

# Process Audit Results

Board of Regents  
Audit Committee  
September 12, 2013

# Discussion Topics

- Outline the benefits and limitations of unit and process-based audit approaches
- Provide the Audit Committee with overall conclusions based on the results of sixteen process-based audits completed
- Share how these audit results have informed the modification to selected internal audit practices

# Benefits We Were Seeking

- Enhance/test our ability to obtain sufficient audit evidence to support an institutional opinion on internal control and risk management processes
- Support administrative risk recalibration initiative
- Further utilize technology to broaden audit coverage over key institutional processes



- Provide an appropriate level of audit coverage over a significantly larger University with limited audit resources

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# Unit-Based Audits

- Focus is on local risks and controls
- Audit coverage is a “mile wide and a mile deep” – all significant activities carried out locally are audited thoroughly
- A number of processes are audited using a sample of local transactions
- Conclusions relate only to the audited unit

# Process-Based Audits

- Looks at a process University-wide
- Technology enables 100% of the population to be reviewed for specific criteria/anomalies
- Results from statistically valid samples can be extrapolated to the entire University
- Provides a better vantage point to identify systemic issues, policy and process improvements.

# Process Audits

- Process audits are considered the “best practice” methodology for providing assurance to governance bodies

# What's Been Accomplished

- Sixteen audits have been completed since 2011
- Four of the most significant financial processes
- Three student-related processes
- The most significant Human Resources related process - Payroll

# What Have We Found

## Institutional Observations

- Financial Processes
  - 4 major processes audited + 3 more limited processes
  - Over 1200 transactions reviewed
  - 54-144 units had transactions tested within the audits

# What Have We Found

## Institutional Observations

- Financial processes
  - Compliance rates in the mid 90%<sup>s</sup>
  - Policies are well understood throughout the University
  - Limited monitoring of unit performance is performed
  - Performance metrics for unit policy compliance have not been established

# What Have We Found

## Institutional Observations

- Financial Processes
  - Identified 8 systemic issues
  - Three business process improvements
  - One policy that would benefit from clarification
  - One process for which little policy direction exists
  - One process for which there is not a process owner

# What Have We Found

## Institutional Observations

- Human Resources
  - Human Resources processes are very complex and have resulted in data quality issues
  - Rework is common to correct errors in locally generated activity
  - Little monitoring is performed centrally
  - Performance metrics have not been established

# What Have We Found

## Institutional Observations

- Student Related Processes
  - Operating effectively and well controlled
  - Self service platform is robust and predictable
  - System edits work well to ensure policy compliance
  - Appropriate monitoring is performed for critical attributes of the processes

# What Have We Found

## Institutional Observations

### Student Related Processes

- Identified:
  - One systemic issue
  - One policy which warranted further clarification
  - One process improvement

# What Have We Found Institutional Observations

- Legal Review of Contracts
- Conflict of Interest
- Laboratory Safety
- Affiliation Agreements

# Illustrations

- Contract Management
  - 10 contracts managed independently by 5 units

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  - 10 contracts managed independently by 5 units
- Affiliation Agreements
  - 1700 agreements, three AHC colleges, \$60M+ in revenue annually

# Overall Institutional Observations

- Decentralized nature of the University challenges its internal control infrastructure
- Central process owners often feel they have little control over local personnel responsible for policy/process adherence

# Overall Institutional Observations

- Common enterprise systems and standardized policies improve the effectiveness of institutional processes
- Overall, very good compliance with Board of Regents policies and their intent
- Risk recalibration efforts have not created “bad” behavior

# Overall Institutional Observations

- Best Practices Opportunities
  - Monitoring decentralized performance is not an integral part of the institutional psyche
  - Institutional metrics have not been routinely established for the desired level of performance
  - Performance metrics have not been routinely established to evaluate the quality of decentralized operations

# What Have We Learned Internal Audit

- Affirmed that we can complete sufficient work in the event we are required to provide an institutional opinion
- Have greater confidence when able to review 100% of a population
- Have much more robust information on which to provide assurance to the Audit Committee and Board of Regents

# What Have We Learned Internal Audit

- Have identified selected policy requirements which are of less importance to policy owners
- The trending of process audit results have helped us identify units that show evidence of operational “stress”

# What Have We Learned Internal Audit

- Well positioned for the ESUP
  - Impacted processes have current audit coverage
  - Current audit results provide a baseline to evaluate the impact of ESUP process, policy, and system changes



## Questions

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