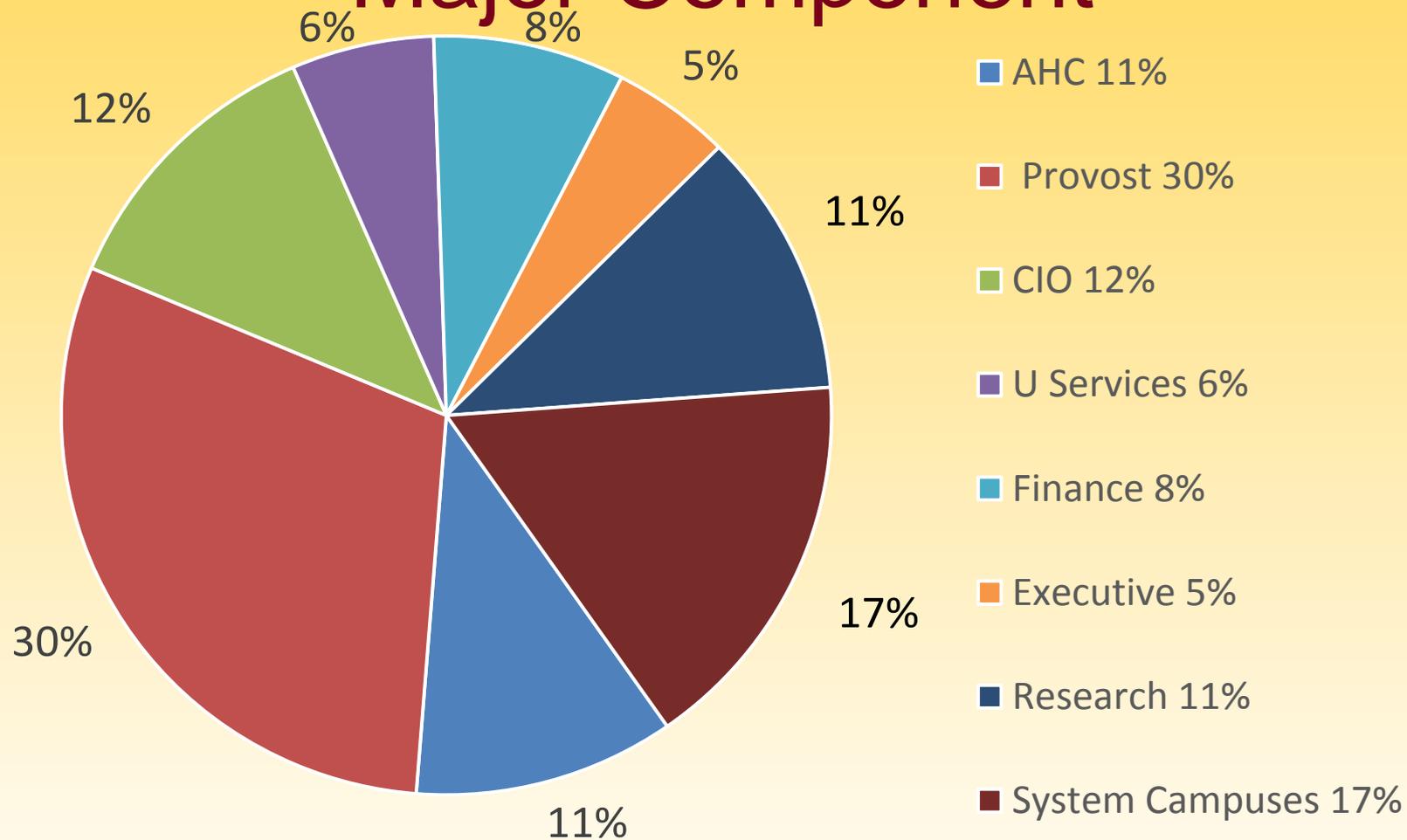
- Residency Determination
- UMD Admissions

Facilities – Maintenance, Scope & Alignment

- FM Districts



FY 2019 Audit Coverage by Major Component



The 2019 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

Audit & Compliance

June 7, 2018

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 2018 meeting, 43 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.
- Six audit reports containing 22 recommendations rated as “essential” were issued in the last four months.
- A summary of FY 2018 audit activities is included to provide an update of audit results.

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, 2018

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 2018

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

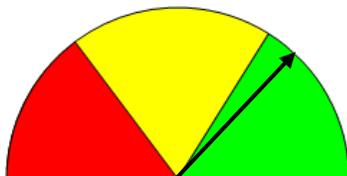
As part of our on-going efforts to provide the Audit and Compliance Committee with critical information in as concise a format as possible, we have developed the following three charts to present a “snap-shot” status report on work performed by the Office of Internal Audit.

The first chart, “Essential Recommendation Implementation,” provides our overall assessment of the success University departments had during the last period 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 2018 Annual Audit Plan. Readings less than green could be influenced by a variety of factors (e.g., insufficient staff resources; increased time spent on non-scheduled audits or investigations).

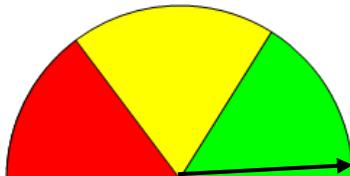
The final chart, “Time Spent on Investigative Activities,” provides a status report on the amount of time consumed by investigative activities. Our annual plan provided an estimated budget for this type of work, and the chart will indicate if we expect that budget to be sufficient. Continued readings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

Essential Recommendation Implementation



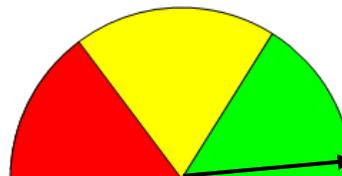
Implementation rates were 43% for the period, better than our expected rate of 40%.

Progress Towards Annual Audit Plan Completion



Time spent to date on the FY 2018 audit plan is what was expected and budgeted for the year to date.

Time Spent on Investigative Activities

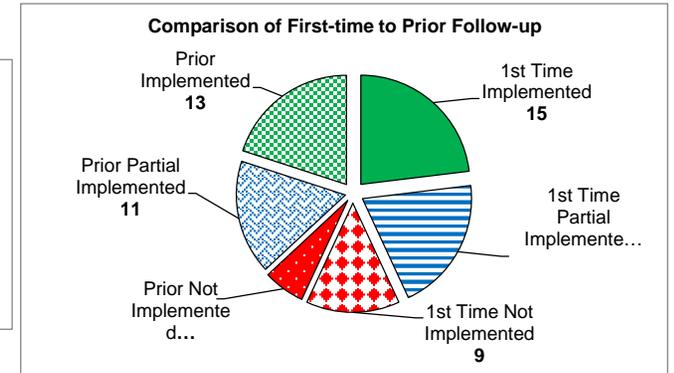
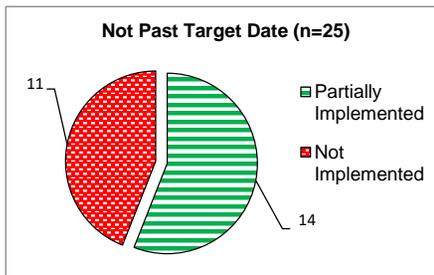
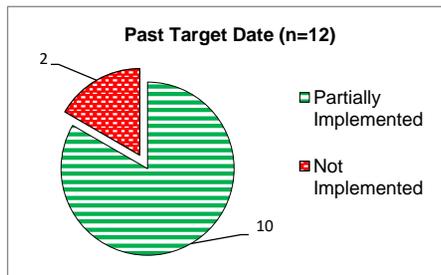
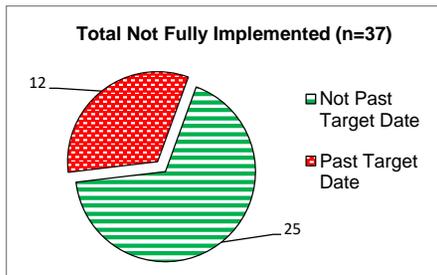


Time spent on investigative activities and special projects is less than expected and budgeted for the year to date.

Status of "Essential" Recommendations as of May 25, 2018

Report Date	Audit (P) Indicates a University process audit	Original Report Control Rating	# of Essential Recommendations in the Report	# of Essential Recommendations Remaining	Current 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 > 2 years old (see the following report for details on unresolved issues)</i>										
	None									
<i>Audits < 2 years old; have received prior follow-up</i>										
May-16	UMD College Ed. & Human Service Professions	Needs Improvement	9	1	1					Completed
Oct-16	School of Dentistry	Needs Improvement	20	2						Satisfactory
Dec-16	Undergraduate International Admissions (P)	Good	4	1		1	2			Satisfactory
Dec-16	PeopleSoft IT Management (P)	Good	6	2	1		1			Satisfactory
May-17	Athletics IT	Needs Improvement	10	5		2		3		Satisfactory
May-17	College of Liberal Arts	Good	8	2		1	1			Satisfactory
May-17	Earth Sciences and the MN Geological Survey	Adequate	2	1	1					Completed
Aug-17	Office of Admissions	Needs Improvement	15	13	9	2	1	1		Satisfactory
Sep-17	UMD Natural Resources Research Institute	Good	2	1	1					Completed
<i>Audits receiving first-time follow-up</i>										
Oct-17	School of Math	Good	6	6	2	3		1		Satisfactory
Nov-17	College of Education and Human Development	Good	3	3	3					Completed
Dec-17	Women's Volleyball - Compliance & Operational	Good	1	1	1					Completed
Dec-17	School of Nursing	Good	3	3	2		1			Satisfactory
Jan-18	Chemical Engineering and Materials Science	Good	2	2	2					Completed
Jan-18	School of Public Health IT	Adequate	7	7		2		5		Satisfactory
Jan-18	University of Minnesota, Morris	Good	4	4	1	2	1			Satisfactory
Jan-18	Department of Neurosurgery	Good	2	2	2					Completed
Jan-18	Department of Public Safety	Good	9	9	2	1	3	1	2	Satisfactory
Total:			113	65	28	14	10	11	2	

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



"Essential" Recommendation Implementation Trends

Month / Year of Follow-up Report

	June 2018	Feb. 2018	Oct. 2017	June 2017	Feb. 2017	Sept. 2016	June 2016	Feb. 2016	Sept. 2015	June 2015	Average
# of Essential Recommendations Receiving Follow-up	65	56	77	87	74	114	108	83	98	60	82
# of Recommendations Considered Fully Implemented	28	27	39	39	41	44	46	34	16	8	32
Implementation Percentage	43%	48%	51%	45%	55%	39%	43%	41%	16%	13%	39%

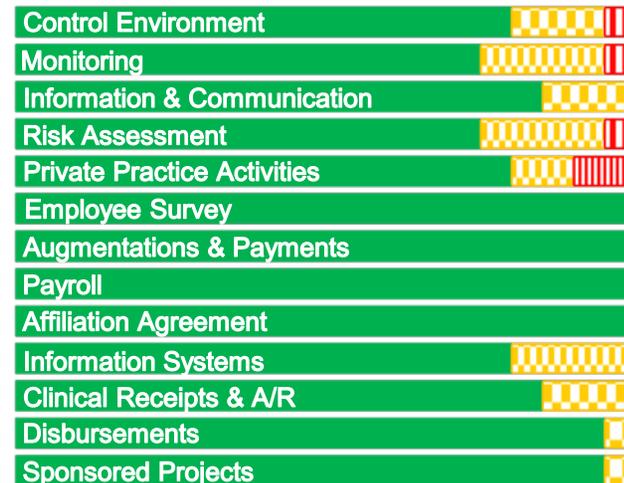
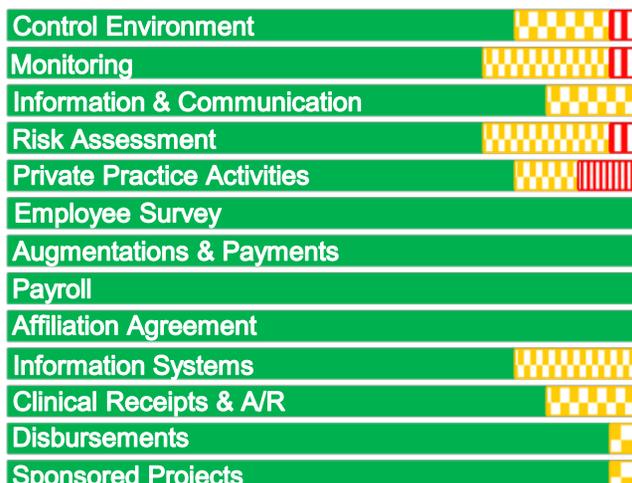
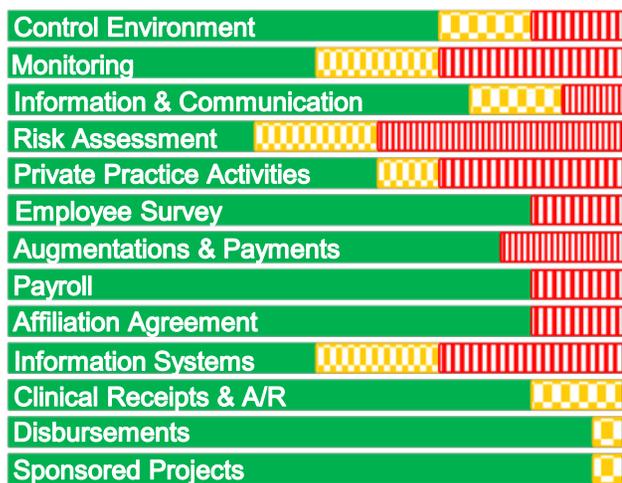
The bar charts shown below are presented to provide pictorial displays of the progress units are making on implementing audit recommendations rated as "essential." The bar chart included in the original report is shown in the left column, along with updated bar charts showing the previous quarter and 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 2018, 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

School of Dentistry (Oct 2016)



Undergraduate International Admissions (Dec 2016)



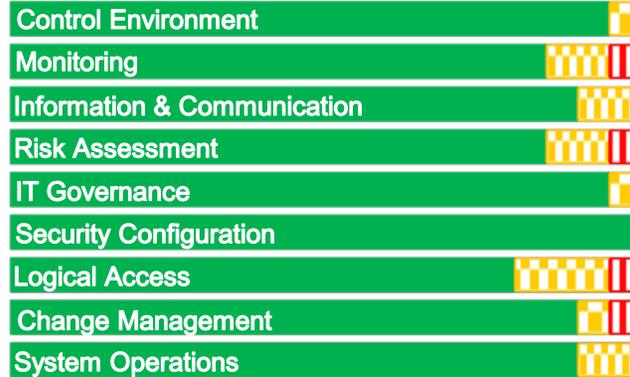
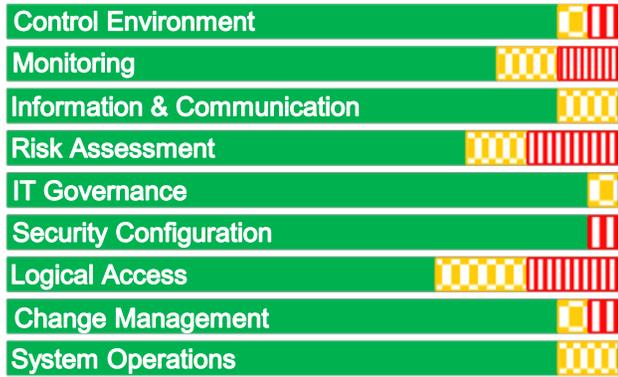
■ Adequate Control ■ Significant Control Issue(s) ■ Critical Control Issue(s)

Original Report Evaluation

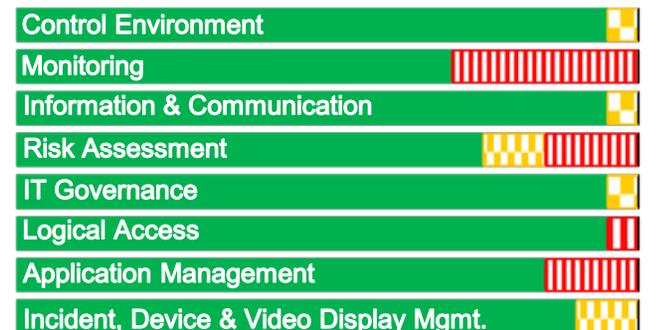
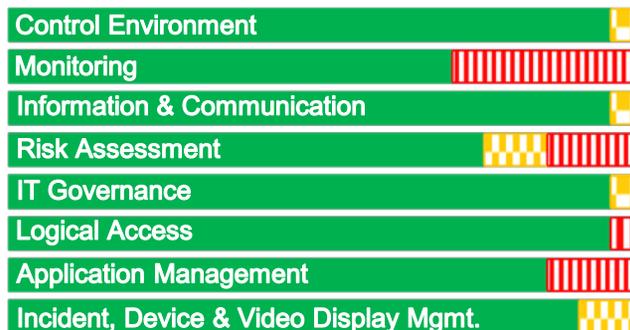
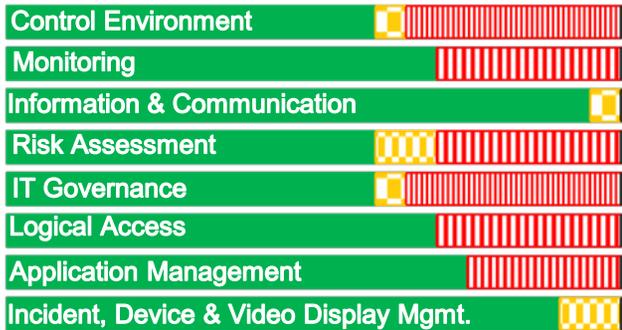
Previous Quarter Evaluation

Current Quarter Evaluation

PeopleSoft IT Management (Dec 2016)



Athletics IT (May 2017)



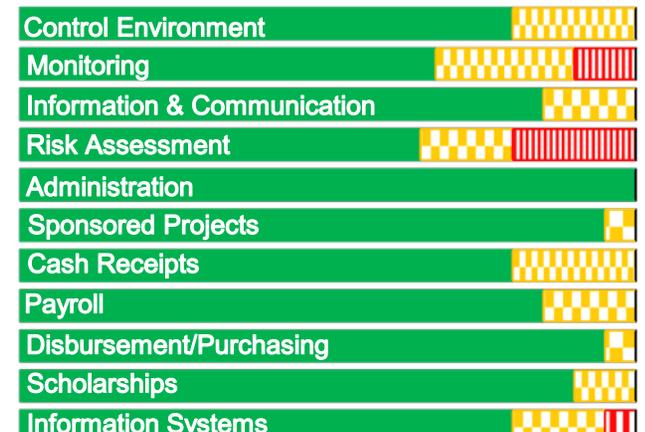
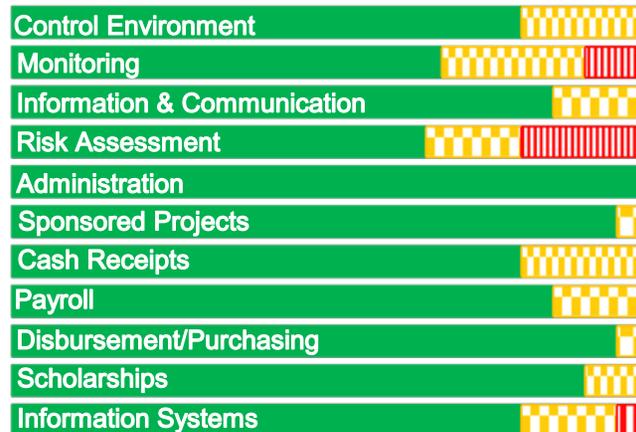
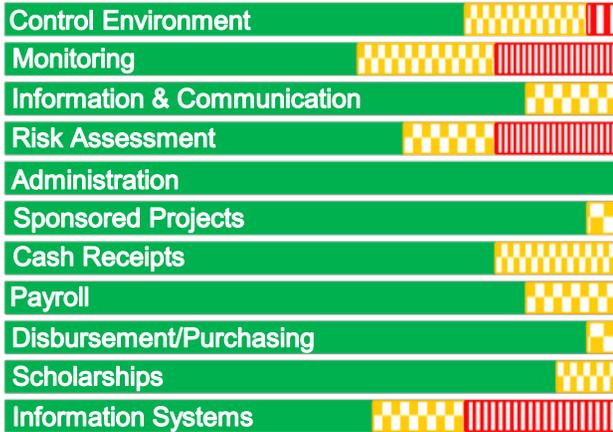
■ Adequate Control ■ Significant Control Issue(s) ■ Critical Control Issue(s)

Original Report Evaluation

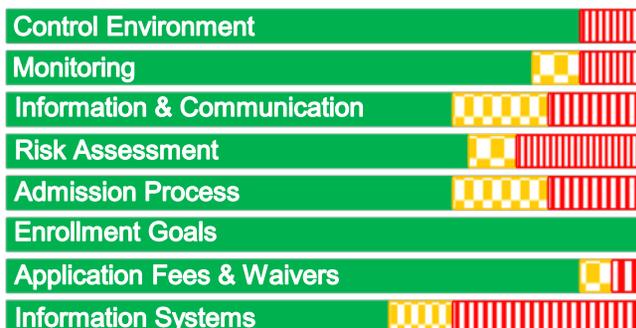
Previous Quarter Evaluation

Current Quarter Evaluation

College of Liberal Arts (May 2017)

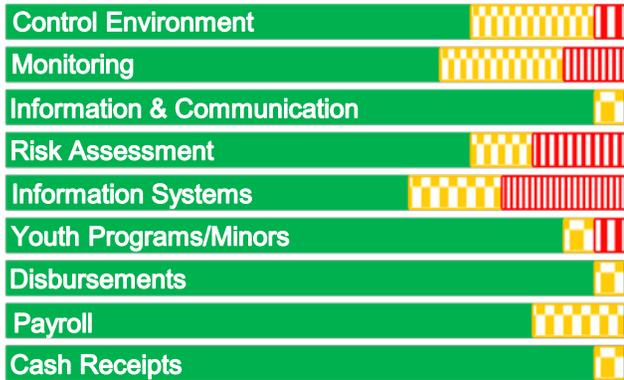


Office of Admissions (Aug 2017)



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

Original Report Evaluation

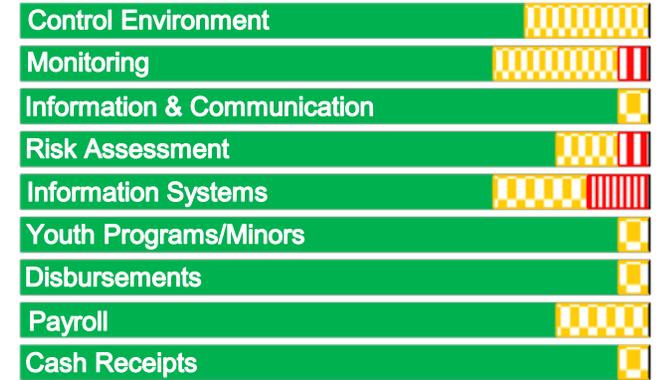


Previous Quarter Evaluation

School of Mathematics (Oct 2017)

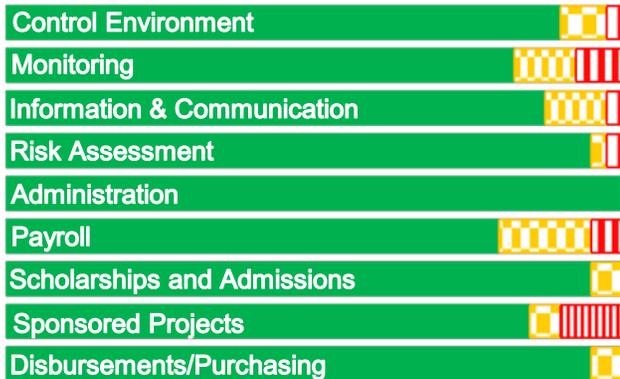
NO PREVIOUS
CONTROL EVALUATION
CHART

Current Quarter Evaluation



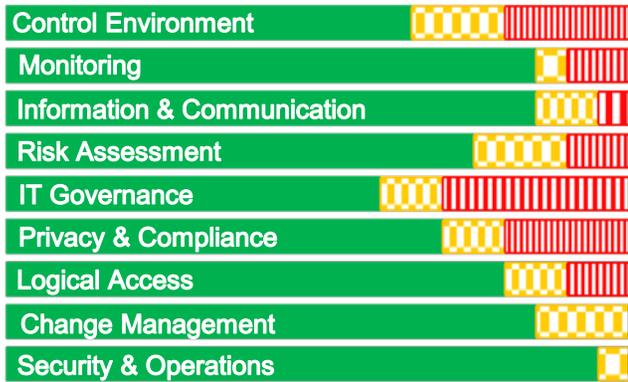
School of Nursing (Dec 2017)

NO PREVIOUS
CONTROL EVALUATION
CHART



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

Original Report Evaluation

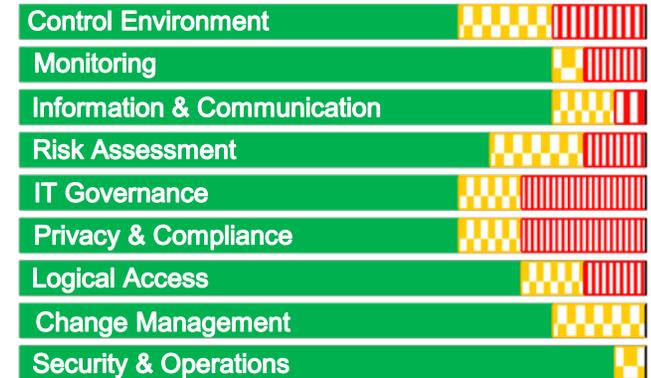


Previous Quarter Evaluation

School of Public Health IT (Jan 2018)

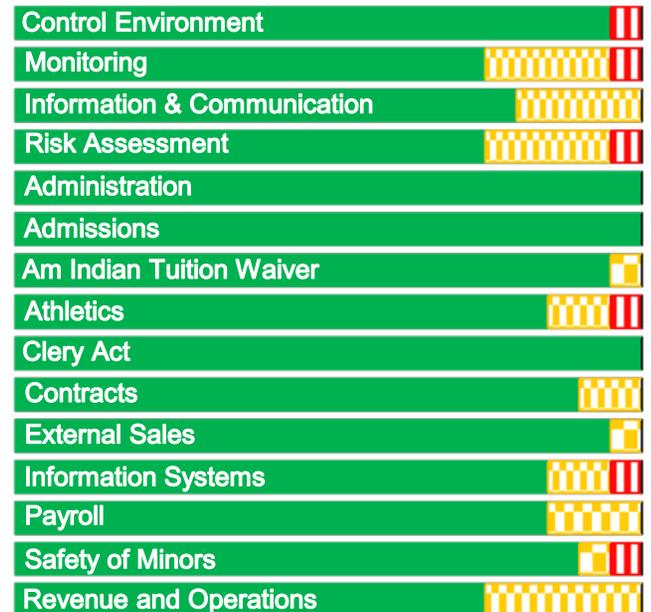
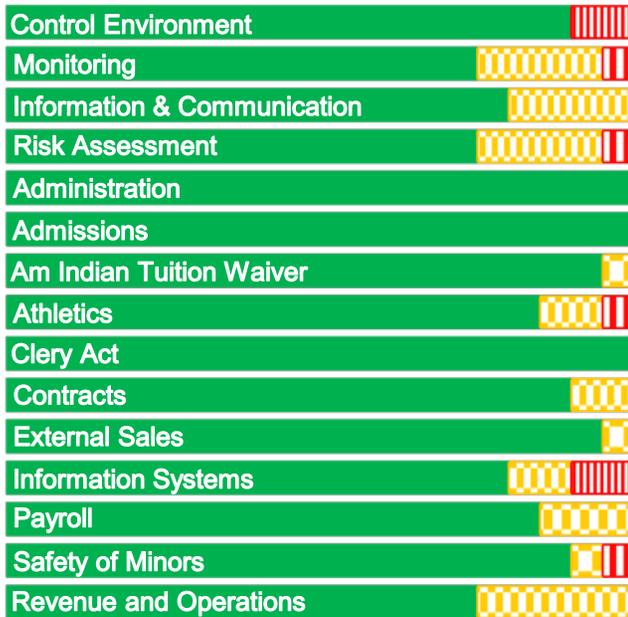
NO PREVIOUS
CONTROL EVALUATION
CHART

Current Quarter Evaluation



University of Minnesota, Morris (Jan 2018)

NO PREVIOUS
CONTROL EVALUATION
CHART



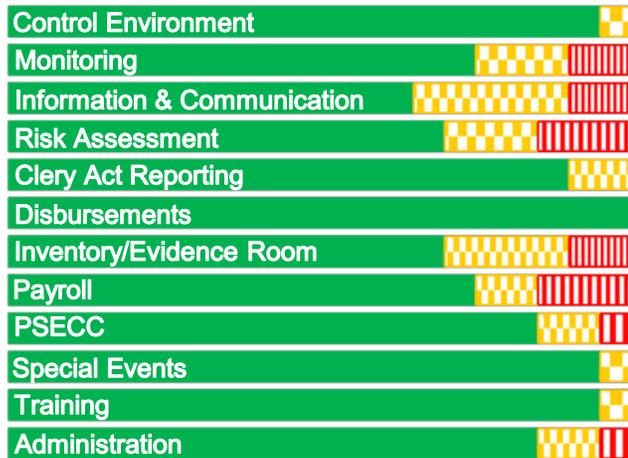
■ Adequate Control ■ Significant Control Issue(s) ■ Critical Control Issue(s)

Original Report Evaluation

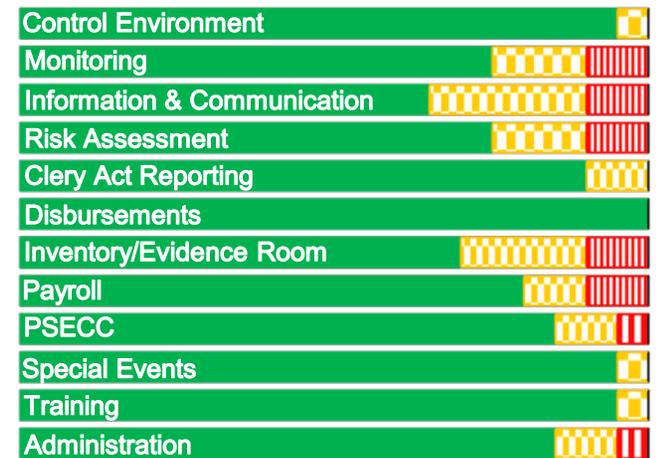
Previous Quarter Evaluation

Current Quarter Evaluation

University Public Safety (Jan 2018)



NO PREVIOUS
CONTROL EVALUATION
CHART



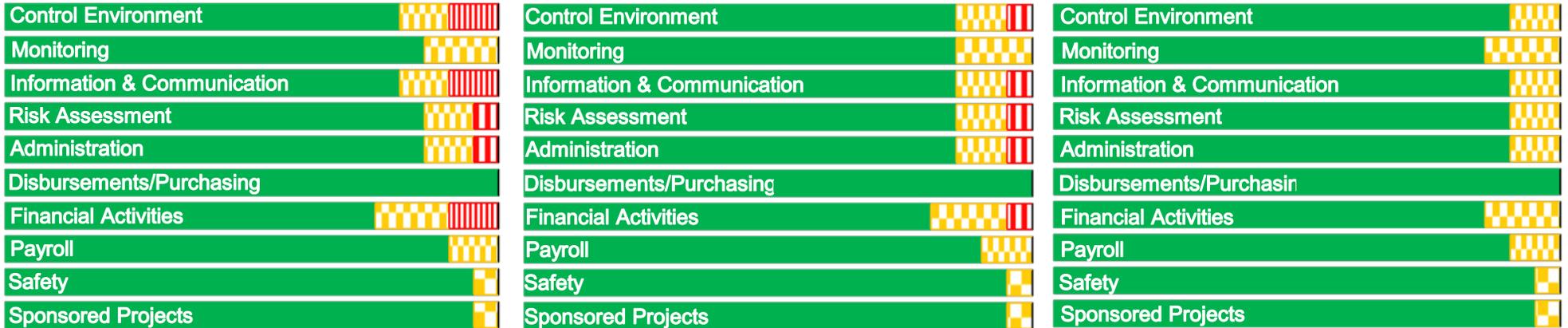
■ Adequate Control ■ Significant Control Issue(s) ■ Critical Control Issue(s)

Original Report Evaluation

Previous Quarter Evaluation

Current Quarter Evaluation

UMD Natural Resources Research Institute (Sep 2017)



College of Education and Human Development (Nov 2017)



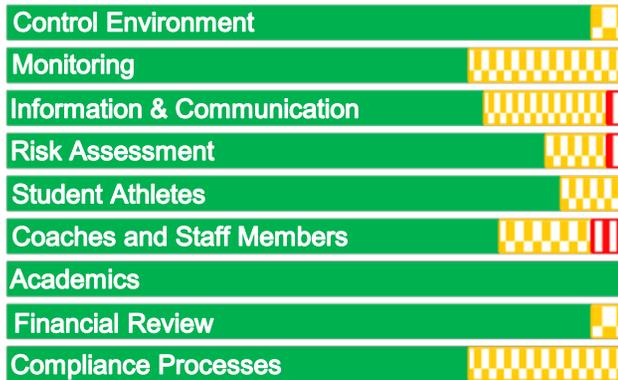
■ Adequate Control ■ Significant Control Issue(s) ■ Critical Control Issue(s)

Original Report Evaluation

Previous Quarter Evaluation

Current Quarter Evaluation

Women's Volleyball - Compliance and Operational Audit (Dec 2017)



NO PREVIOUS
CONTROL EVALUATION
CHART



Chemical Engineering and Materials Science and
Materials Research Science & Engineering Center (Jan 2018)



NO PREVIOUS
CONTROL EVALUATION
CHART



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

Original Report Evaluation

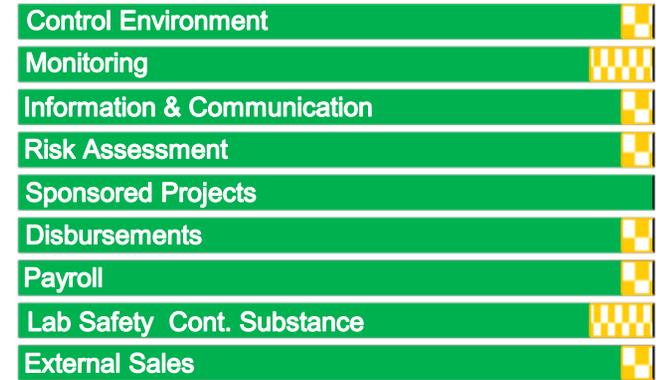


Previous Quarter Evaluation

Department of Neurosurgery (Jan 2018)

NO PREVIOUS
CONTROL EVALUATION
CHART

Current Quarter Evaluation



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

Audit Activity Report

Scheduled Audits

- Completed audits of:
 - College of Continuing and Professional Studies
 - Global Programs and Strategy Alliance
 - UMD Housing and Residence Life
 - University Information Security
 - Utilization of Federal/State Contracts
 - Family and Medical Leave Act (FMLA)Details are shown on the following charts.

- Began/continued audits of:
 - Scholarships and Fellowships
 - Review of Executive, Regent and Eastcliff Expenses
 - Review of Compliance with Board of Regents Bylaws and Board Operation Policies
 - Employment Eligibility Verification (I-9)
 - Bookstores
 - Humphrey School of Public Affairs
 - Department of Mechanical Engineering
 - Review of Hospitality Expenses FY18
 - Review of Select Advancing Human Research Protection Items FY18
 - Minnesota Extension Services
 - Athletics Executive Expenses
 - Office of Athletics Compliance
 - AHC – Information Systems
 - Destiny One
 - UMD Police Department

- Continued to engage the next generation network (NGN) upgrade team regarding their progress. No major issues have been identified to date; the project continues to be well managed and considerate of security risks.
- Advanced work on ten “SNAP Audits” in our ongoing review of University activities, including several HR processes.

Investigations

- Performed investigative work on five 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 and purchasing processes, HIPAA security, research data storage, data center security 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
- NSF audit oversight committee
- HRPP Advisory Committee
- Research Compliance Committee
- GDPR Consultation Committee
- University Storage Council

Audit Reports Issued Since February 2018

College of Continuing and Professional Studies



Report #	1818	Issue Date	Mar-18
# of Essential Recs.	2	Total # of Recs.	10
Overall Assessment	Good	Adequacy of MAP	Satisfactory

The College of Continuing and Professional Studies (CCAPS), formerly the College of Continuing Education, has a large portfolio of credit and non-credit programs that serve a wide-range of learners. Most of the programs involve significant collaboration with colleges and departments across the University. We believe CCAPS' control environment and system of internal control are generally good. The audit resulted in six issues with ten recommendations for enhancing controls and improving compliance with selected policies. Two recommendations rated as "essential" address a departmental petty cash account funded by gift donations, and a CCAPS employee making change funds for events out of personal funds.

Global Programs & Strategy Alliance

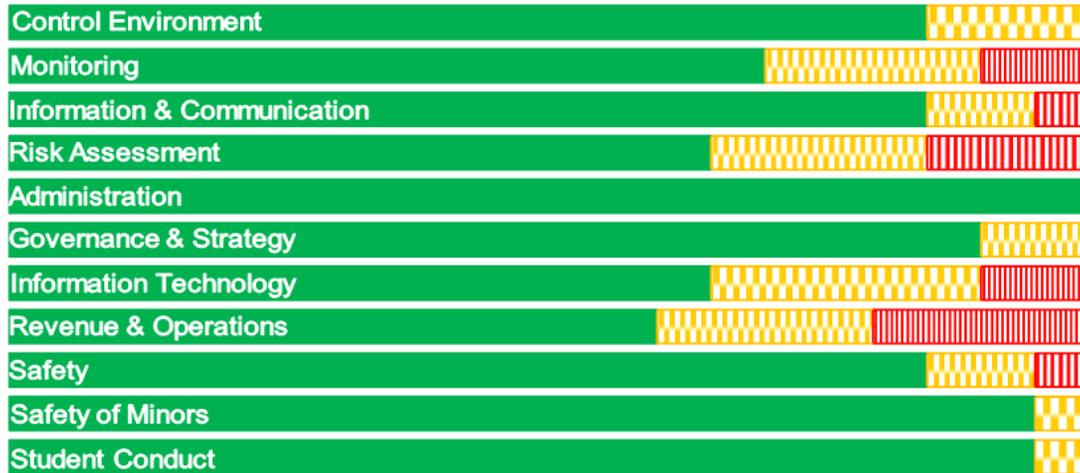


Report #	1819	Issue Date	Apr-18
# of Essential Recs.	3	Total # of Recs.	16
Overall Assessment	Good	Adequacy of MAP	Satisfactory

Global Programs and Strategy Alliance (GPS) is the central international office for the University of Minnesota system. Besides the Dean's office, GPS Alliance units include: Center for Advanced Research on Language Acquisition, China Center (including the Mingda Institute and the China Office in Beijing), Confucius Institute, Global Opportunities Minnesota, Interdisciplinary Center for the Study of Global Change, International Student and Scholar Services, and the Learning Abroad Center. Our audit noted three issues considered "essential" including: 1.) compliance with required documentation for students traveling abroad in the Learning Abroad Center, 2.) segregation of duties, financial review, and approval for external sales in the Mingda Institute, and 3.) increased efforts to ensure compliance with the faculty/staff Travel Registry requirement.

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

UMD Housing & Residence Life



Report #	1820	Issue Date	May-18
# of Essential Recs.	5	Total # of Recs.	19
Overall Assessment	Good	Adequacy of MAP	Satisfactory

UMD Housing & Residence Life (HRL) facilities include five residence halls and four apartment buildings, with a combined total capacity of approximately 3,000. Occupancy rates have held steady over the past several years. For academic year 2017-2018, fall semester occupancy was at 96%. UMD HRL has developed a control environment and a system of internal control that addresses most major business, compliance, and information technology risks. However, management attention is needed to improve financial management processes as these process are currently inefficient and create an undue level of risk. Essential recommendations were also noted for improving building emergency plans, and IT system's access management.

University Information Security



Report #	1821	Issue Date	May-18
# of Essential Recs.	7	Total # of Recs.	20
Overall Assessment	Good	Adequacy of MAP	Satisfactory

University Information Security (UIS) performs a variety of information security activities for the University including: policy development; technology risk assessments; and incident and breach detection and response. In recent years, UIS has considerably improved the University's information security in a variety of ways including establishing: robust information security policies, a risk assessment process; and improving system log management and monitoring. These new processes have been implemented while maintaining other critical security processes including ongoing effective incident and breach management, and server vulnerability scanning. Given the high-level of inherent risk of cybersecurity, the audit did identify several issues where additional risk mitigation is warranted.

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

Utilization of Federal and State Procurement Contracts

Based on our testing we could not clearly conclude on the usage of state and federal contracts, but can confirm the availability of these discounts to the University community could be more effectively communicated. This report does not include any findings that were considered “significant” or “essential” although we did note several opportunities for improvement. Consequently we did not prepare a control evaluation chart.

Report #	1822	Issue Date	May-18
# of Essential Recs.	0	Total # of Recs.	0
Overall Assessment	NA	Adequacy of MAP	NA

Federal and state procurement contracts are available for use by state and local government entities. Minnesota Statute 471.59 and Public Law 107-347 includes the University of Minnesota in the definition of state and local government making all state contracts and certain federal contracts available to the University. The University’s access to these state and federal contracts gives the University an opportunity to obtain discounted pricing on various services and products. Purchasing Services actively seeks the use of state contracts as applicable; however, it has not been their practice to review applicability of federal contracts as they did not realize the University is eligible to use federal GSA contract pricing in specific areas. Our review suggested several opportunities for Purchasing Services to consider to take advantage of and promote the discounts offered.

Family Medical Leave Act Review



Report #	1823	Issue Date	May-18
# of Essential Recs.	5	Total # of Recs.	13
Overall Assessment	Adequate	Adequacy of MAP	Satisfactory

The University provides family and medical leave (FMLA) in accordance with federal laws and regulations. From the results of the audit work performed, we believe the process for recording FMLA in HRMS could be better clarified. An increase in training and communication could help promote adherence and improved policy compliance across the University, resulting in better accuracy of FMLA within the HRMS system. The process for FMLA certification, notification and recording is decentralized in the departments and also dependent on actions taken by the employee. Our audit testing determined these processes are not being consistently followed, nor is FLMA usage being consistently monitored effectively. Despite these procedural deficiencies there is very little risk of the University not providing appropriate FMLA benefits to its employees because of its generous application of the legal requirements.

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



BOARD OF REGENTS DOCKET ITEM SUMMARY

Audit & Compliance

June 7, 2018

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.
- Overview of enhancements to the purchasing contract management process.
- 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.
- Overview of other 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. Management is determining whether these standards apply to the University, as well as the likely impacts 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, 2018**

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 pilot went live on Monday March 26. Eleven RRC units on the Twin Cities and Duluth campuses are using the system and job aids and providing feedback on the new processes, tool and materials. The pilot phase lasts through the end of FY 2018. Feedback from the pilot will be used to inform decisions on the final configuration to be released to the rest of the University beginning in the fall 2018. The phased approach allows for a limited release with targeted groups beginning to use the new tools and redesigned procedures as soon as they are available. Processes and tools have been designed to enhance efficiency, maximize the traveler experience, and create a scalable model for the rest of the University.

The implementation team continues to receive positive feedback from the pilot participants and has a low number of outstanding issues to address, all of which are classified as low priority. Metrics for the first ten weeks of the pilot are:

- 585 individuals have accessed the system
- 716 expense reports have been created, including 75 by faculty
- 613 expense reports have been approved
- 298 new UTravel cards have been issued
- 61% of our overall spend has been through the new travel card
- 81% of expense reports have been created by the person incurring the expense rather than a delegate

This project was chartered as a result of the Administrative Services Benchmarking and Diagnostic Study completed in June 2013. Work was paused while the Enterprise Systems Upgrade work on the PeopleSoft systems took place and those systems/changed processes were stabilized. The travel and expense system implementation project began in October 2016. During 2017 a software partner was selected, new contract travel agencies were brought on board, and a new corporate travel card program has entered an initial pilot.

Contract Management Process

To more consistently manage purchasing contracts, Purchasing Services introduced a formal risk based contract management process. Almost 300 purchasing contracts were evaluated and classified into categories of criticality: mission critical, strategic, tactical and transactional. For each category of criticality, escalating monitoring activities have been identified. While in the past units employed various forms of contract management practices, the consistent contract management practices will ensure more rigorous actions on contracts that the University classified as a higher priority. In addition to a consistent process, the activities enhance internal controls, better manage financial risks, reduce costs, and improve services to the University community.

Units within the Senior Vice President for Finance & Operations reporting structure own 84% of all the contracts across all classifications. Purchasing Services rolled out the enhanced process to the units within the Senior Vice President's Office in May 2018 and will roll the program out to the remaining units in the summer of 2018.

Financial Reports and Data

In January 2018, two additional upgraded versions of financial reports were released for system-wide use. The UM Analytics versions of the *Chartfield String Budget Status* and *Chartfield String Budget Summary* reports represent on average 13% of the 1.6 million financial reports generated annually. These two reports, in addition to the two reports released in the fall of 2017 represent 58% of the 1.6 million financial reports generated annually.

In May, University Finance piloted five financial dashboards. The dashboards contain specific financial information that is targeted to specific university audiences; for college leadership audience - *Tuition and ICR Actual Revenue, Actual Expenses by Function Category, Resources and Expenses Summary by Fund Category, Resources and Expenses Summary by ZDeptID* and for sponsored audience - *Sponsored Award Closeout Dashboard*.

University Finance continues to implement the reporting strategy of evaluation and 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 campuses, 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.

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

For the third 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 3,496,000 payment card transactions (Visa, MasterCard, Discover, and American Express) for the payment of goods and services, totaling \$156,907,000 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 27, 2017. The completed report was received in February 2018.

Policy Owners and Internal Audits

In February 2018, the Controller's Office Policy Owners and the Internal Audits team met to discuss financial policies. An overview of the institutional policy process, policy standards and expectations of policy owners was provided by the Director of the Policy Office. The group discussed frequent policy questions, common policy audit findings, and problematic policy interpretation areas.

The Controller's Office owns 23 and co-owns 4 financial policies, and at least one financial policy is noted in a typical Internal Audit report. Creating this direct collaboration will result in clearer financial policies, better interpretation of financial policies and identification of areas of opportunity (for example, specific policy training). The groups will meet 2-3 times a year.

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. 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. Management has determined this statement is applicable to the University. At this time, the University is working with our actuaries to determine the financial statement impact for fiscal year 2018 and restatement to fiscal year 2017.
- 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.

Management is still evaluating the standard, but are anticipating either immaterial or no impact to the University's financial statements.

- 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 were effective for fiscal year ending June 30, 2017. The provision for actuarial assumptions are effective for the fiscal year ending June 30, 2018.

Management anticipates no impact to the University's financial statements for the remaining provision for actuarial assumptions.

- 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. Management is still evaluating the standard, but is anticipating no impact to the University's financial statements.
- In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. This addresses accounting and financial reporting for in-substance defeasance of debt when cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. For the purposes of calculating the gain or loss on the defeasance (difference between the reacquisition price and net carrying amount of the debt), it requires any remaining prepaid insurance related to the extinguished debt to be included in the net carrying amount of that debt. The statement is effective for the fiscal year ending June 30, 2018. Management is still evaluating the standard, but is anticipating no impact to the University's financial statements.

- In June 2017, the GASB issued Statement No. 87, *Leases*. This establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. It requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources (revenues) or outflows of resources (expenses) based on the payment provisions of the contract. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. This statement is effective for the fiscal year ending June 30, 2021.
- In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This improves information that is disclosed in the notes to the financial statements related to debt and clarifies which liabilities the University should include when disclosing information related to debt. It requires essential information related to debt be disclosed, including unused lines of credit; assets pledged as collateral for debt; and terms specified in debt agreements related to significant events of default and/or termination events with finance-related consequences and significant subjective acceleration clauses. Also, this statement requires that existing and additional information for direct borrowings and direct placements of debt be disclosed separately from other debt. This statement is effective for the fiscal year ending June 30, 2019.