

Impact of the Enterprise Financial System and New Auditing Standards on the University's Internal Control Environment

Board of Regents Audit Committee
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Summary

- The PeopleSoft Enterprise Financial System (EFS) will have a long-term positive impact on internal controls
- Implementation of the new auditing standards will increase effectiveness of internal control documentation
- These changes will enhance the COSO Framework of Internal Control



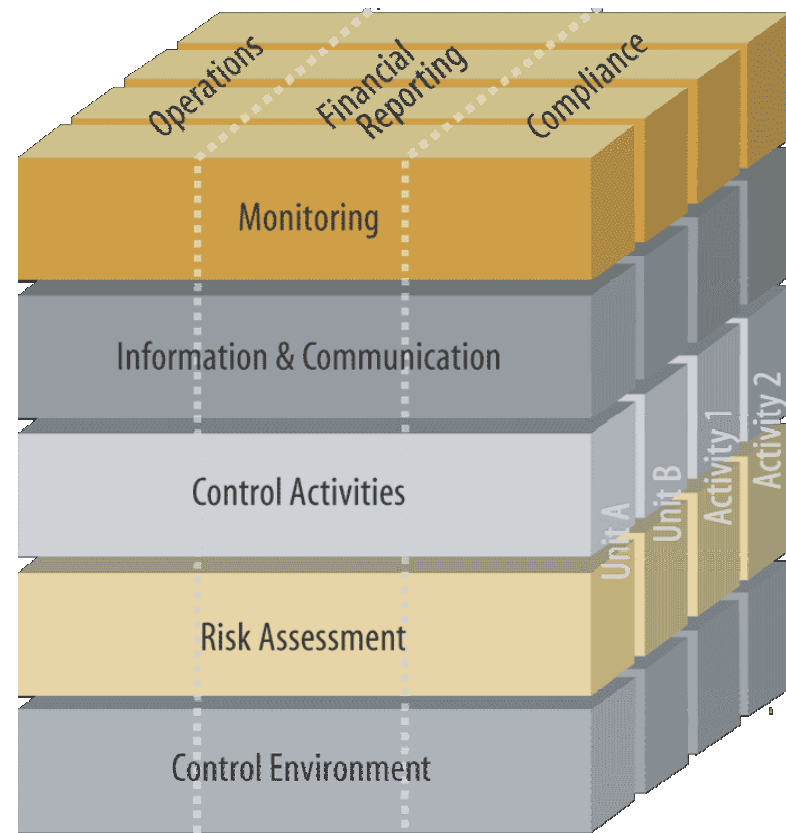
COSO Framework of Internal Control

The five elements:

- Monitoring
- Information & communication
- Control activities,
- Risk assessment
- Control environment (“Tone at the top”)

Essential for:

- Effective and efficient operations
- Reliable financial reporting
- Compliance



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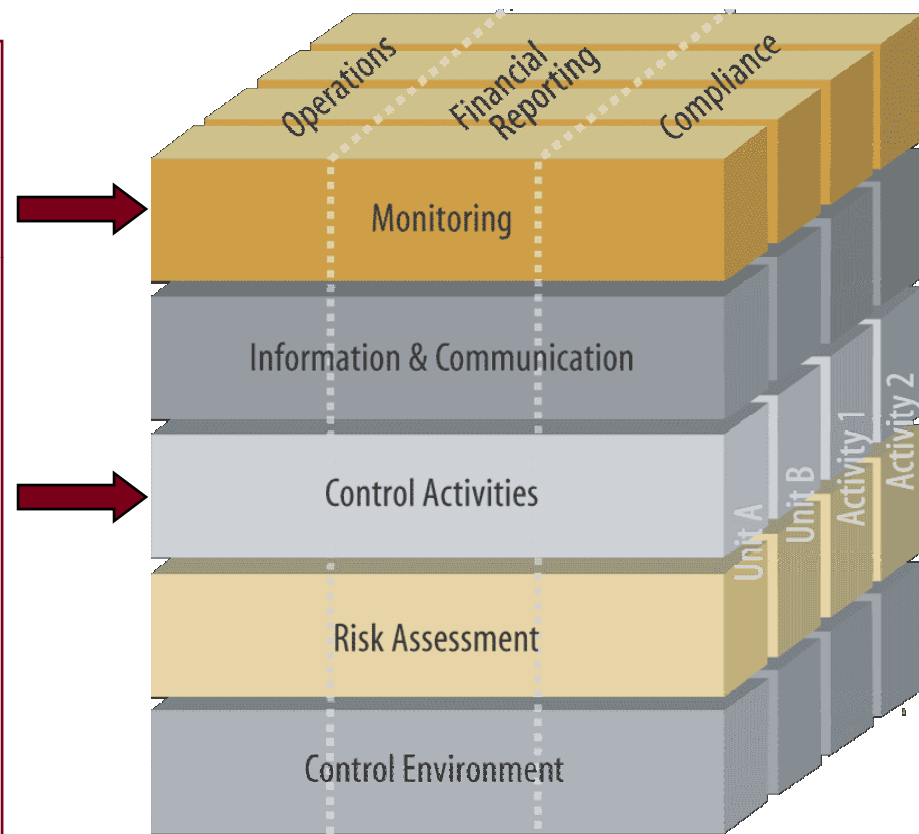
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COSO Framework of Internal Controls

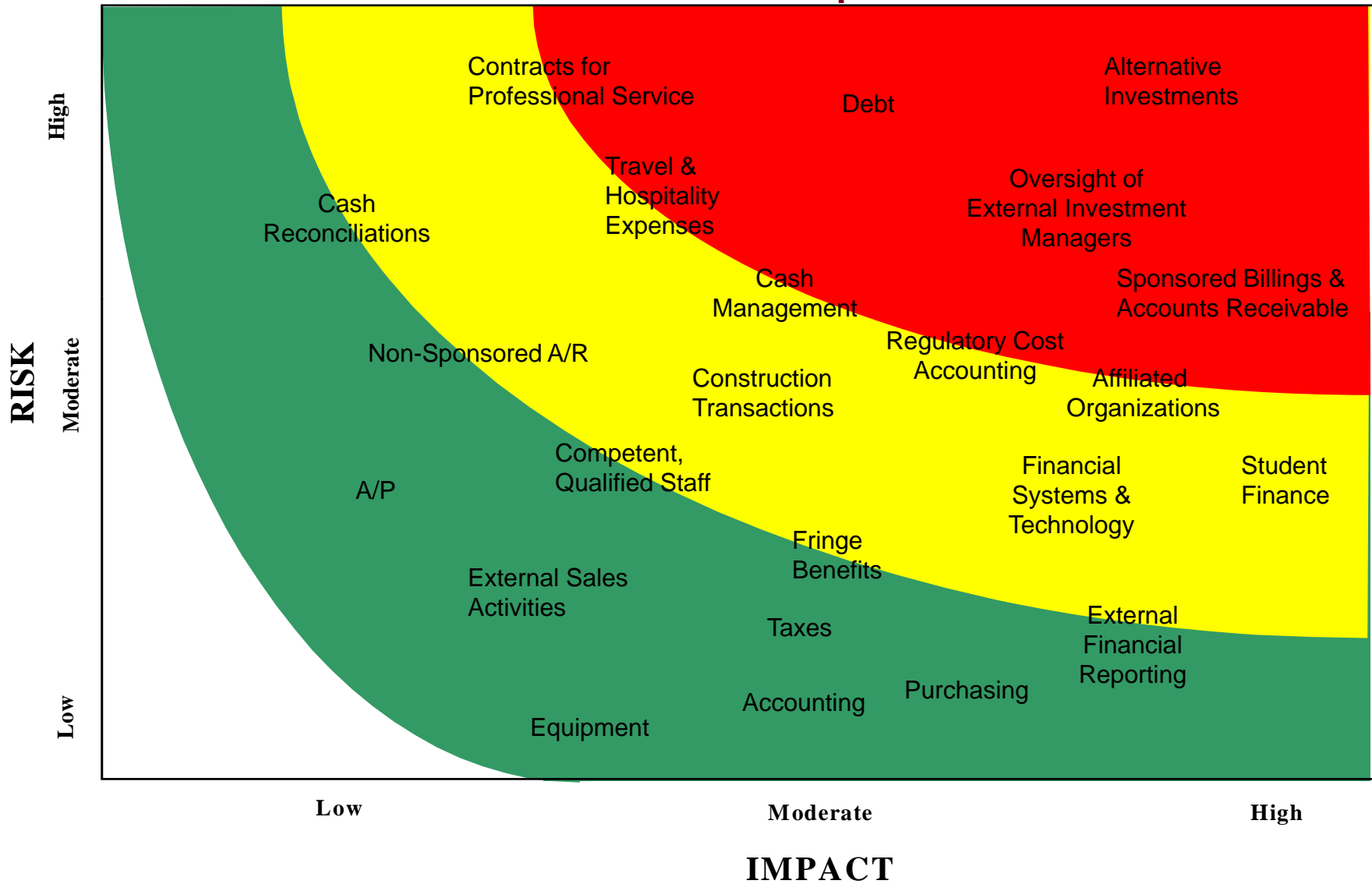
EFS Impact

- **EFS**

- Enhanced monitoring of financial activities and business processes
- Improved control activities from process design, system design and configuration, transaction execution



Financial Activities & Transactions Heat Map



EFS Internal Control Impact Highest Risk Financial Activities

Activity	Impact
Cash management	Improved
Debt	Improved
Sponsored billings & accounts receivable	Improved
Travel & hospitality expenses	Improved
Professional service purchase contracts	Improved
Regulatory cost accounting	Improved
Alternative investments	No Impact
Oversight of investment mgrs	No Impact
Affiliated organizations	No Impact



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EFS Internal Control Impact

Highest Risk Financial Activities

- Debt – more automation and integration of cash, investments, debt & construction accounting activity
- Sponsored A/R – more automation of cash receipts and bank-related activity
- Travel & Expenses – strong approvals and workflow, and integration with payroll system
- Regulatory Cost Accounting – improved data analysis capabilities for compliance monitoring and grant accounting



EFS Internal Control Impact

Moderate Risk Financial Activities

Activity	Impact
Cash reconciliations	Improved
Construction activities	Significantly improved
Non-sponsored accts receivable	Significantly improved
Competent, qualified staff	Improved
Fringe benefits	No impact
Financial systems & technology	Improved
Student finance	No impact
External financial reporting	Improved



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EFS Internal Control Impact

Moderate Risk Financial Activities

- Cash reconciliations – better integration of systems and data to facilitate reconciling
- Construction accounting – process will be integrated in the new system and recorded on the balance sheet
- Nonsponsored A/R – entirely new system and processes replaces local shadow systems
- External financial reporting – integrated data; improved data analysis and reporting tools



EFS Internal Control Impact Low Risk Financial Activities

Activity	Impact
Purchasing	Significantly improved
Accounts payable	Significantly improved
Taxes	No impact
External sales	No impact
General accounting & reporting	Improved
Equipment accounting	Improved



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EFS Internal Control Impact Low Risk Financial Activities

- Purchasing –
 - Much better controls over purchase orders, receiving, matching
 - Burn rates on blanket orders
 - Improved data for spend analysis
- Accounts payable
 - Better controls over disbursing activities
 - More robust vendor files and data



Other EFS Internal Control Impacts

- Improved system platform and architecture will reduce risks associated with vendor and system support
- Robust training will result in a more competent workforce
- New tools for monitoring internal controls, compliance, and business process performance



New Auditing Standards

- Eight new auditing standards (SAS 104-111) have been issued and are effective for FY 2008.
- These standards are collectively referred to as the Risk Assessment Standards
- The new standards require our auditors to obtain an understanding of the University and its environment, including internal controls.



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New Auditing Standards

- University must provide internal control documentation in the form of flow charts and narratives
- Limited approach for FY 2008 due to new EFS implementation
- Full approach for FY 2009 to capture internal control documentation for new system, policies, procedures and processes



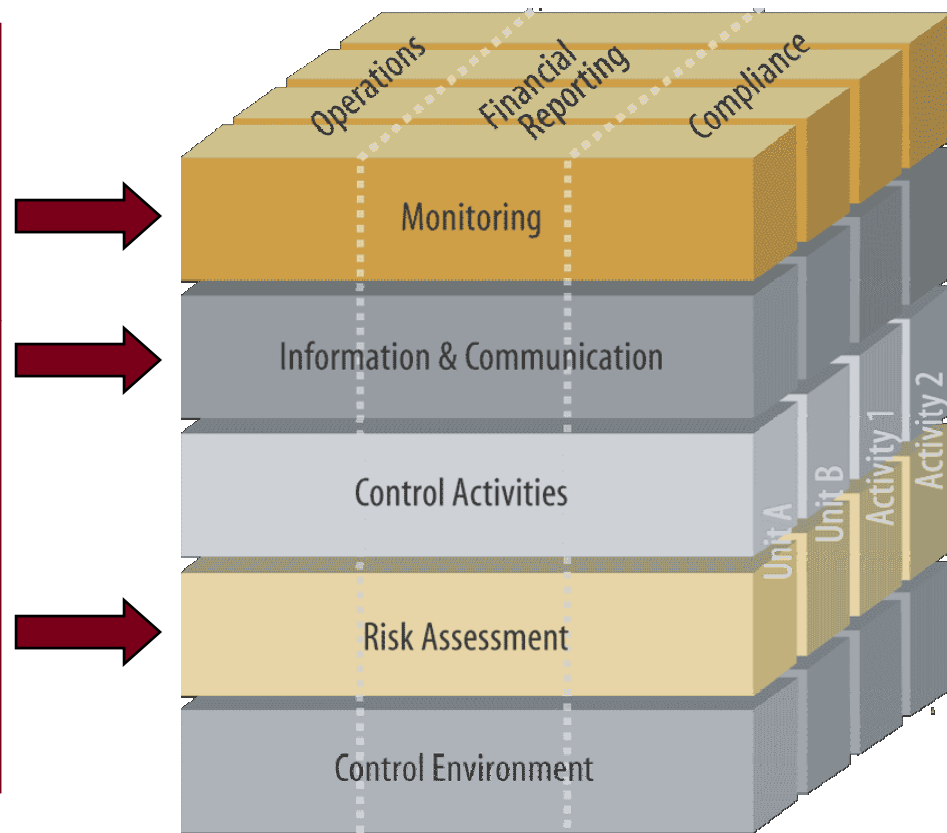
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COSO Framework of Internal Control

- **Internal Control Documentation**

- Used to monitor effectiveness of controls
- Communication of processes, controls, and responsibilities
- Financial risk assessment process



Questions ?

