



# Audit & Compliance Committee

June 2019

June 13, 2019

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

Boardroom, McNamara Alumni Center

## AUD - JUN 2019

### 1. Internal Audit Plan

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# BOARD OF REGENTS DOCKET ITEM SUMMARY

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**Audit & Compliance**

**June 13, 2019**

**AGENDA ITEM:** 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 2020 includes 23 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 2020  
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 FY 2019 INTERNAL AUDIT RESULTS

Our audit planning begins with a review of past audit coverage and results. Appendix A recaps the audits completed in FYs 2017-2019 and the resulting overall control assessment for each. **We will have completed 32 audits in FY 2019.** 79% of the 32 audits had satisfactory results. 13% 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 2019. It reflects the state of the internal control environment based on the audit work performed.

Overall Control Evaluation



## FY 2019 AUDIT PLAN COMPLETION

In addition to the 32 audits completed:

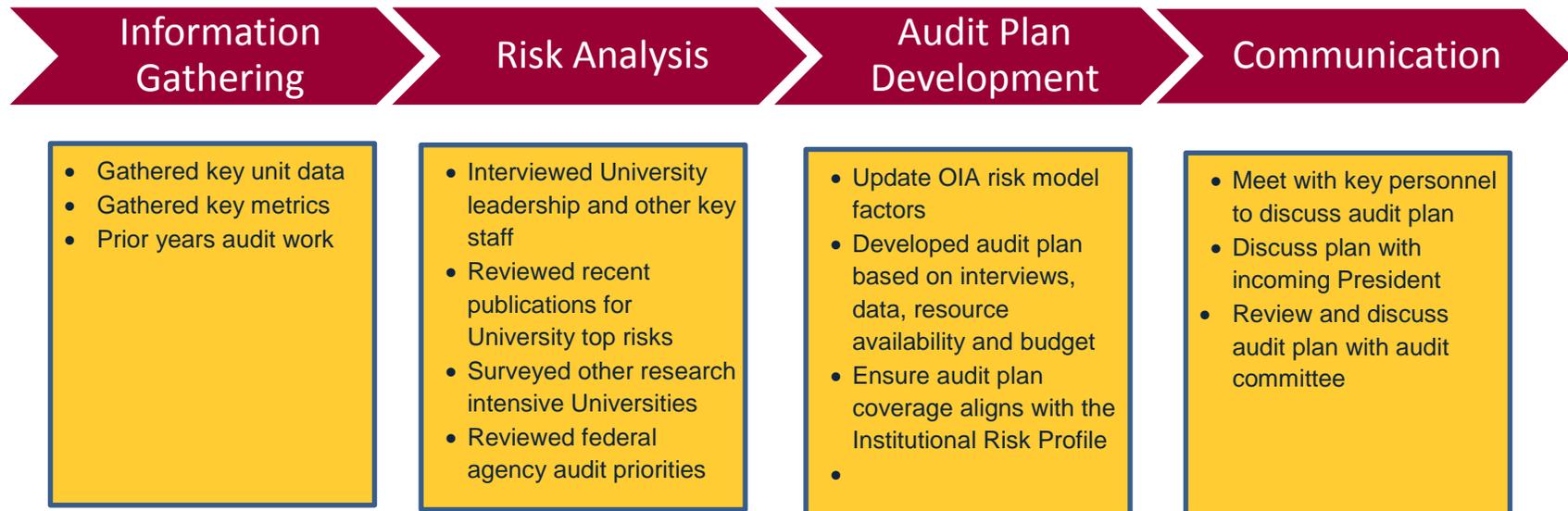
- Nine audits are currently in the planning or fieldwork stages and will be completed in FY 2020.
- Two audits were deferred to FY 2020, and one was cancelled due to changing circumstances.
- Thirteen SNAP audits were issued, with another one in process.  
(See Appendix B for the status of the FY 2019 audit plan)

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.



## DEVELOPMENT OF THE FY 2020 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. Below is a chart that illustrates the approach that was taken in developing the audit plan:



## Key Themes Identified

- Presidential Transition
- Undue Foreign Influence
- Student Experience
- Campus Climate
- Campus Safety
- Student Mental Health

### 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) have focused on sub-recipient monitoring, and specifically the due diligence performed on international sub-recipients. Agencies are also scrutinizing award close-outs and end-of-award spending very closely. Some enforcement actions have been taken against Universities on the calculation and application of indirect cost rates and the allocation of procurement rebates to sponsored accounts. The area currently receiving the most attention by federal agencies is their growing concern regarding undue foreign influence on university campuses.

Research Universities: Risks identified in our survey of other research universities found common themes around risks associated with research conducted off shore, cybersecurity, and disruptive technologies especially on-line education/learning strategies. Several noted concerns regarding admission processes; some arising from a recent highly publicized admission fraud, while others focused on the impact of changing demographics on enrollment goals, etc. Surprisingly, none identified state funding as a current risk – it appears that reduced funding has moved into a status as the “new normal.” The risks associated with performance-based funding did appear for the first time.

### Internal Risk Assessment Approach

We held discussions with 75 institutional officials from 40 units to solicit input on the University’s institutional risks and any specific areas of concern. Themes identified include President and other Senior Leader transitions, mental health, aging facilities, and the reorganization of the former Academic Health Center.

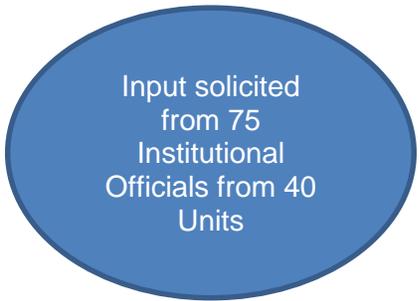
We also reviewed the Institutional Risk Profile as well as Board of Regents meeting agendas for topics of interest at the governance level.

### 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



Input solicited  
from 75  
Institutional  
Officials from 40  
Units

- Assessment of the activity's control environment
- Level of compliance concerns
- Impact of information technology
- Complexity and/or diversity of the activity
- Changes in the organization or leadership

Our operational risk assessment resulted in a risk ranking of 177 individual auditable activities, of which 24 are considered to be high-risk, 108 moderate-risk, and 45 low-risk. A rating of "high-risk" does not mean that the activity is perceived to have control problems, but rather reflects the criticality or centrality of the activity to the University's mission.

### ALLOCATION OF AUDIT RESOURCES

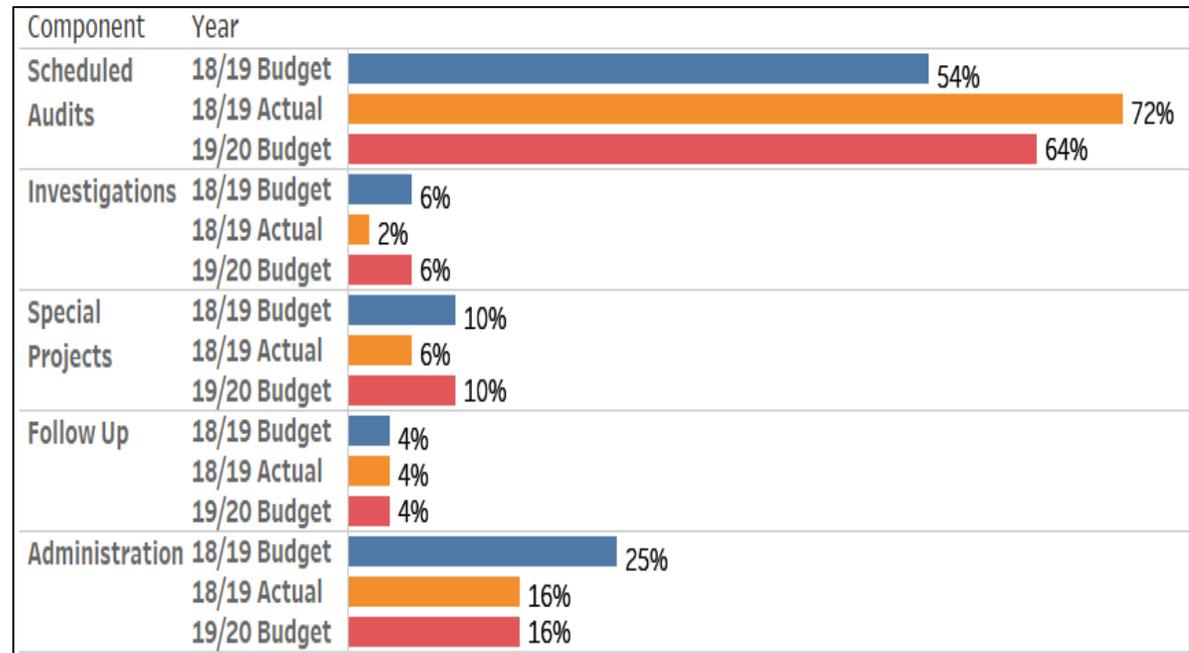
The audit plan is based on a planned staffing complement of 14.25 FTE audit professionals.

Approximately 64% of the Office of Internal Audit's resources are committed to the completion of planned audit projects. This year 7% of those resources will be needed to complete carry-over work from our FY 2019 audit plan. Nine audit projects are currently in process and will be reported in FY 2020.

The remainder of our FY 2020 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.
- 16% has been set aside for internal administrative functions, including our continuous improvement efforts. This remains fairly consistent with previous years.

**Percent of Audit Resources for FY 2019 and FY 2020**  
Percent of Available Time



## **OVERALL RISK FOCUS AND IMPACT ON THE FY 2020 AUDIT PLAN**

Our proposed internal audit plan for FY 2020 focuses on activities that impact campus safety, campus climate and the student experience. Audit work is also planned to assess controls to mitigate the occurrence of undue foreign influence. Selected academic units and operational areas are also included in the plan to maintain reasonable cycles of audit coverage.

We are approaching the audit plan with an expectation that flexibility may be needed to accommodate the needs of President-Designate Gabel as she joins the University and becomes more knowledgeable about its risks and their mitigation.

Additionally, President-Designate Gabel has expressed a preference for transition audits to be performed when senior leaders turnover. We will plan and make resource allocations for these audits as transitions occur.

## PROPOSED FISCAL YEAR 2020 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 2020 includes the following:

### Unit Audits

High Risk	Moderate Risk	Low Risk
<ul style="list-style-type: none"><li>• Student Finance</li><li>• Public Safety IT</li><li>• Vet Diagnostic Lab</li></ul>	<ul style="list-style-type: none"><li>• University Health and Safety</li><li>• Aurora Center</li><li>• UMD Health Services</li><li>• Housing and Residential Life</li><li>• UMD Student Life Administration</li><li>• Carlson School of Management</li><li>• Laboratory Medicine and Pathology</li><li>• Computer Science</li><li>• OIT Job Scheduling</li><li>• Minnesota Population Center</li><li>• NCAA Sport Audit</li><li>• Internal/External Sales</li></ul>	<ul style="list-style-type: none"><li>• UMD College of Liberal Arts</li></ul>

### Process Audits

High Risk	Moderate Risk
<ul style="list-style-type: none"><li>• Canvas/Unizon</li><li>• Visiting Scholars*</li></ul>	<ul style="list-style-type: none"><li>• Investigational New Drug/Devise Exemption</li><li>• Internet of Things*</li><li>• Pre-Paid Debit Cards*</li><li>• Contract Management*</li><li>• Gift Testing*</li></ul>

\* Includes unit-level audit testing

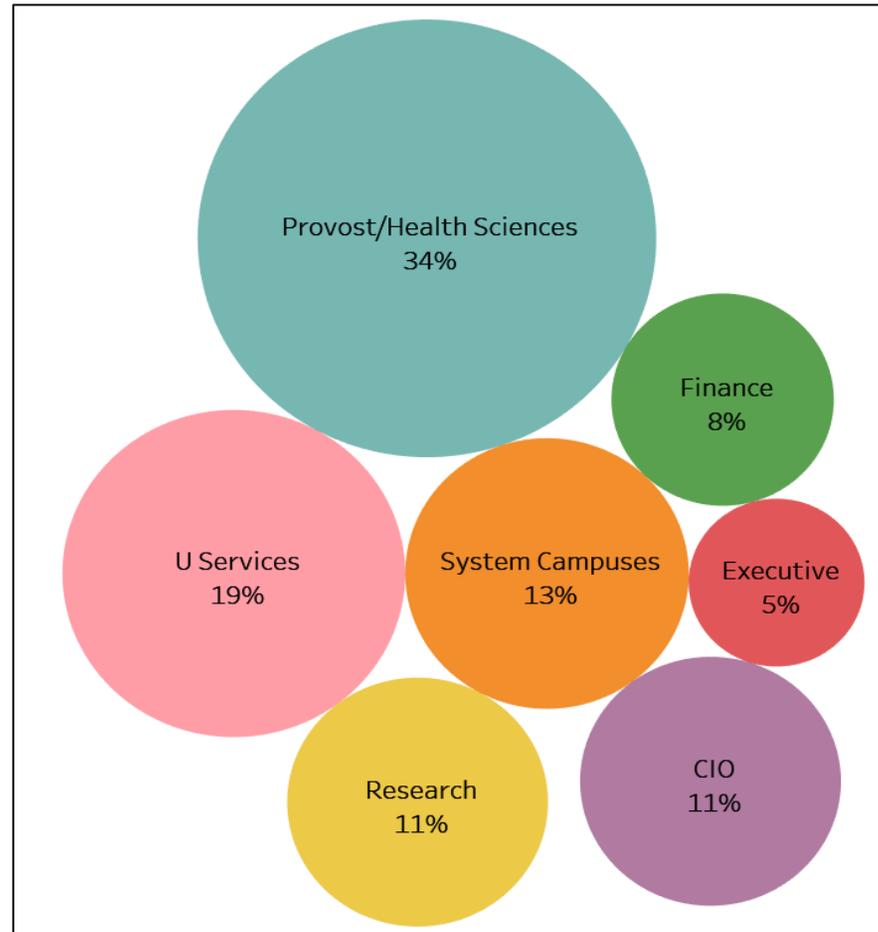
The proposed audit plan includes significant coverage of selected risks included on the current Institutional Risk Profile

### Audit Coverage of Institutional Risks

Institutional Risk	FY 20	FY 19	FY 18
Clinical Partnerships			
Collaboration w/ Externalities & Joint Ventures		X	
Decentralization	X	X	
Employee Demographics/Succession Planning			
Facilities – Maintenance, Scope & Alignment	X	X	
Faculty Retention			
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	X		
Public Funding Reliability, Economic Climate & Financial Sustainability		X	
Representational Diversity			
Shifting Enrollment Patterns		X	
High Risk Research	X	X	X
Research or Clinical Misconduct	X	X	X
Brand & Reputation Management	X	X	X
Campus Safety	X	X	X
Campus Climate & Free Speech	X		
Crisis Management		X	
Sexual Misconduct – Prevention, Training & Response	X	X	

The FY 2020 plan continues to provide well-balanced coverage across the University. The following chart shows the distribution of audit coverage by University component for FY 2020, based on the number of hours allocated to each component.

### FY 2020 Audit Coverage by University Components



### SUMMARY

The proposed FY 2020 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 FY 2019, a total of 2,115 employee surveys were sent out as part of our audit process, with a 58% 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.

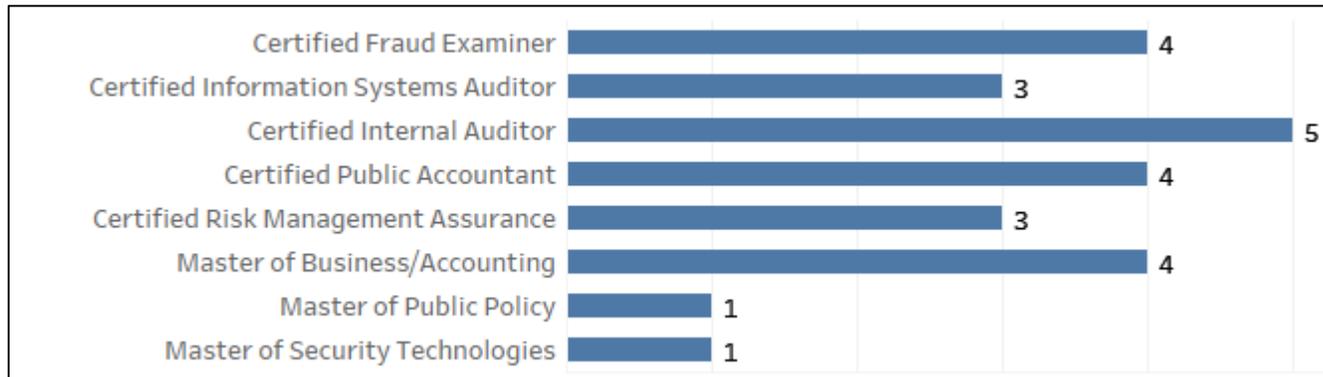
## STAFF DEVELOPMENT, QUALIFICATIONS AND PROFESSIONAL INVOLVEMENT

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 two of the professional internal audit staff are professionally credentialed or hold advanced degrees, and those two 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 and Advanced Degrees Held by Internal Audit Staff



In the first 10 months of FY 2019, the Office of Internal Audit provided over 1,600 hours of formal and informal training (an average of about 100 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 2020, 1,200 hours have been budgeted for formal staff training, an average of over 75 hours per employee.

Over 1600 Hours  
of Formal and  
Informal Training  
Provided

## **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 FY 2020.

## **OFFICE OF INTERNAL AUDIT FY 2018 STAFFING**

We experienced 12% turnover (two positions) in FY 2019. This is comparable to our normal turnover rate of 13%. These positions have not yet been filled.

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

The Office of Internal Audit received preliminary funding for a 2.25% compensation increase, consistent with the administration's expected pay plans. Additionally, the administration provided an additional 6.7% to address significant market disparities.

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

Audit Assessments for FY 2017- 2019

Appendix A

Academic	Finance	Information Technology	System Campuses	Human Resources	Student	Other
<b>Fiscal Year 2019</b>						
● Mechanical Engineering	● Investments and Banking	● AHC - IS	◆ University of Minnesota Crookston	◆ Employment Eligibility Verification	● Office of Athletic Compliance	● Advancing HRP #2
● Physics and Astronomy	● Close Out of Fixed Price Awards	● OIT Business Office	■ UMD School of Fine Arts		● ◆ Residency Determination	● Controlled Substances
● MN Extension Services		● Destiny One	■ UMD Police Department		● Athletics Other Revenue	◆ ROCs/ ● REPAs
● Obstetrics and Gynecology		IP Disaster Recovery	IP UMD Stores		● Office for Community Standards	● Compliance BOR Bylaws/Policies
● College of Veterinary Medicine		IP Business Continuity/EmerMgmt				● Technology Commercialization
						● The Hornell Institute
						● Travel Expenses
						● University Libraries
						○ Hospitality
						■ Weisman Art Museum
<b>Fiscal Year 2018</b>						
● CEMS	● Consulting Contracts	● ETHOS	● UMD Housing & Residential Life	■ FMLA	◆ Admissions	● Faculty Start Ups
● CCAPS	● Sponsored Financial Reporting	■ School of Public Health IT	● UMD NRRI		● GPS Alliance	● NCAA - Volleyball
● CEHD	○ Utilize Fed/State Procure Contract	● University Information Security	● University of Minnesota Morris		● Scholarships and Fellowships	● Public Safety
● IMA	● Exec, Regent & Eastcliff Expenses					● Athletics Exec & Senior Staff Rev
● Neurosurgery						● Bookstores
● School of Math						
● School of Nursing						
● Humphrey School of Public Affairs						
● Radiology and CMRR						
<b>Fiscal Year 2017</b>						
◆ School of Dentistry	● Pcard	● PCI Compliance	◆ UMD Undergrad Tuition Waiver	◆ OHR Operations	● Undergrad Intl. Admissions	● Sponsored Trans./Subawards
● Epidemiology	● Vendor Payment	● PeopleSoft IT	● UMD Swenson Science/Eng.		● Campus Solutions Upgrade	■ CUHCC
● Surgery	● Accounts Receivable Services	◆ Athletics IT			● McNamara Academic Center	● MN Vikings Close Out
■ College of Biological Sciences		● Auxiliary Services IT				● Export Controls
● CFANS Financial Cluster						● Advancing HRP
■ Earth Science						
● MN Geological Survey						
● CLA						

● Good
■ Adequate
◆ Needs Improvement
○ No Rating
IP In process

**Audits Completed**

**High Risk**

Office of Investments and Banking  
 Office of Athletic Compliance  
 Review of Select Adv Human Research Protection Items FY 18  
 Close Out of Fixed Price Awards  
 AHC Information Systems  
 Residency Determination

**Moderate Risk**

Mechanical Engineering  
 Physics and Astronomy  
 Technology Commercialization  
 MN Extension Services  
 University Libraries  
 College of Veterinary Medicine  
 University of Minnesota Crookston  
 OIT Business Office  
 UMD Police Department  
 Travel Expenses  
 Destiny One  
 ROCs/REPAs  
 Office for Community Standards  
 Controlled Substances  
 Employment Eligibility Verification

**Low Risk**

Obstetrics, Gynecology and Women’s Health  
 UMD School of Fine Arts

**Other Audits/Reviews**

Compliance with BOR Policies  
 Testing of UMF Transactions FY 18

**Non-Scheduled**

The Hormel Institute

**Snap Audits** – 13 reports issued

Personal Holiday, Time Reporting and Approval, Absence Query, Augmentations, Faculty and P&A Vacation Entry, Background Checks, “Reports To” Field, Workers Compensation, Retirement Plan Benefits, Minimum Wage, 1098-T Reporting, Work Study, Merit Increases effect on Augmentation Rates

**Audits Expected to be Completed in FY 19**

**High Risk**

Disaster Recovery  
 Business Continuity and Emergency Management  
 Athletics Other Revenue

**Moderate Risk**

UMD Stores  
 Hospitality and Other Special Expenses

**Low Risk**

Weisman Art Museum

**Audits Started in FY 19 and Will Be Completed in FY 20**

**High Risk**

Department of Psychiatry  
 Review of Select Adv Human Research Protection Items FY 19  
 Facilities Management Districts  
 OIT Account Management

**Moderate Risk**

CFANS Cluster  
 Mental Health Review  
 NCAA Compliance Football  
 UMD Admissions

**System-Wide Audits/Reviews**

Testing of UMF Transactions FY 19

**Snap Audits To Be Finalized**

Excused Paid Leave

**Audits Deferred and in 2020 Audit Plan**

Public Safety IT  
 UMD Student Life Administration

**Audits Cancelled**

Hospitality #2

# 2020 Internal Audit Plan

## Office of Internal Audit

Board of Regents Audit and Compliance Committee  
June 13, 2019



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# Topics

- FY 2019 Audit Results
- Risk Assessment and Plan Development
- FY 2020 Audit Plan
- Other Required Communications



# OIA Audit Services

## Traditional Audit Approaches

### Audit/Reviews

- Deliverable: Formal Audit Report
- Typical Level of Effort: 300 - 700 hours

### Investigations

- Deliverable: Investigation Summary
- Typical Level of Effort: 75 - 500 hours

### Advisory Services

- Deliverable: Audit Participation
- Typical Level of Effort: 75 - 250 hours

## New Audit Approaches

### Snap Audits

- Deliverable: Report Memo
- Typical Level of Effort: 50 - 150 hours

### Data Analytics

- Deliverable: Report Memo
- Typical Level of Effort: 25- 150 hours

### Collaborative Assessments

- Deliverable: Report Memo
- Typical Level of Effort: 100 - 500 hours



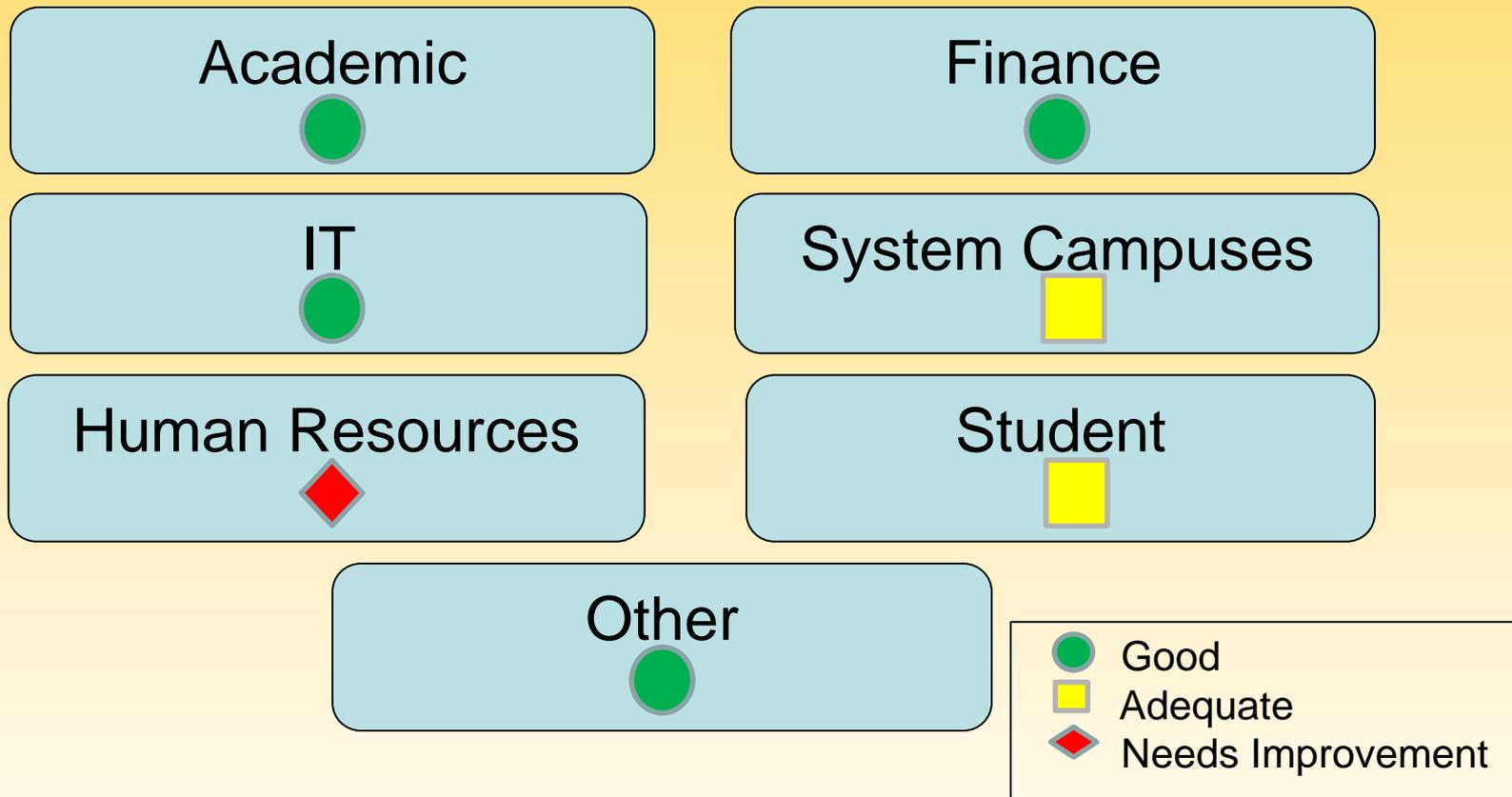
# 2019 Audit Results

- 32 Audits Completed
- 8 Investigations
- 13 Snap Audits Completed

## Overall Control Evaluation



# FY 2019 Audit Results

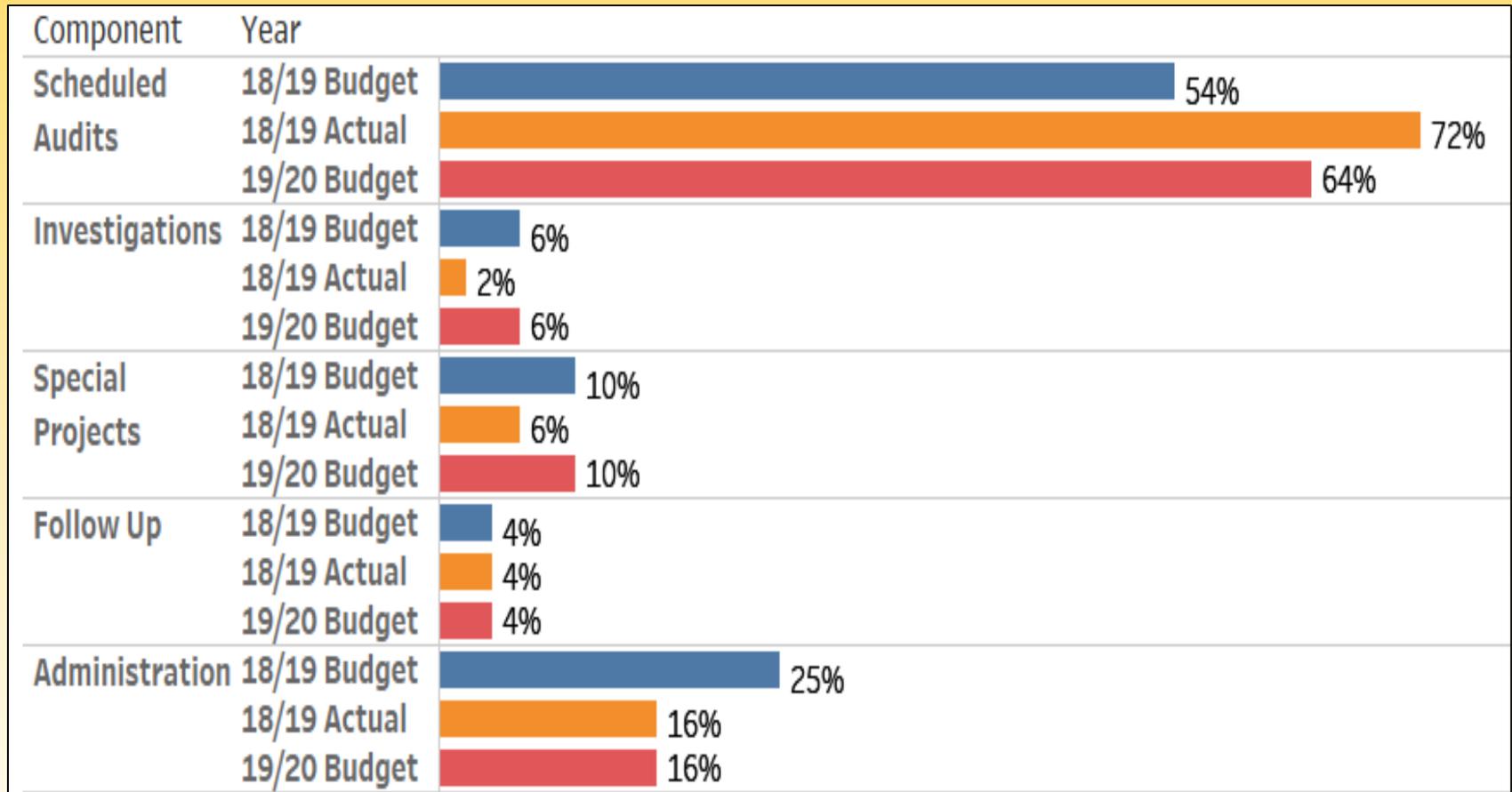


# Development of FY 20 Plan



# FY 2020 Allocation of Resources

COMPARISON OF AUDIT RESOURCES FOR FY 2019 AND FY 2020  
Percent of Available Time

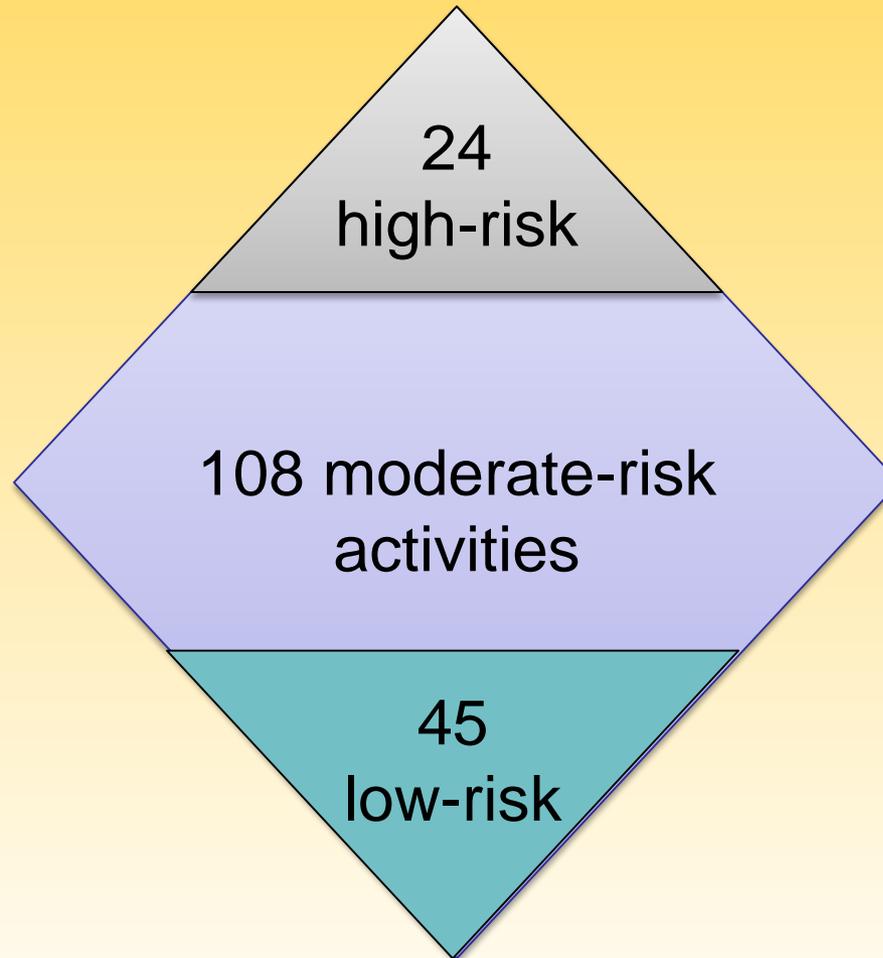


# Deploying Audit Resources

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



# Audit Universe



# Key Themes Identified

- Presidential Transition
- Undue Foreign Influence
- Student Experience
- Campus Climate
- Campus Safety
- Student Mental Health



# FY 2020 Annual Audit Plan

## Unit Audits

### High Risk

- Student Finance
- Public Safety IT
- Vet Diagnostic Lab

### Moderate Risk

- University Health and Safety
- Aurora Center
- UMD Health Services
- Housing and Residential Life
- UMD Student Life Administration
- Carlson School of Management
- Laboratory Medicine and Pathology
- Computer Science
- OIT Job Scheduling
- Minnesota Population Center
- NCAA Sport Audit
- Internal/External Sales

### Low Risk

- UMD College of Liberal Arts



# FY 2020 Annual Audit Plan

## Process Audits

### High Risk

- Canvas/Unizon
- Visiting Scholars

### Moderate Risk

- Invest New Drug/Devises Exemption
- Internet of Things
- Pre-Paid Debit Cards
- Contract Management
- UMF Transactions



# Audit Coverage of Institutional Risks

Institutional Risk	FY 20	FY 19	FY 18
Clinical Partnerships			
Collaboration w/ Externalities & Joint Ventures		X	
Decentralization	X	X	
Employee Demographics/Succession Planning			
Facilities – Maintenance, Scope & Alignment	X	X	
Faculty Retention			
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	X		
Public Funding Reliability, Economic Climate & Financial Sustainability		X	
Representational Diversity			
Shifting Enrollment Patterns		X	
High Risk Research	X	X	X
Research or Clinical Misconduct	X	X	X
Brand & Reputation Management	X	X	X
Campus Safety	X	X	X
Campus Climate & Free Speech	X		
Crisis Management		X	
Sexual Misconduct – Prevention, Training & Response	X	X	



# Institutional Risk Profile

## Audit Coverage

### **High Risk Research/Research or Clinical Misconduct**

- Visiting Scholars
- Vet Diagnostic Lab
- Laboratory Medicine/Pathology
- Investigational New Drug/Device Exemption
- Minnesota Population Center
- Internet of Things

### **New & Disruptive Educational Models**

- Canvas/Unizon



## **Information Technology - Security/Failure/Resilience/Cost**

- Internet of Things
- Public Safety IT
- OIT Job Scheduling

## **Facilities – Maintenance, Scope & Alignment**

- University Health and Safety
- Housing and Residential Life

## **Campus Safety**

- University Health and Safety
- Housing and Residential Life
- Public Safety IT
- UMD Health Services

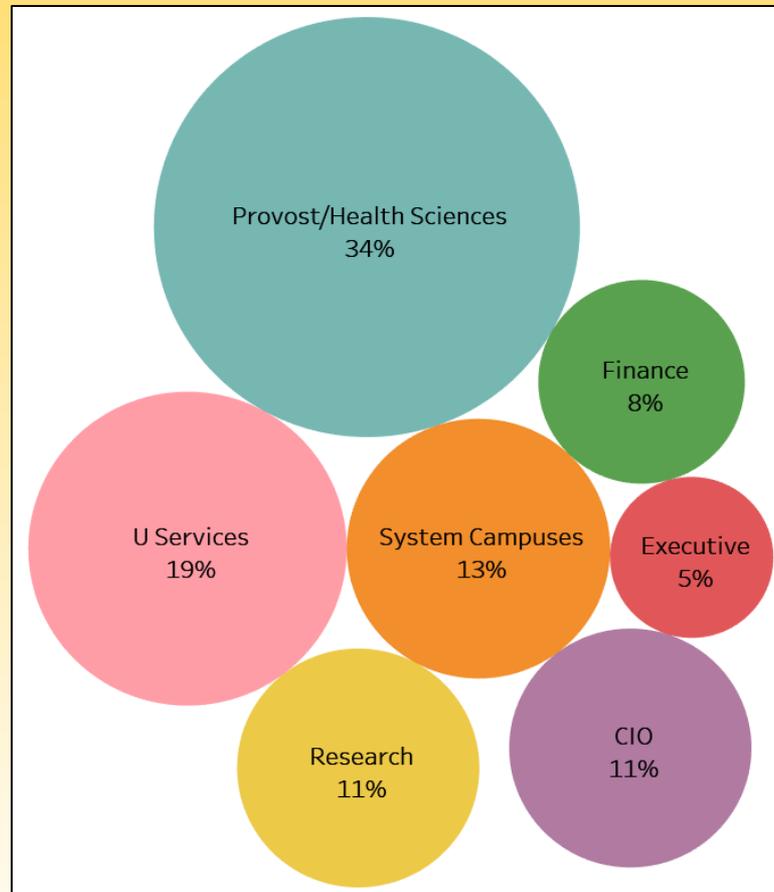


# Sexual Misconduct – Prevention, Training & Response

- Aurora Center
- Housing and Residential Life
- UMD Student Life
- UMD Health Services



# FY 2019 Audit Coverage by Major Component



# The 2020 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?



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# BOARD OF REGENTS DOCKET ITEM SUMMARY

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**Audit & Compliance**

**June 13, 2019**

**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 2019 meeting, 42 percent of the outstanding recommendations rated as “essential” were implemented by University departments. This exceeds the expected implementation rate of 40 percent. Five units fully implemented all their remaining “essential” recommendations.
- An updated control evaluation chart is included for each audit to show progress made on the “essential” items.
- Seven audit reports containing 12 recommendations rated as “essential” were issued in the last four months.
- A summary of FY 2019 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 13, 2019

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 2019
- SNAP Audit Summary

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**

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#### **Status of Critical Measures**

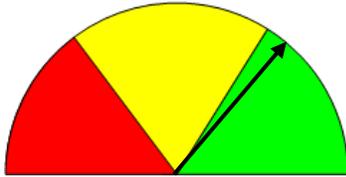
As part of our on-going efforts to provide the Audit and Compliance Committee with critical information in as concise a format as possible, we have developed the following three charts to present a quick overview of work performed by the Office of Internal Audit.

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 2019 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).

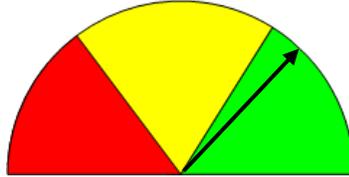
The final chart, “Time Spent on Non-Scheduled Activities,” provides a status report on the amount of time consumed by investigative activities, special projects and other management requests. Our annual plan provided an estimated budget for this type of work, and the chart will indicate whether we expect 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**



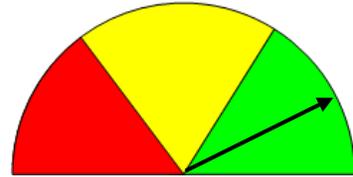
Implementation rates were 42% for the period, more than our expected rate of 40%.

**Progress Towards Annual Audit Plan Completion**



Time spent to date on the FY 2019 audit plan is what was expected and budgeted for the year to date.

**Time Spent on Non-Scheduled Audit Activities**



Time spent on investigations, special projects and management requests is less than expected and budgeted for the year to date.

**Other items:**

One of our Office's Audit Managers, Quinn Gaalswyk, was recently appointed to be an external member to the Metropolitan Council's Audit Committee. External members are selected to provide the Committee with professional expertise in such areas as: finance, accounting, auditing, information systems, management, operations and program performance. His term will run through January 2021.

# Status of Essential Recommendations

■ Not Started   
 ■ Partial   
 ■ Complete

## Current Period Metrics

Total Recommendations: **83**  
 Completed Recommendations: **35**  
 % Recommendations Completed: **42%**

## Past Completion Percentages

Oct 2018 **34%**  
 Feb 2019 **41%**

## Project Overview

Audit	Year..	Month of ..	Status		Overall Progress Towards Implementation:
Admissions, Office of FY18	2017	October	<b>Past Due</b>		Satisfactory
AHC-IS FY19	2018	December	<b>On-Schedule</b>		Satisfactory
Athletics IT FY17	2017	May	<b>Past Due</b>		Satisfactory
Dentistry School of FY17	2016	October	<b>Past Due</b>		<b>Completed</b>
Employment Eligibility Verification FY19	2018	August	<b>Past Due</b>		Satisfactory
Family Medical Leave Act Review FY18*	2018	May	<b>Past Due</b>		Satisfactory
Global Programs and Strategy Alliance FY18	2018	April	<b>Past Due</b>		Satisfactory
Libraries, FY19	2019	January	<b>On-Schedule</b>		Satisfactory
Mathematics, School of FY18	2017	October	<b>Past Due</b>		<b>Completed</b>
Mechanical Engineering FY19	2018	September	<b>On-Schedule</b>		<b>Completed</b>
			<b>Past Due</b>		
ObGyn, Department of FY 19	2018	November	<b>Past Due</b>		<b>Completed</b>
Public Health IT, School of FY18	2018	January	<b>On-Schedule</b>		Satisfactory
			<b>Past Due</b>		
Public Safety, Department of FY18	2018	January	<b>On-Schedule</b>		Satisfactory
			<b>Past Due</b>		
Residency Determination, FY19	2019	January	<b>On-Schedule</b>		Satisfactory
Review of Controlled Substances in Resear..	2018	November	<b>Past Due</b>		<b>Completed</b>
Review of ROC & REPA Processes, FY19	2019	January	<b>On-Schedule</b>		Satisfactory
UMC, FY19	2019	January	<b>On-Schedule</b>		Satisfactory
			<b>Past Due</b>		
UMD Fine Arts, School of FY19	2019	March	<b>On-Schedule</b>		Satisfactory
			<b>Past Due</b>		
UMDPD, FY19	2019	January	<b>On-Schedule</b>		Satisfactory
			<b>Past Due</b>		
University Information Security FY18	2018	May	<b>On-Schedule</b>		Satisfactory
			<b>Past Due</b>		

\* One issue closed, but not implemented as the unit is accepting the associated risk. See the following page for further details.

## Notes on Status of Essential Recommendations

### Response for FMLA tracking issue in the Family Medical Leave Act Review FY18 audit

Per Kathryn Brown, Vice President for Human Resources:

The Office of Human Resources reviewed the recommendation for the tracking of employee FMLA time in the Absence Management system and determined this is not a feasible approach for the following reasons:

1. The Absence Management system only tracks out of office time for employee groups that receive earned paid time off for different reasons (i.e., vacation, sick time, comp time, etc.). Therefore, the Absence Management system can not track time away from work when there isn't earned paid time off, i.e. faculty and P&A employee do not earn sick time by the hour, without reprogramming.
2. Additionally, the Absence Management system is not designed to handle retroactive processing of FMLA, and attempting to process it retroactively puts the overall University payroll at greater risk of being able to complete it in a timely manner.
3. Reprogramming the system to address these issues, and other minor issues, is expensive and not cost effective given that we will be looking at the viability of the Absence Management system in the next 12-18 months.

Given the reasons cited above, the tracking of continuous FMLA time will be managed out of PeopleSoft job data system for all employee groups. This will be effective and not add additional costs.

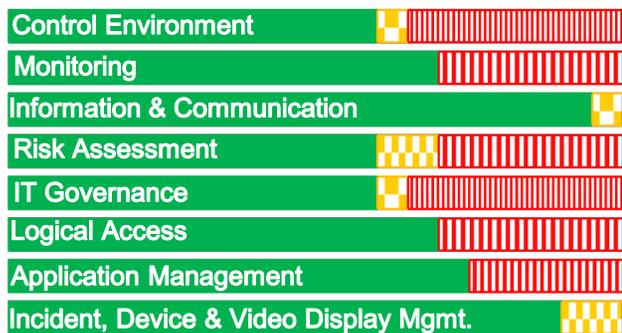
*Current Status of Recommendations Rated as "Essential" That Are Over Two Years Old and Are Not Fully Implemented*

<b>Audit/ Report Date</b>	<b>Status- Partially Implemented (P) or Not Implemented (N)</b>	<b>Senior Management Contact</b>	<b>Summary of the Issue/Risk Involved</b>	<b>Current Comments From Management</b>
Athletics IT May 2017	Not Implemented  Not Implemented	Rhonda McFarland	<p>Athletics should implement processes to obtain logs for AHMS to ensure that the system captures all pertinent user access and activity as required by HIPAA and University policy.</p> <p>Athletics should implement patient record view monitoring for the AHMS system to demonstrate compliance with HIPAA requirements regarding audit controls. Athletics should implement procedures to review all such activity on a regular basis and notify the Health Information Privacy &amp; Compliance Office in the event the monitoring indicates that any patient records are being viewed without patient authorization or for purposes other than treatment, payment or health care operations.</p>	Two recommendations for issue #3 from the 2017 Intercollegiate Athletics IT audit remain open. Athletics is in the process of replacing its health management system by switching to Fairview's Electronic Medical Record system. While this system is expected to provide the most effective controls and be the most efficient for Athletics staff, the migration has been delayed due to the lengthy contract negotiations between the University and Fairview. A scope agreement has now been created that outlines the project to implement the EMR system. As soon as Fairview and the University of Minnesota Physicians execute the necessary documents, Athletics plans to begin using Fairview's EMR and implement the necessary monitoring controls. Based on the timeline for the project provided by Fairview, the legacy system shut-down, the implementation, and monitoring control processes are expected to be completed by the fall of 2019.
# of Items	2			

**Total:** 2

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 2019, 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



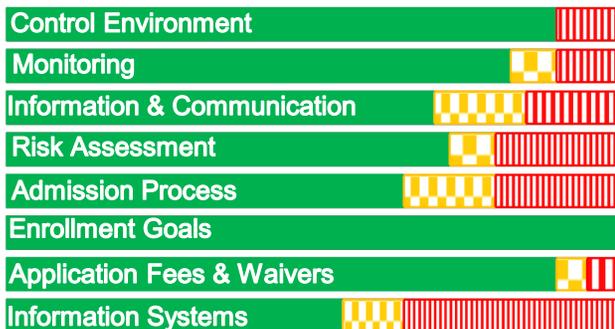
Previous Quarter Evaluation  
Athletics IT (May 2017)



Current Quarter Evaluation



Office of Admissions (Aug 2017)



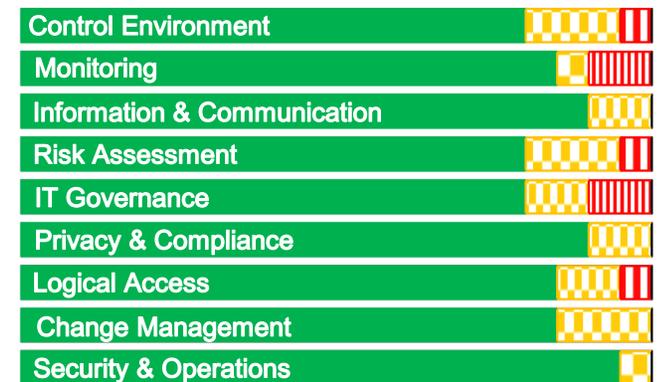
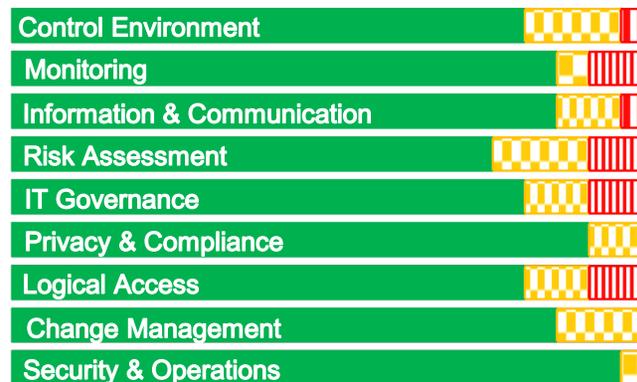
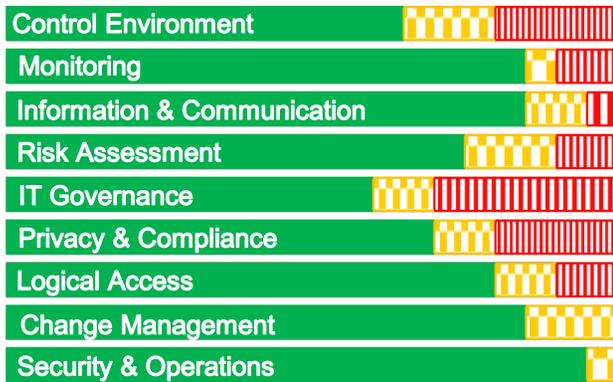
■ Adequate Control   ■ Significant Control Issue(s)   ■ Critical Control Issue(s)

Original Report Evaluation

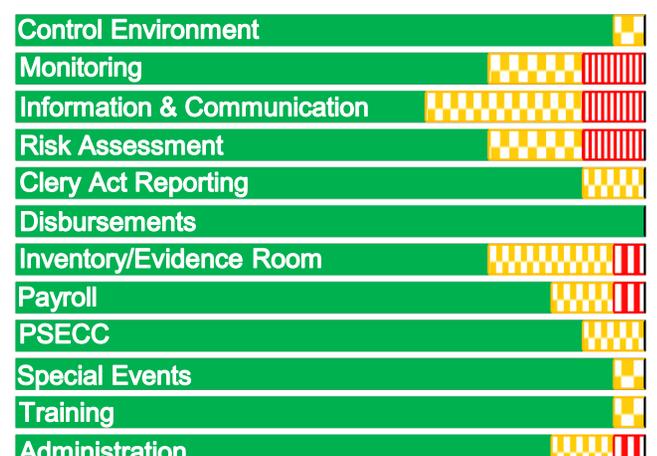
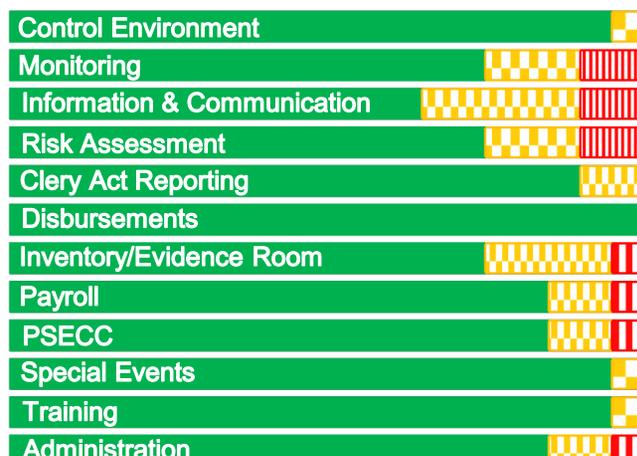
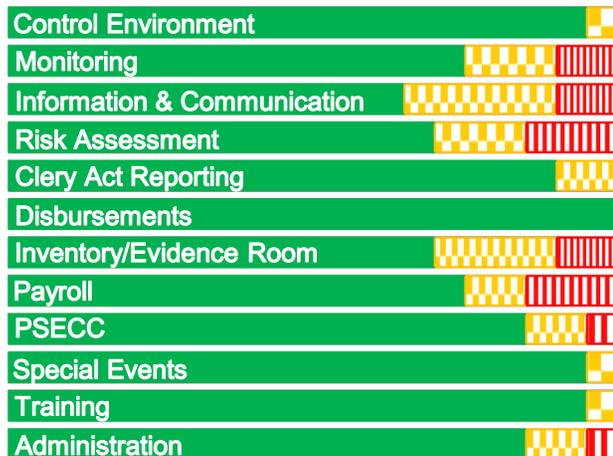
Previous Quarter Evaluation

Current Quarter Evaluation

School of Public Health IT (Jan 2018)

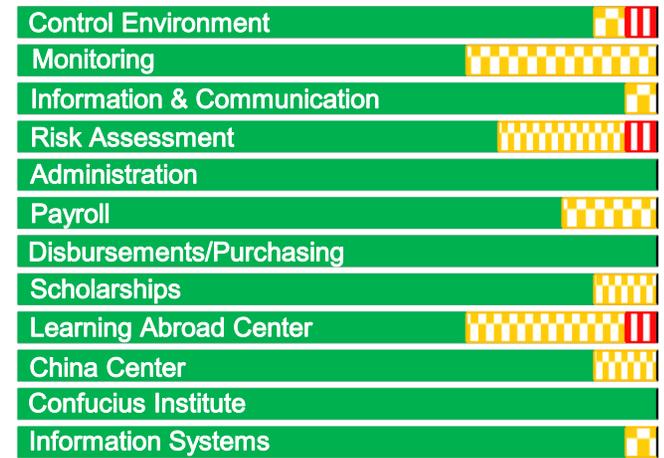
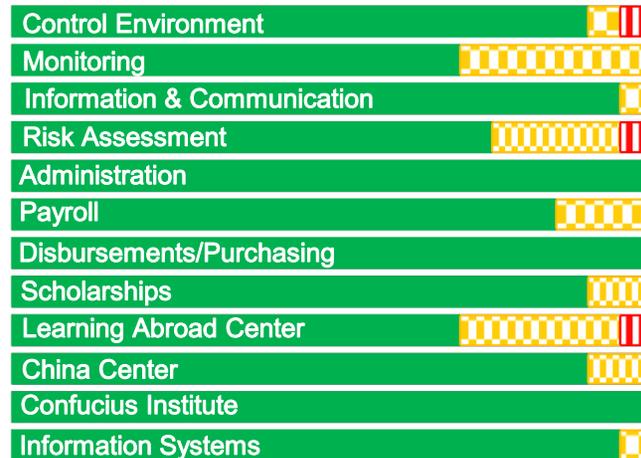
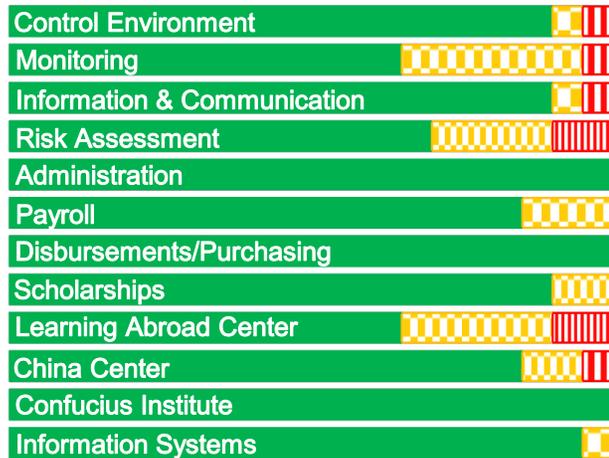


University Public Safety (Jan 2018)

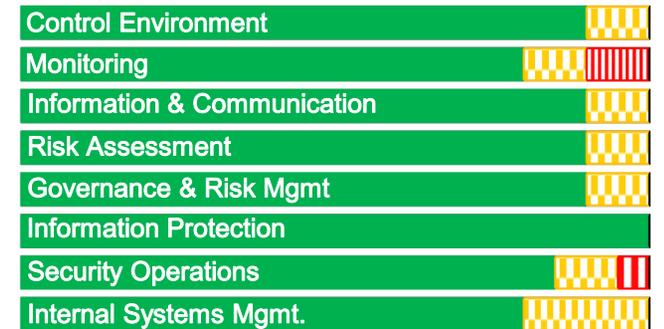
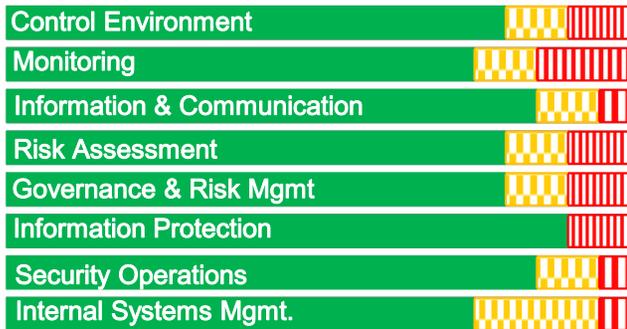


■ Adequate Control   ■ Significant Control Issue(s)   ■ Critical Control Issue(s)

Global Programs and Strategy Alliance (Apr 18)



University Information Security (May 2018)



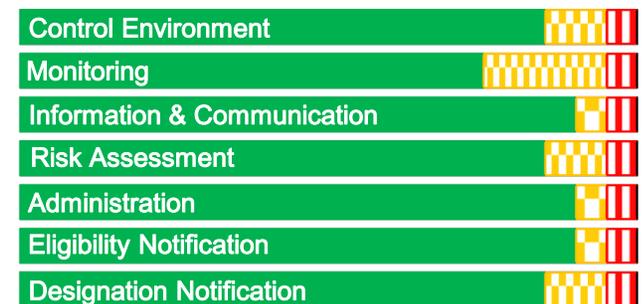
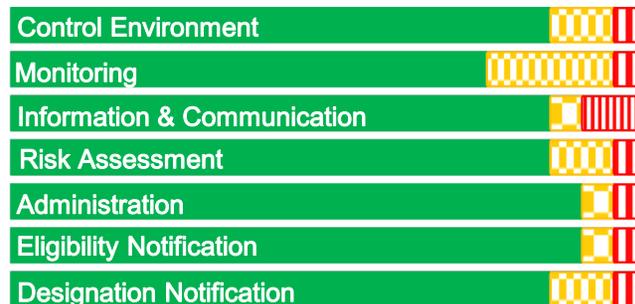
■ Adequate Control   ■ Significant Control Issue(s)   ■ Critical Control Issue(s)

Original Report Evaluation

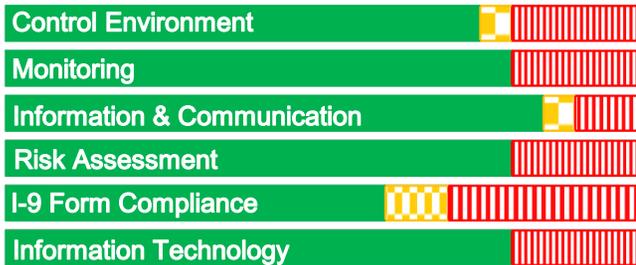
Previous Quarter Evaluation

Current Quarter Evaluation

Family Medical Leave Act Review (May 2018)

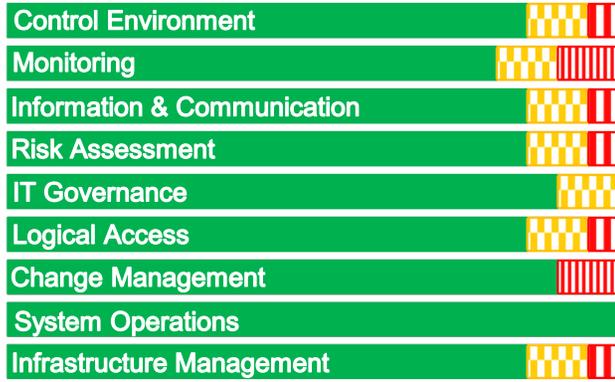


Employment Eligibility Verification (Aug 2018)

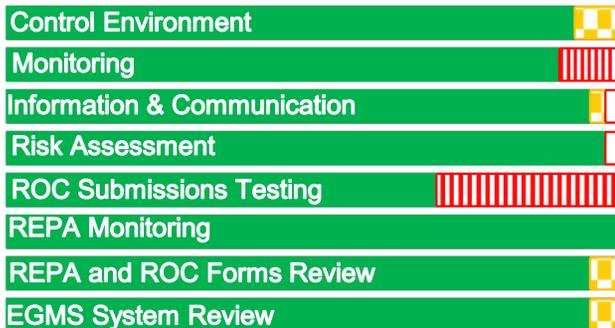


■ Adequate Control   ■ Significant Control Issue(s)   ■ Critical Control Issue(s)

Academic Health Center Information Systems (Dec 2018)

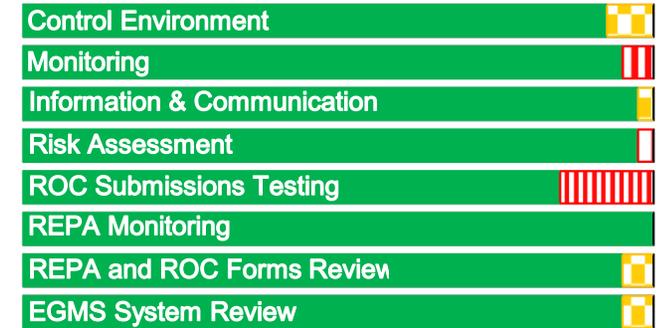


NO PREVIOUS  
CONTROL EVALUATION  
CHART



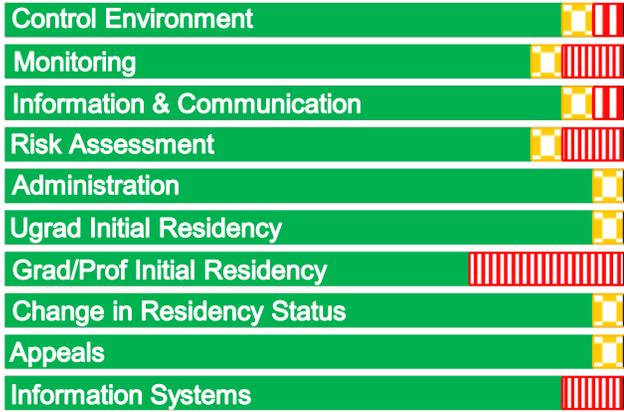
ROC and REPA Processes (Jan 2019)

NO PREVIOUS  
CONTROL EVALUATION  
CHART



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

Original Report Evaluation

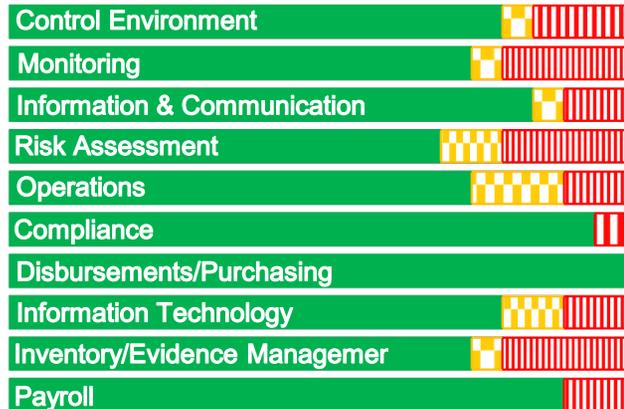
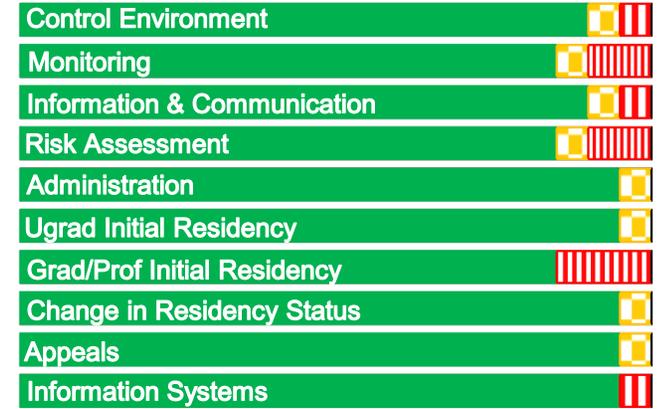


Previous Quarter Evaluation

Residency Determination (Jan 2019)

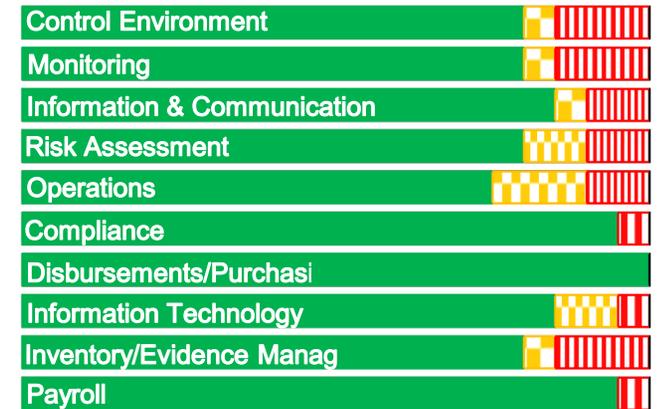
NO PREVIOUS  
CONTROL EVALUATION  
CHART

Current Quarter Evaluation



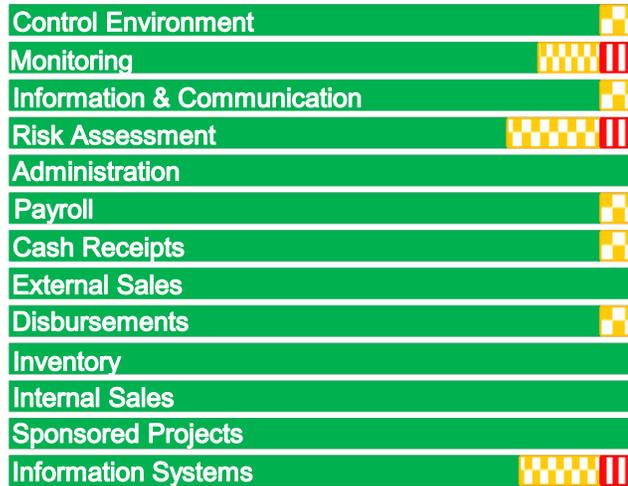
UMD Police Department (Jan 2019)

NO PREVIOUS  
CONTROL EVALUATION  
CHART



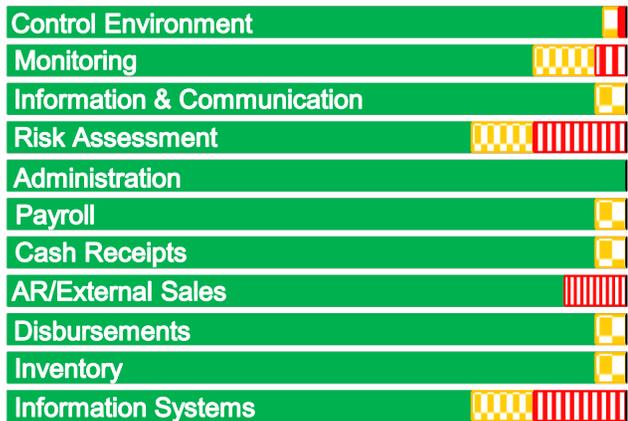
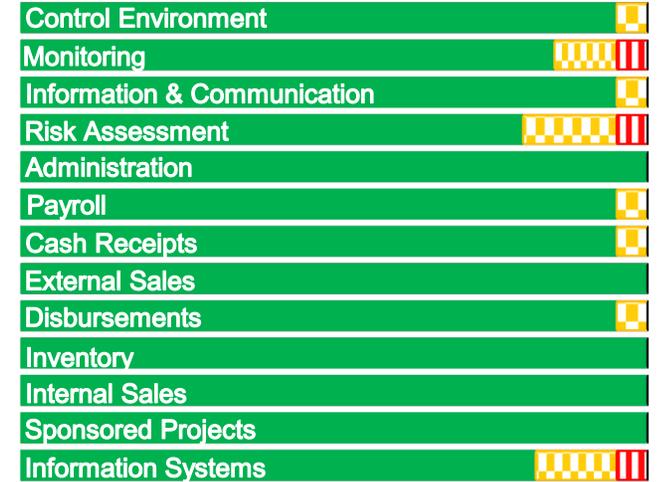
■ Adequate Control   ■ Significant Control Issue(s)   ■ Critical Control Issue(s)

University of Minnesota Libraries and Minitex (Jan 2019)



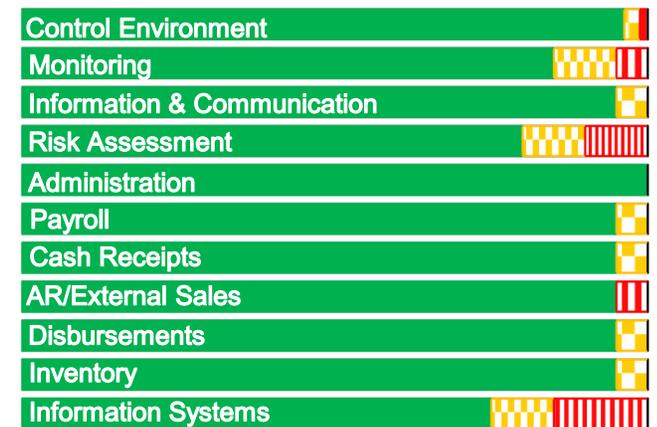
Libraries

NO PREVIOUS  
CONTROL EVALUATION  
CHART



Minitex

NO PREVIOUS  
CONTROL EVALUATION  
CHART



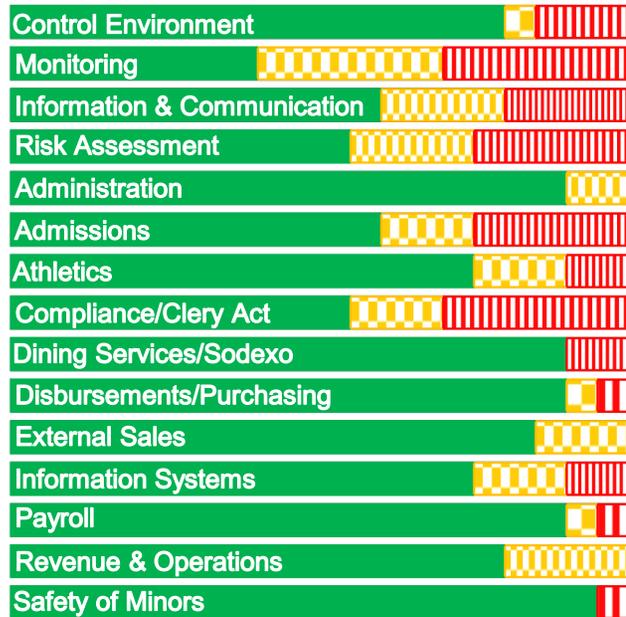
■ Adequate Control   ■ Significant Control Issue(s)   ■ Critical Control Issue(s)

Original Report Evaluation

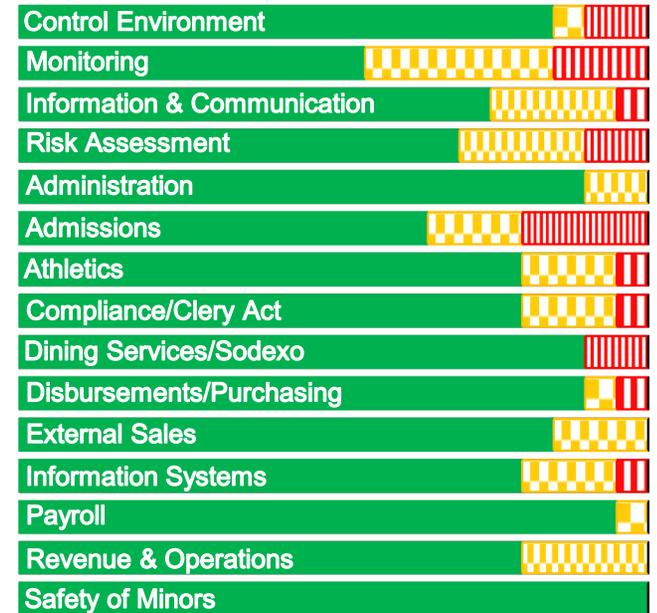
Previous Quarter Evaluation

Current Quarter Evaluation

University of Minnesota Crookston (Jan 2019)



NO PREVIOUS  
CONTROL EVALUATION  
CHART



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

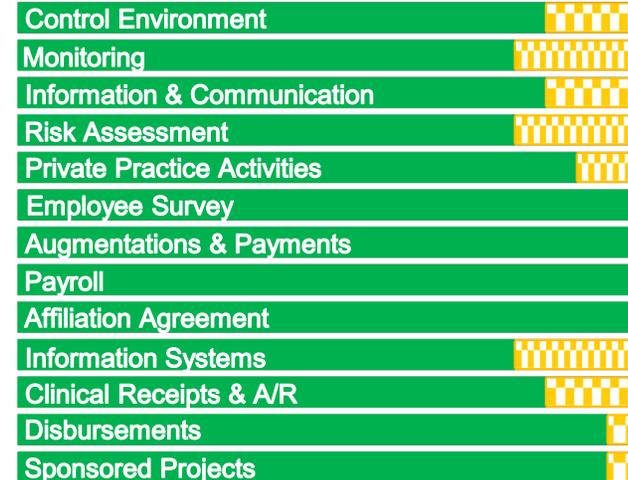
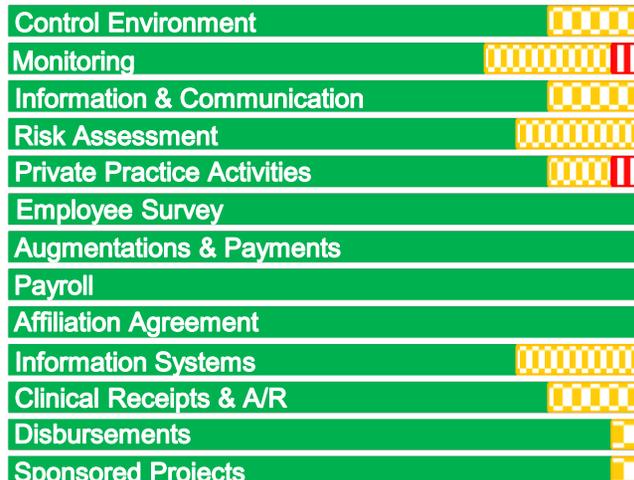
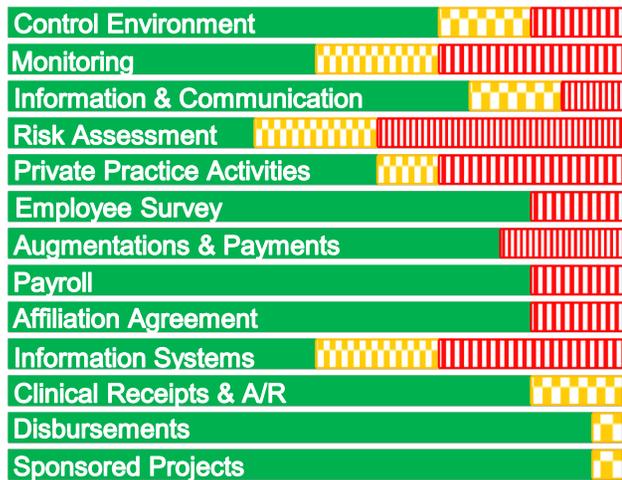
## Units with Charts that Fully Implemented their "Essential" Recommendations During the Past Quarter

Original Report Evaluation

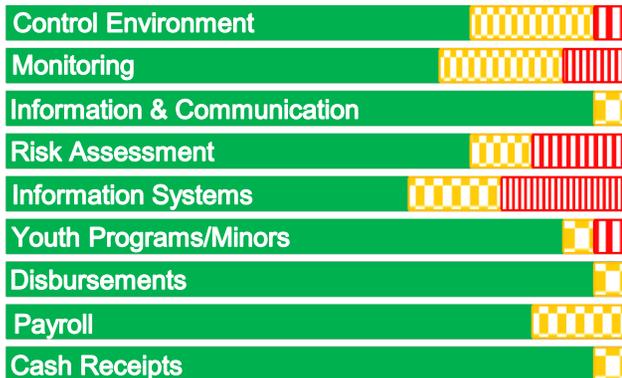
Previous Quarter Evaluation

Current Quarter Evaluation

School of Dentistry (Oct 2016)



School of Mathematics (Oct 2017)



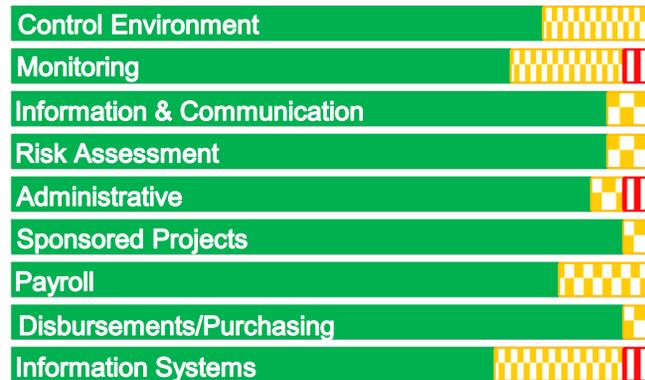
■ Adequate Control   
 ■ Significant Control Issue(s)   
 ■ Critical Control Issue(s)

Original Report Evaluation

Previous Quarter Evaluation

Current Quarter Evaluation

Mechanical Engineering (Sep 2018)



Obstetrics, Gynecology and Women’s Health (Nov 2018)



NO PREVIOUS  
CONTROL EVALUATION  
CHART



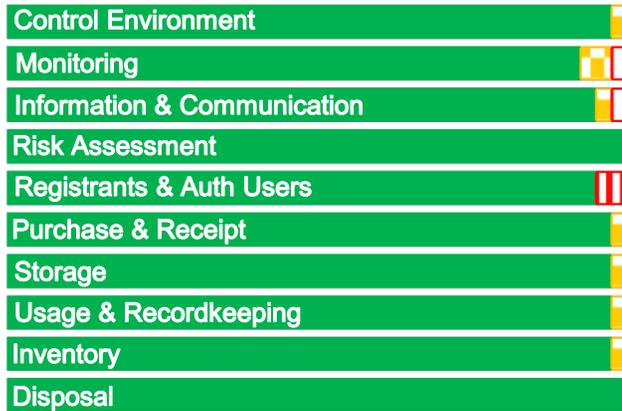
■ Adequate Control   ■ Significant Control Issue(s)   ■ Critical Control Issue(s)

Original Report Evaluation

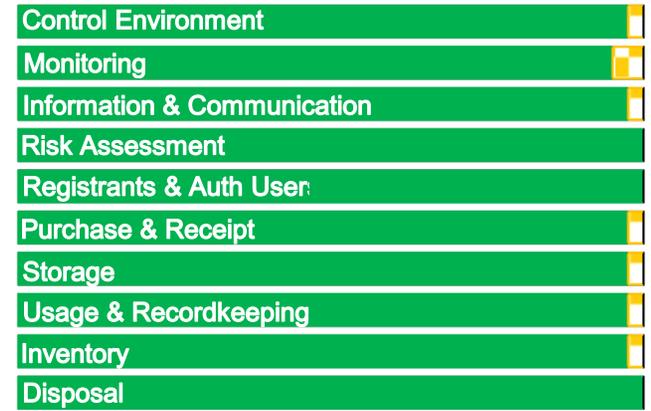
Previous Quarter Evaluation

Current Quarter Evaluation

Review of Controlled Substances in Research (Nov 2018)



NO PREVIOUS  
CONTROL EVALUATION  
CHART



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

# Audit Activity Report

## Scheduled Audits

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### Completed Audits Of:

- UMD School of Fine Arts
- OIT Business Office
- Office of Investments and Banking
- Technology Commercialization
- The Hormel Institute
- College of Veterinary Medicine
- Office for Community Standards

Details are shown on the following charts.

### Began/Continued Audits Of:

- Review of Hospitality Expenses (Systemwide)
  - Disaster Recovery
  - Business Continuity and Emergency Preparedness
  - UMD Stores
  - Advancing Human Research Protections 2019
  - Department of Psychiatry
  - Weisman Art Museum
  - Facilities Management Districts
  - CFANS Plant Sciences and BBE Division
  - Athletic Compliance- Football
  - UMD Admissions
  - OIT Account Management
  - Athletics Other Revenue
- 
- Finalized results of gift testing for reporting to the UMF Committee in compliance with the Memorandum of Understanding between UMF and the University.
  - Began collaborative review of University Mental Health services with the Provost's Office.
  - 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.
  - Completed two "SNAP Audits": one on employee personal holiday usage, which included suggested remediation steps and one on the effect merit increases may have on augmentation rates, which did not include remediation steps.

## Investigations

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

## Special Projects

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- Provided consulting services related to University payroll exception testing.

- Provided technology consulting in several areas including: vendor management and purchasing processes, HIPAA security, system logging and monitoring, account management, and the IT security framework and policies.
- Began management requested review of faculty research support and course assignments at UMD's Swenson College of Science and Engineering.

## Other Audit Activities

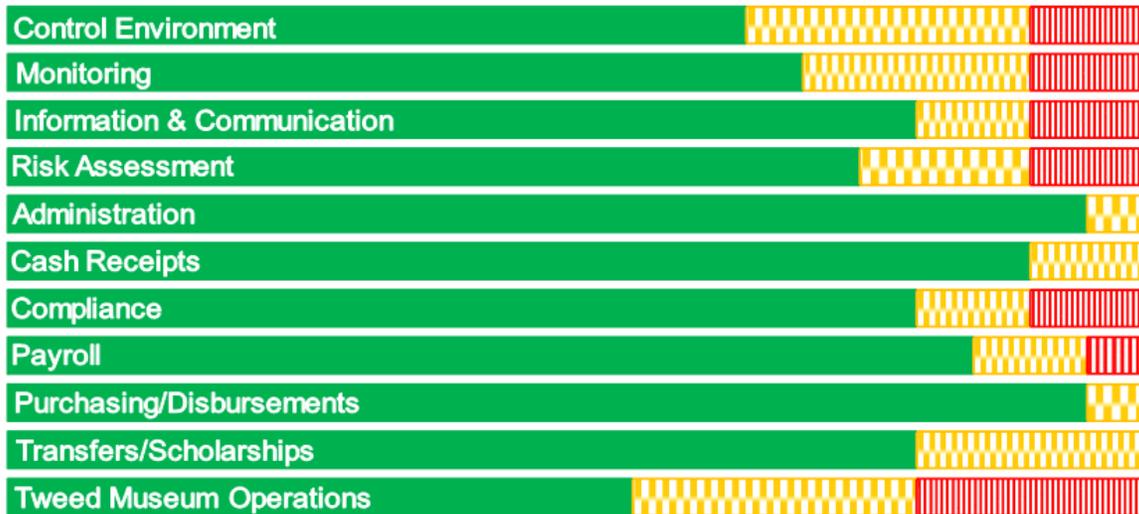
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### Participated in the following:

- 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
- NSF audit oversight committee
- HRPP Advisory Committee
- Research Compliance Committee
- GDPR Consultation Committee
- Use Case Categorization Scheme Committee
- P & A Senate
- SVP Senior Leadership Academy
- Data Center Co-Location Initiative
- Data Storage Council
- Security Vulnerability Task Force

# Audit Reports Issued Since February 2019

## UMD School of Fine Arts



Report #	1919	Issue Date	Mar-19
# of Essential Recs.	7	Total # of Recs.	23
Overall Assessment	Adequate	Adequacy of MAP	Satisfactory

Results of the audit work performed show that UMD SFA has developed a system of internal controls that address most major business, compliance and information technology risks with the exception of the Tweed Museum, where we identified multiple material concerns. The issues associated with Tweed, and most other issues identified in this report, likely stem from insufficient centralized college oversight.

## OIT Business Office



Report #	1920	Issue Date	Apr-19
# of Essential Recs.	0	Total # of Recs.	12
Overall Assessment	Good	Adequacy of MAP	Satisfactory

OIT Business Office is the administration department of OIT. The office oversees OIT's: finances, inventory management, human resources, IT policy and compliance coordination, and communications. From the results of the audit work performed, we believe OIT Business Office has developed a strong control environment and a system of internal control, which addresses most major business and compliance risks. Their staff is highly capable and knowledgeable of University policies and practices. This competency was evident across all areas reviewed, but especially for payroll and disbursement processes where our testing identified fewer errors than typically seen in similar audits.

## Office of Investments and Banking



Report #	1921	Issue Date	Apr-19
# of Essential Recs.	0	Total # of Recs.	3
Overall Assessment	Good	Adequacy of MAP	Satisfactory

The Office of Investments & Banking (OIB) is responsible for all treasury and investment activities at the University of Minnesota. The OIB considers itself to have three core functions and many ancillary functions. The core functions include managing the investment of the University's endowment, managing the investment of the University's operating pool, and overseeing the University-wide treasury operations. The ancillary functions include work with the retirement plans, supplemental investment programs, discovery capital, natural gas hedging, and ad hoc projects and analysis. We believe OIB has developed a control environment and a system of internal control that addresses most of its major business and compliance risks.

## Technology Commercialization



Report #	1922	Issue Date	Apr-19
# of Essential Recs.	1	Total # of Recs.	10
Overall Assessment	Good	Adequacy of MAP	Satisfactory

Technology Commercialization (Tech Comm), a unit within the Office of the Vice President for Research, helps University research move beyond the lab and into the marketplace and is one of the leading technology transfer offices in the US. The transfer of research to licensee companies furthers the development of new products and services that benefit the public good, fosters economic growth, and generates revenue to help support the University's research and education goals. From the results of the audit work performed, we believe Tech Comm's control environment and system of internal controls is generally good. The audit resulted in one issue considered

and system of internal controls is generally good. The audit resulted in one issue considered “essential”: the distribution percentage used in royalty payments was not in compliance with Board of Regents policy.

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

### The Hormel Institute



Report #	1923	Issue Date	Apr-19
# of Essential Recs.	0	Total # of Recs.	3
Overall Assessments:	Good	Adequacy of MAP	Satisfactory

The Hormel Institute is a leading cancer research department of the University with faculty that are members of the Masonic Cancer Center, an NCI Designated Comprehensive Cancer Center. Its research focuses on accelerating answers to cancer by determining the basic molecular mechanisms of cancer development and finding better ways to prevent, detect and treat cancer. This audit was performed to determine compliance obligations regarding reporting and involvement with foreign institutions, based on Federal laws and University policies and procedures. From the results of the audit work performed and interviews conducted, we did not find any significant evidence to cause concern of violations of any laws or University policies around intellectual property; however, we also determined that at The Hormel Institute, as well as elsewhere research is conducted, there are inherently limited controls to prevent the potential for misappropriation of intellectual property beyond communication of applicable laws and policies. Certain issues that had potential legal implications were forwarded to the Office of the General Counsel for further review.

### College of Veterinary Medicine



Report #	1924	Issue Date	May-19
# of Essential Recs.	4	Total # of Recs.	6
Overall Assessments:	Good	Adequacy of MAP	Satisfactory

Established in 1947, the University of Minnesota College of Veterinary Medicine (Vet Med) is Minnesota’s only veterinary college. Vet Med is comprised of three departments; Veterinary and Biomedical Sciences, Veterinary Clinical Sciences, and Veterinary Population Medicine. Vet Med

leadership recently recognized a need for improvement in managing department budgets. They implemented proactive efforts to meet with each department once or twice a month, an improvement from the past practice of meeting annually to discuss budgets. This has forced each department to stay focused and attentive to their budget. This process improvement moved two Vet Med departments out of financial trouble, leaving only one department with room to tighten financial controls. Issues marked as "essential" include activities related to external sales and training for sponsored project activities.

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

## Office for Community Standards



Report #	1925	Issue Date	May-19
# of Essential Recs.	0	Total # of Recs.	4
Overall Assessment:	Good	Adequacy of MAP	Satisfactory

The Office for Community Standards (OCS), a unit under the Office for Student Affairs, is responsible for addressing potential Student Conduct Code violations in and outside the classroom. The office meets with students to resolve alleged violations using student development and restorative justice practices when possible. We believe OCS has developed a control environment and a system of internal control that addresses most operational and compliance risks. The audit resulted in no issues considered "essential" to minimizing existing operational and compliance risks. However, four issues were rated significant and involve improving processes related to student discipline, communication regarding syllabi language around academic dishonesty, and periodic access review for the student conduct database.

## SNAP Audit Summary

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SNAP audits are highly-focused reviews conducted on a single University process or activity. These audits are designed to be completed quickly, and often leverage data analytics to minimize unit disruptions. They are intended to provide prompt results to business process owners so that potential problems can be addressed prior to formal audit reviews. The following is a summary and associated results of the Snap audits we conducted this reporting period.

- **Merit Increases - Effect on Augmentation Rates**

Employee's receiving augmentation pay do not have merit increases handled consistently. There are instances where merit increases are calculated from the combination of base pay and an augmentation, and other times when it is not. The administrative procedure entitled, "Determining Salaries for Academic Professional and Administrative Employees" says that "Any salary adjustments during the term of administrative office are appropriately divided between the base and the augmentation." We received clarification from the business process owner that unit managers have latitude when deciding whether to increase the augmentation or not when providing merit increases. We advised OHR to consider reviewing and clarifying the language of the policy's administrative procedure to reflect this interpretation.

- **Personal Holiday Usage**

In our PS Upgrade Audit in 2016 we identified HRMS did not have a control in place to prevent employees from taking more than eight hours of personal holiday in a fiscal year as required by policy. OHR subsequently implemented this control and our testing during our follow-up in 2018 found it to be working effectively. However, recent queries showed employees with more than eight hours of personal holiday. Our review found the HRMS control only worked for employees who submitted and approved time through HRMS directly. Employees that used other systems linked with HRMS (e.g., Kronos) were able to submit more than eight hours of personal holiday. In addition, we reviewed whether employees were systematically able to split personal holiday time in third-party systems as this is also not allowed by policy. However, we could not verify whether a control is in place to prevent this from occurring. We advised OHR to implement controls in HRMS that would not allow more than one personal holiday or split holiday hours from a third-party system to be paid through HRMS.



# BOARD OF REGENTS DOCKET ITEM SUMMARY

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**Audit & Compliance**

**June 13, 2019**

**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**

### **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 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.
- 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 currently determining if 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, 2019**

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 - Complete***

As of May 1, 2019, Chrome River has been rolled-out to all colleges and administrative units. Each unit was given the opportunity to start using the system all at once, or bring departments on in smaller groups, which means that some units are still in a phased roll-out. All units should be completely on board by September 1, 2019.

More than 18,500 expense reports have been submitted for approval since March 26, 2018, with an average approval time of 5 days.

The University's project team was extremely small, and so intentionally designed a reusable process to bring people on board in small groups. The team:

- Created template communications and decision documents to be used with each group as colleges planned for roll-out.
- Created reports of people impacted to ensure each unit could communicate and organize their own implementation efforts.
- Created shared checklists, question logs, and decision documents to more efficiently share information between unit leaders, the project team, and operational support staff such as the helpline.
- Met with finance leadership teams from each college and administrative unit to walk through the project, best practices, the new Travel Card, decisions each area would need to make, and provide the opportunity for meaningful discussion of potential problem areas or unique concerns.
  - Each college was allowed to make key decisions such as when their departments would begin using the new system and procedures, building their investment in helping to ensure a successful roll-out.
  - Local leaders determined how best to get people using the new system, ensuring this effort didn't unduly disrupt the normal flow of business for areas with unique needs.
  - Having each area's leadership make and communicate key decisions seemed to make the whole process more palatable to faculty and staff.
- Created more than 600 local experts to assist faculty and staff as they began to use the system. Each of these local experts, the Navigators, were provided with hands-on training prior to roll-out for their college. The Navigators are charged with helping people learn and answering

questions but not with doing the work for people. Online shared space was created for the Navigators to share information and assist each other while simultaneously alerting the project team to concerns and emerging issues/trends.

### ***Finance Training***

Continued a strategic priority to revise and reinvent both the content of finance training and how it is delivered. This work resulted in several initiatives that both support University-wide financial training needs and increase efficiency and effectiveness:

- A new Chart of Accounts class format has been introduced. To reduce in-class time, an introductory overview was developed, to be completed before attending an in-person workshop to practice using the system in a safe environment.
- Business Process Owners and their staff have taken over delivery of many of our instructor-led classes. This allows Financial Training staff to focus on development and allows the training owners to work with attendees first hand.
- Two continuing education series have been created, presented simultaneously in person and as a webcast. The first, a policy series, addresses important policies found in the policy library and are presented by the Business Process Owners. The second, a best practices series, presents best information and tips to be used in order to maximize efficiency and effectiveness.

### ***Financial Reports and Data***

In February 2019, the upgraded version of the *Budget Account Versus Actual Activity for Non-Sponsored Funds* financial report was released for system-wide use. The UM Analytics version of this report, along with the six reports already converted from UM Reports, represent 74% of the 1.655 million financial reports generated annually.

University Finance's strategic reporting plan is to collaboratively evaluate and convert over 50 existing financial reports to UM Analytics and create new financial reports and dashboards based on consumer need. This collaboration by finance leaders in central units, colleges, system campus leaders, systemwide report consumers, and the Office of Information Technology continues to create 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 fourth 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. This assessment was conducted the week of November 12, 2018. The completed report was received in March 2019.

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.

Annually, 110 University departments accept more than 3.5 million payment card transactions (Visa, MasterCard, Discover, and American Express) for the payment of goods and services, totaling \$157.5 million 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.

## **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 November 2016, the GASB issued Statement No. 83 (GASB 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.

The University is still reviewing the requirements set forth in GASB 83. At this time, we are not aware of any material financial obligation or footnote disclosure impact.

- In January 2017, the GASB issued Statement No. 84 (GASB 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 for 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 June 2017, the GASB issued Statement No. 87 (GASB 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 (GASB 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. GASB 88 also 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.

The University is still reviewing the requirements set forth in GASB 88. We anticipate enhancement to the long-term debt footnote to address the University's responsibilities related to significant events or termination clauses.

- In June 2018, the GASB issued Statement No. 89 (GASB 89), Accounting for Interest Cost Incurred before the End of a Construction Period. This requires interest cost the University incurred before the end of a construction period to be recognized as an expense in the period in which the cost is incurred. As a result, this interest cost will no longer be included in the historical cost of a capital asset. This statement is effective for the fiscal year ending June 30, 2021.
- In August 2018, the GASB issued Statement No. 90 (GASB 90), Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61. This defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if the University's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held for fiduciary purposes or in an endowment. This statement is effective for the fiscal year ending June 30, 2020.