

**UNIVERSITY OF MINNESOTA**

**BOARD OF REGENTS**

**Audit Committee**

**Wednesday, July 11, 2007**

**9:00 - 10:00 a.m.**

**600 McNamara Alumni Center, East Committee Room**

**Committee Members**

Linda Cohen, Chair  
Clyde Allen, Vice Chair  
Dallas Bohnsack  
John Frobenius  
Venora Hung  
Dean Johnson

**Student Representatives**

Meghan Keil  
Nathan Swanson

**A G E N D A**

1. Internal Audit Plan - G. Klatt (pp. 1-18)
2. Follow-up: University Preparedness for All-Hazard Emergencies - K. O'Brien (p. 19)



**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Audit Committee**

**July 11, 2007**

**Agenda Item:** Internal Audit Plan

review                       review/action                       action                       discussion

**Presenters:** Associate Vice President Gail Klatt

**Purpose:**

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

**Outline of Key Points:**

The recommended 2007-2008 Internal Audit plan is risk-based and continues to reflect the principles of the **Integrated Framework of Internal Control**. The plan includes 39 audits of University units, processes, and information systems and focuses on high-risk activities and areas of strategic focus. Audit resources have also been reserved for administrative/special requests and investigative audit needs.

**Background Information:**

The Audit Committee charter states the Audit Committee shall review the annual internal audit plan and the extent to which it addresses high risk areas.

**OFFICE OF INTERNAL AUDIT  
2007-2008  
INTERNAL AUDIT ANNUAL PLAN**

**PURPOSE OF THE ANNUAL PLAN**

The annual internal audit plan is intended to demonstrate:

- the breadth and depth of audit activities addressing financial, operational and compliance risks of the University;
- accountability for our resources; and
- the progress in our efforts to continually improve the University's Internal Audit program.

It is our intent to convey a current sense of the University's internal control environment and the extent to which controls are being assessed by regular audit activities, addressed proactively through advisory services, or investigated as a result of issues raised.

**DEVELOPMENT OF THE 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.

ω **External Risk Assessment**

To aid in our planning efforts we participate in annual risk assessment surveys with Big 10 institutions and large research universities (See Appendix B). Of the current identified risks, we assessed the following to be most relevant to our institution:

- Information technology and data security
- Declining sponsored funding
- Sponsored account management, particularly the federal regulatory areas of concern regarding effort certification and cost transfers.
- Ethics, corporate/non-profit /Sarbanes-Oxley
- Conflicts of interest (both personal and institutional), and conflict of commitment
- Health Insurance Portability and Accountability Act (HIPAA), and more specifically the security of personal health information
- Athletics
- Expansion of international activities and export controls

**Internal Risk Assessment**

As part of the planning process, discussions were held with 54 institutional officials to solicit input on areas of concern and obtain feedback on the appropriateness of the proposed audit plan. We also used these meetings as an opportunity to obtain feedback on the quality of audit services we provide. In addition to those noted above, risks specific to the University of Minnesota at this time were noted as:

- Implementation of the Enterprise Financial System (EFS). Over the next 12-18 months there will be significant changes in financial process workflows, redefinition of employee job responsibilities, introduction of new organizational models, and a significant investment of time in employee training, in addition to the operational impacts associated with becoming acclimated to working with the new system.

- Competition for resources resulting from the EFS project as it moves towards final implementation.
- Acclimation to the financial management implications of the new budget model which includes an increasing number of colleges with structural deficits.
- Changes in key leadership positions.
- An increasing interest in expanding international activities.

### **Overall Risk Assessment**

Our annual planning process also includes reconsideration of the audit universe as new activities and programs are identified, together with changes in the existing organization. In addition to the changes within the operating units, we also consider changes in the overall environment within which the University exists. These environmental changes include such circumstances as new regulatory developments, new business processes, and new institutional priorities and strategic initiatives.

The Office of Internal Audit continues to utilize a formalized risk assessment methodology in selecting units 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 our assessment include:

- |   |   |
|---|---|
| • Impact of unit/process on other University activities | • Organizational change/turnover in key personnel |
| • Significant system development or process change      | • Known or perceived control concerns             |
| • Regulatory compliance issues                          | • Audit history                                   |

4

Based on the outcome of this assessment, the 145 individual auditable units are categorized as high, above average, or moderate/low risk. A rating as a “high-risk unit” does not mean that the unit is perceived to have control problems, but rather reflects the criticality or centrality of the unit to the University’s mission.

We have a commitment to the Board of Regents Audit Committee to provide audit coverage of high-risk activities on at least a three-year cycle, and we align our audit plans with the Audit Committee’s Institutional Risk Profile. (See Appendix A)

Taking into consideration all of the information gathered during our planning process we identified the Enterprise Financial System, Information Technology, and the new merged colleges as the risks most warranting audit coverage in the upcoming year.

### **ALLOCATION OF AUDIT RESOURCES**

Approximately 63% of the Office of Internal Audit’s resources are committed to the completion of planned audit projects. The annual audit plan is designed to provide appropriate coverage utilizing a variety of audit methodologies: audits of individual units, functional and process audits, University-wide reviews, and information system projects.

In selecting specific units/functions for inclusion in our annual audit plan we place priority on providing coverage of high-risk operations, units/processes most impacted by critical risk areas, and areas of interest to University leadership. In the selection process we have aligned our audit plan with critical activities and risks as well as with the major organizational components of the University.

In addition to risk-based audits we also perform University-wide reviews of business processes, which we have found to be an effective and efficient means for extending audit coverage to moderate/ low risk units.

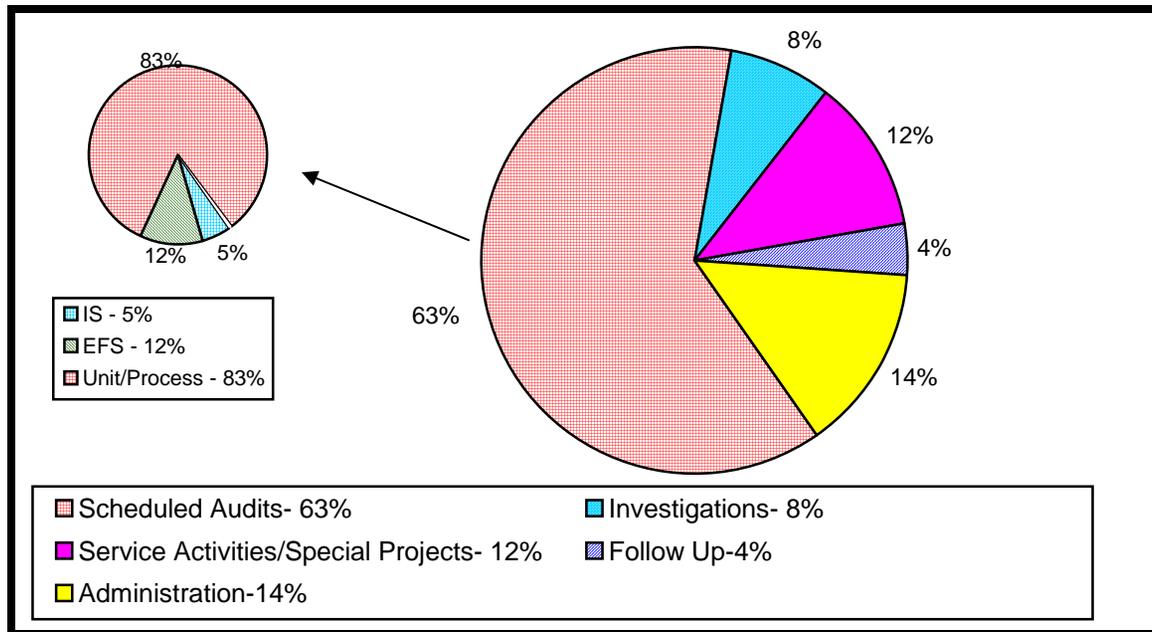
As supported by the Audit Committee, we reserve a portion of our resources to accommodate requests from the President, the Board, or executive committee members. For FY 2008, we have allocated 12% of our resources for this purpose.

Despite the increase in investigations during FY 2007, we have decided to budget our resources based on historical experience at 8%.

The remainder of our time is devoted to follow-up procedures performed on behalf of the Audit Committee (4%) and administration (14%) which includes activities such as training, staff meetings, performance management/appraisals, etc.

The audit plan is based on a planned staffing complement of 16.8 FTE professionals.

**FY 2008 PLANNED ALLOCATION OF AUDIT RESOURCES**



## FY 2007- 2008 AUDIT PLAN

Taking into consideration the risks identified externally as well as internally, and balancing all of the above, the audit plan recommended for FY 2008 will provide audit coverage of:

- One high-risk system implementation
- Two high-risk information system upgrades
- Six high-risk functional units
- Two above-average risk information system processes
- Fourteen above-average risk functional units
- One moderate/low-risk infrastructure upgrade
- Four moderate/low-risk functional units

The audits selected for inclusion in the FY 2008 audit plan also provide significant coverage of critical activities:

- 26% of the plan is devoted to information technology risks including:
  - Eight reviews of the Enterprise Financial System project.
  - Two audits which will have components related to new and upgraded systems implementation projects, including the treasury system retooling.
  - Four audits of system infrastructure.
  - Fourteen departmental audits which will include a technology component.
- Eighteen audits will include evaluations of service quality and productivity.
- Eleven audits will include evaluations of central services.
- Twelve audits will include evaluations of research activities.
- Eleven audits will include a component on gift activities in accordance with the Memorandum of Understanding between the University and the university foundations.

We developed the FY2008 plan with the following additional considerations in mind:

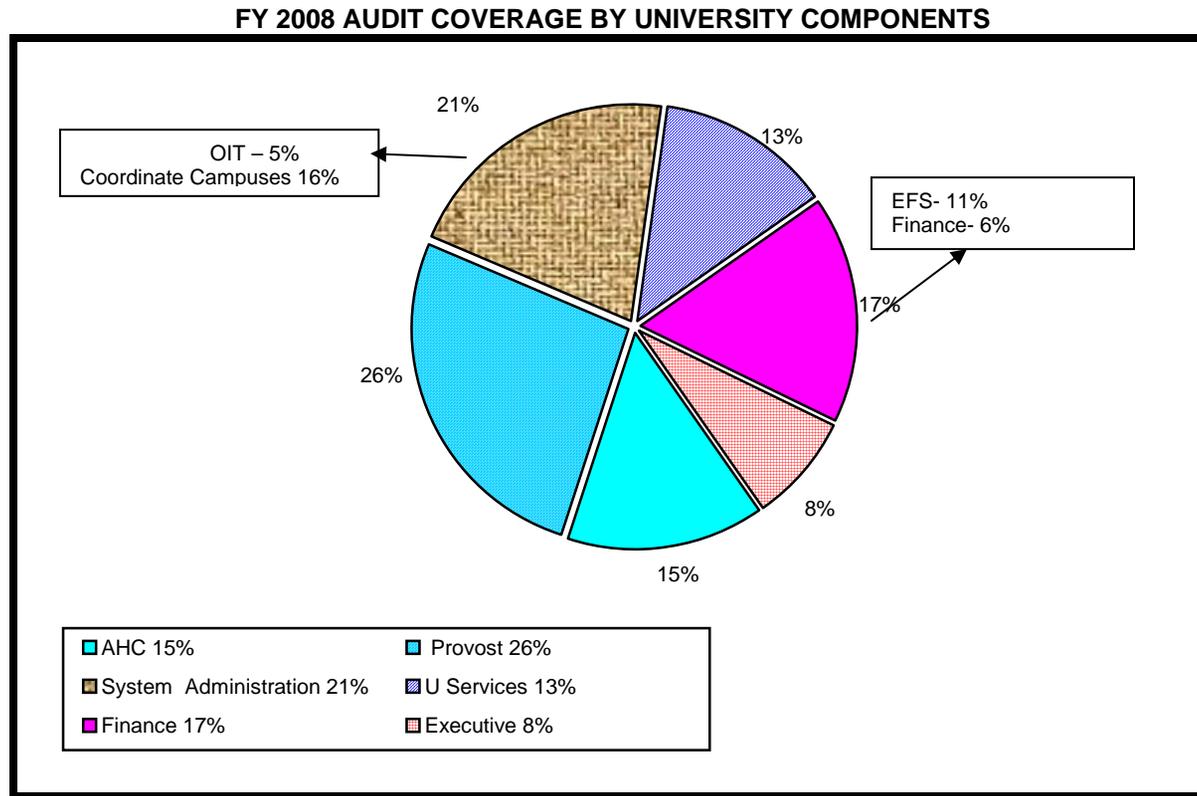
- We made a conscious decision to not schedule audits in units which will be significantly impacted by the EFS implementation. We anticipated this possibility and ensured that these units received recent audit coverage.
- We placed priority on including audits of the merged colleges. Two of the three “wave 1” colleges are included in the plan.
- Because of problems recently identified in a specific type of “internal service organization” we included audits of other units which have similar operations.
- The inclusion of the Office of Student Financials will enable us to confirm that the financial aid and scholarship components of the new tuition initiatives are appropriately implemented.
- Finally, we have allocated time to provide audit coverage to selected units, which while comparatively small from a financial and operational metric, potentially represent significant risk because of the nature of the work that they do.

By the end of FY 2008, we will have provided audit coverage of 20 of the 22 high risk units. The two units which are out of cycle are from the Academic Health Center. One was not included in our current plan as the unit is in the process of implementing a new computer system. The other unit, although out of cycle, has received audit coverage as part of our University-wide process reviews, and in our opinion represents lower risk to the University than the Academic Health Center units included in the audit plan.

We did make a conscious decision to override our risk model ranking for the Energy Management Department from high to above-average risk. The primary factor contributing to the unit's risk ranking as "high" is the dollar amount of the utility costs paid by the unit on behalf of the institution. Based on our past audit experience with this unit, we felt this ranking overstated the risks represented by the unit and would result in more audit coverage than is warranted.

We have not allocated any audit resources for stadium-related activities in FY 2008. However, we did participate with the Stadium Project Team in the selection of an external construction auditor with extensive audit experience specific to athletic stadium construction.

The FY 2008 plan continues to provide well-balanced coverage across the University. The following chart shows the distribution of audit coverage by University component for FY 2008.

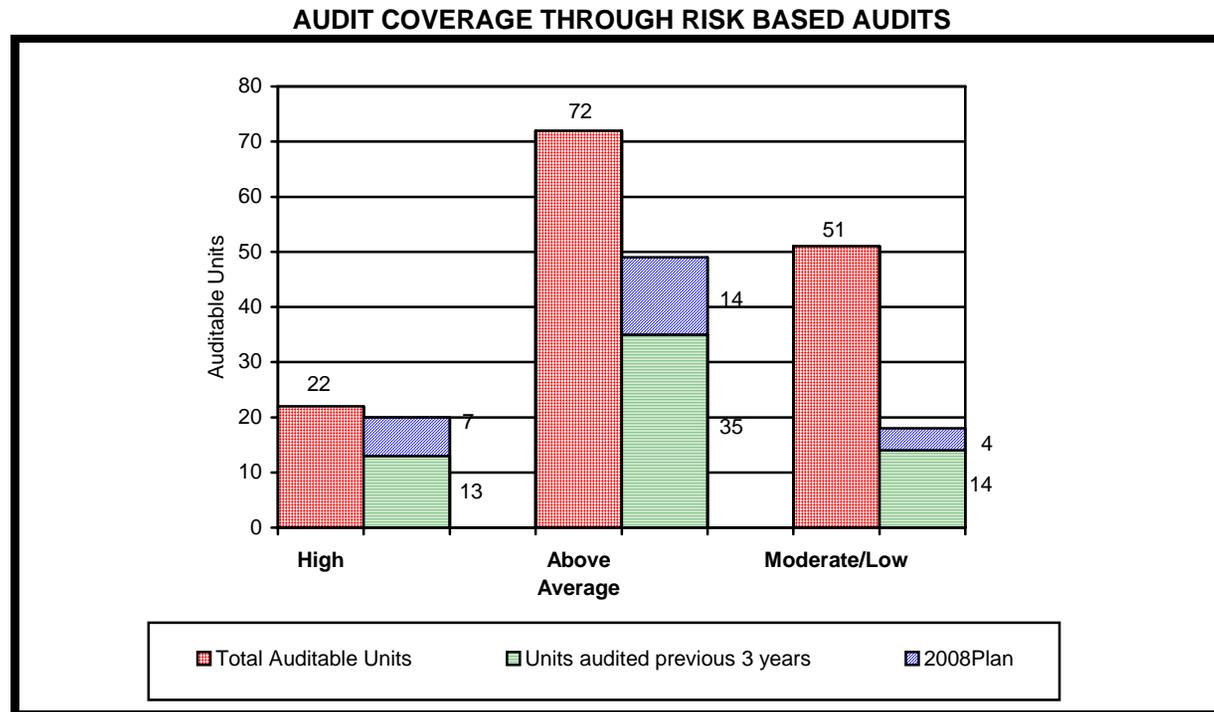


## ANALYSIS OF AUDIT COVERAGE

By the end of the four-year period through FY 2008, we will have completed audits of:

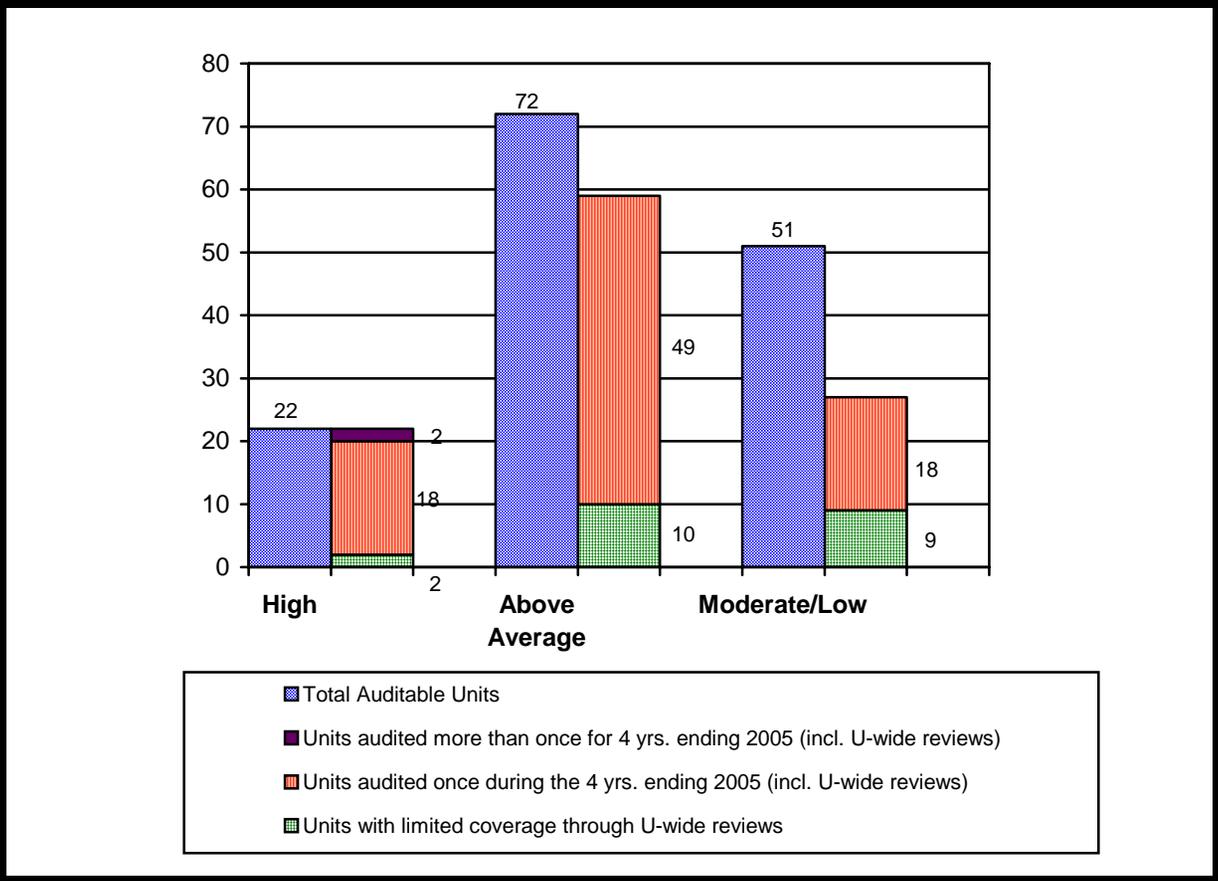
- Twenty of the 22 high-risk units on a three-year cycle. Two of these high-risk units have been reviewed more than once in these four years.
- 49 of the 72 above-average risk units, as well as 18 of the 51 moderate/low risk units. Of those, ten units in the above-average risk category and nine of the moderate/low risk units have also had some review through our University-wide audits.
- University-wide processes in the areas of fixed-price sponsored research contract reviews, the receipt and use of the Ziagen royalty funds, executive expenses, top travelers' expenses, federally sponsored "K awards," and purchasing card activity.

The following charts illustrate our coverage of University activities based on risk levels, as well as the coverage we have provided through University-wide reviews.



Of the 145 auditable units, 18 units have not had audit coverage since prior to FY 1999. Five of the eighteen units are in the above-average risk category, while the remaining units are considered moderate/low risk units.

**AUDIT COVERAGE THROUGH RISK BASED AND U-WIDE REVIEWS**



6

Of the 18 units which have not had audit coverage since prior to FY 1999, fifteen did receive some coverage as part of University-wide process reviews.

**FY 2006-2007 RESULTS**

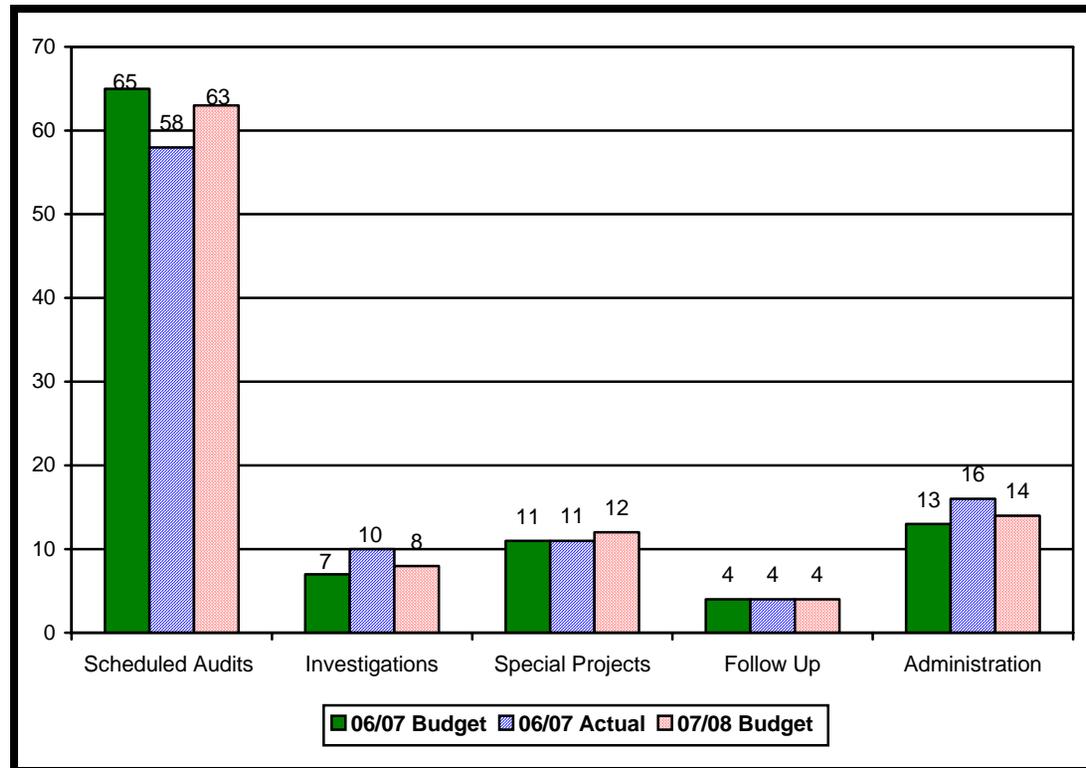
To date for FY 2007, we issued 27 audit reports and five letter reports/issue papers, which were the result of planned reviews and requests from management (See Appendix C).

During the past fiscal year we also conducted 26 investigations in response to allegations of financial or operational misconduct. Where appropriate, we have partnered with the University Police or the Office of the General Counsel to complete these reviews.

In addition,

- Nine audits are in the final stages of completion and reports will be issued in the next two months.
- Four audits are currently in the planning stages and will be completed in FY 2008.

**COMPARISON OF AUDIT RESOURCES FOR FY 2007 AND FY 2008**  
**Percent of Available Time**



## **COORDINATION WITH EXTERNAL AUDITORS**

The Office of Internal Audit continues to coordinate its audit plan with LarsonAllen, LLP to ensure appropriate coverage is achieved through the internal and external audit plans, and to leverage the collective efforts of both organizations. The Office of Internal Audit meets the professional standards required by LarsonAllen to place reliance on internal audit work. During FY 2007, the Office of Internal Audit provided a summary of the work completed to be utilized by LarsonAllen in their control assessments.

## **COORDINATION WITH OTHER INTERNAL RESOURCES**

The Office of Internal Audit coordinates its work with other internal units to maximize the quality of audit coverage provided as well as to promote prompt attention when University-wide trends are identified. We have established strong working relationships with the University's Compliance Officer, the Office of Oversight, Analysis and Reporting, the Office of Regulatory Affairs, the Institutional Review Board, and the Department of Environmental Health and Safety, each of which work closely with us during audits involving complex regulatory issues.

The Office of Internal Audit interfaces with the Institutional Compliance Officer. Input from the Compliance Officer is solicited during our annual audit planning. In addition, throughout the year we report to and collaborate with the Compliance Officer on issues identified during our audits. We also share the results of employee surveys with the Compliance Officer. During fiscal year 2007, a total of 1447 surveys were sent out as part of our audit process, with a 50% response rate.

Audit results are also shared with central support units such as Office of Information Technology, Sponsored Project Administration, Payroll, Purchasing, Training Services, and Human Resources, when policy non-compliance or when the need for process enhancements are identified. Best practices identified in local unit audits are also shared with these central unit process owners for consideration of broader adoption.

## **STAFF DEVELOPMENT AND QUALIFICATIONS**

The Office of Internal Audit is committed to providing educational opportunities to our staff in order to enhance our audit knowledge and abilities and to achieve our professional best. Ever-changing government regulations, new technologies, and new developments in auditing principles and methods dramatically affect not only what we audit, but also how we audit. We constantly strive to stay abreast of new developments and improve our audit proficiency in order to enhance the overall quality of our audits. To accomplish this, we pursued a variety of methods to continue our staff's professional education.

Our departmental memberships with the Institute of Internal Auditors (IIA), the Association of College and University Auditors (ACUA), the Association of Certified Fraud Examiners (ACFE), the American Institute of Certified Public Accountants (AICPA), and the Information Systems Audit and Control Association (ISACA) provided staff members the opportunity to attend seminars and conferences that specifically address current issues and techniques in internal auditing. The interaction of our staff members with their peers in these organizations helps to keep us up-to-date on the latest auditing trends and issues affecting higher education.

Of the current seventeen professional staff:

- eleven have professional certifications of Certified Internal Auditors, Certified Public Accountants, Certified Information Systems Auditors, and Certified Fraud Examiners;

- one holds four certifications
- four have Master of Business Administration degrees;
- one has a Master of Arts- Economics degree;
- one is pursuing a Master of Business Administration degree; and
- four are pursuing professional certifications.

Staff members are encouraged to participate in University-sponsored educational programs. These programs keep us aware of operational changes and issues specifically affecting the University. Staff members are also encouraged to be active in professional organizations. One of our staff will be the president for the Twin Cities chapter of ISACA during the coming year.

In FY 2007, the Office of Internal Audit provided an average of 63 hours of training to each staff member. This does not include the time associated with completing evening MBA coursework funded by the University's Regents Scholarship Program. We also continue to hold monthly Brown Bag lunch meetings at which University leaders are invited to speak with audit staff.

According to the 2006 PULSE survey, the Office of Internal Audits received a score of 4.1 (as compared to the University average of 3.9) for satisfaction of employment at the University.

For FY 2008, 940 hours have been budgeted for staff training. This time does not potentially take fully into account the time that will be needed to train our staff on the new financial system, which is still being determined. Some additional administrative time will also be needed to convert our audit tools to be compatible with the new system.

During FY 2007, members of the staff participated on quality assurance reviews of the internal audit functions at the Universities of Wisconsin and Washington, the Ninth District Federal Reserve Bank, Twin City Federal, and the ELCA Board of Pensions.

## **AUDIT RESOURCES**

The FY 2008 audit plan is based on a FTE staff complement of 16.8 professional staff which is consistent with prior years. During FY 2007 we experienced turnover of three staff and the retirement of our administrative employee. Unfortunately, none of the staff leaving the department stayed at the University: two relocated outside of the Twin Cities area and one returned to his previous employer. Fortunately, however, we were able to attract a senior level Information Systems Auditor which significantly increases our capacity in this very important discipline. We also relocated a member of our UMD audit staff to the Twin Cities, which will provide for additional professional growth for the employee and allowed us to resize the UMD staff to better match the needs of the campus. We are currently recruiting to fill our one remaining open position in the Twin Cities.

During FY 2007, we did use the services of an outside provider to perform one of our audits. We were pleased with the results and would consider co-sourcing again in a similar situation.

We continue to receive excellent financial and organizational support from senior management.

## **BENCHMARKING**

The Office of Internal Audit formally benchmarks its activities against 1) Big 10 universities, 2) public universities, 3) all higher educational institutions and 4) internal audit functions across all industry sectors (2-4 are accomplished via the GAIN survey conducted by the Institute of Internal Auditors (IIA)). These studies focus on efficiency and effectiveness measures, quality of audit services and use of best practices. Additionally, internal metrics are used to measure and monitor staff productivity and service quality. Our performance metric process is also guided by the IIA's professional standards.

**Organizational Productivity:** From our external benchmarking we focus on two primary measures: 1) Total Cost Per Auditor and 2) Salaries as Percent of Total Costs. Our goal is to provide high quality services at a reasonable cost per auditor. (See Schedule E for the current results of these measures)

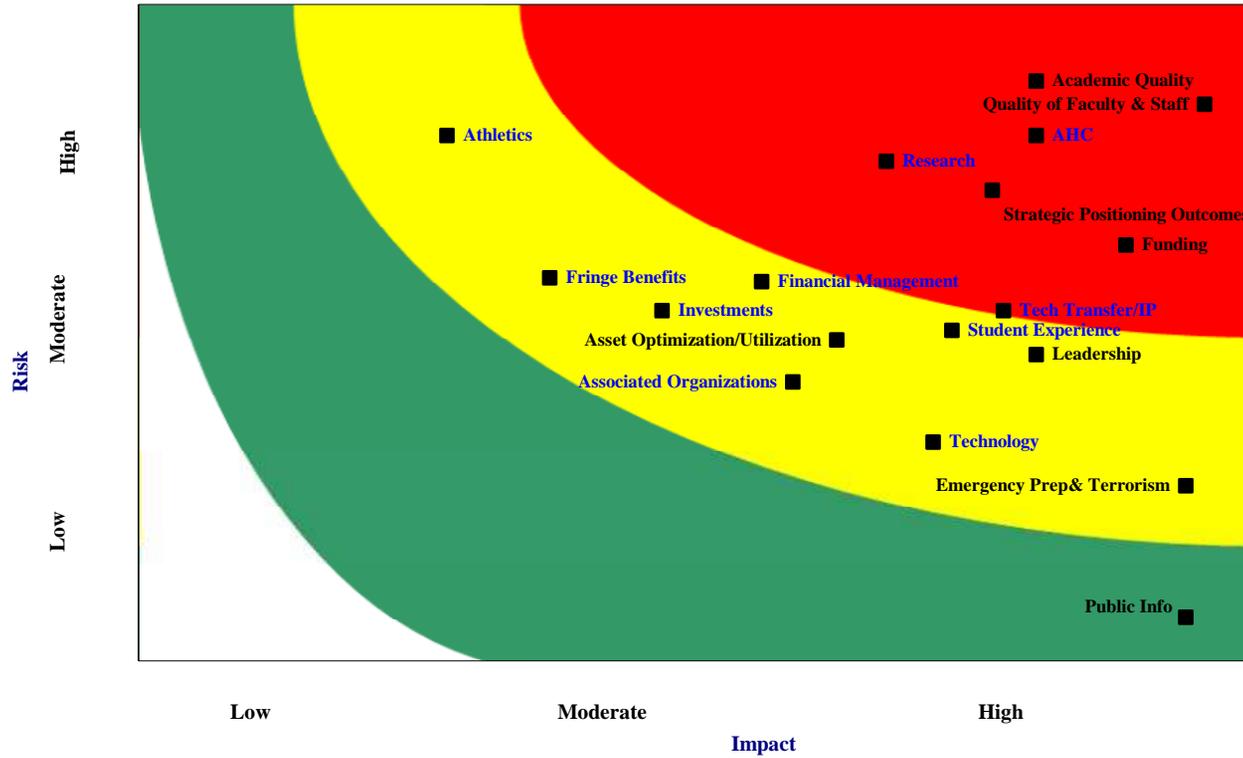
The GAIN survey also provides a Performance Index which considers seven generally accepted internal audit performance metrics and derives an overall performance index/"score". In the most recent study the Office of Internal Audits index was 185.2 as compared to the universe index of 159.57. (Appendix E)

**Service Quality:** At the conclusion of each audit we request that unit leadership complete a service quality questionnaire. The survey asks 16 questions related to professional proficiency, scope of work, performance of audit work, and the audit report. Respondents are asked to rate each attribute based on a four-point scale ranging from "poor" to "excellent". On a scale of "1" to "4", with 4 being "excellent" and 3 being "good", the average score received was a 3.6 for FY 2007.

**Improvement Process:** The GAIN survey identifies 58 successful/best practices for internal auditing. At the time the survey was completed, the Office of Internal Audit was utilizing 42 (or 72%) of these practices. Since that time we have implemented, or are in the process of implementing, four additional practices.

APPENDIX A

Audit Committee's  
Institutional Risk Profile  
Heat Map



14

Unit	FY 08	FY 07	FY 06	FY 05	Unit	FY 08	FY 07	FY 06	FY 05
Research- Infrastructure		x	x	x	Investments			x	
Individual Sponsored Project	x	x	x	x	Fringe Benefits		x	x	
AHC	x	x	x	x	Student Experience	x	x	x	x
Athletics	x	x	x	x	Associated Organizations	x	x	x	x
Financial Management	x	x	x	x	Tech Transfer		x		
Technology	x	x	x	x	Emergency Preparedness	x			

***Participants of Research Universities Risk Assessment***

University of Arizona	University of New Mexico
University of California- Berkley	University of North Carolina- Chapel Hill
University of California- San Diego	Northwestern University
University of California System	University of Notre Dame
Colorado State University System	The Ohio State University
Cornell University	Oregon University System
University of Florida	Penn State University
University of Georgia	University of Pennsylvania
Georgia Institute of Technology	Purdue University
University of Georgia System	Stanford University
University of Illinois at Chicago	Texas A&M University Systems
University of Illinois- Urbana-Champaign	University of Texas System
University of Iowa	University of Utah
John Hopkins University	University of Wisconsin- Madison
Massachusetts Institute of Technology	University of Wisconsin Systems
University of Michigan	University of Washington
Michigan State University	

**STATUS OF FY 07 AUDIT PLAN**

**APPENDIX C**

**Audits Completed**

**High Risk**

Central Units Supporting Research  
Electronic Research Support Systems  
Capital Planning and Management  
Department of Psychiatry  
NCAA Compliance in Soccer Program  
Office of the Bursar  
Department of Neurology  
School of Public Health- NIOSH grant  
Department of Pediatrics- HIPAA  
Central Authentication System  
New Ticketing System-IS  
NCAA Compliance  
Stem Cell Institute  
Budget and Finance

**Above Average Risk**

Law School  
UMD Food Service  
Housing and Residential Life  
UMD Medical School  
UMD College of Liberal Arts  
University Libraries  
Minnesota Ag Extension Service- ISOs  
University Stores  
Department of Surgery  
Division of Epidemiology and Community Health  
School of Physics and Astronomy

**Low Risk**

UMD- Continuing Education

**U Wide Audit**

K Awards  
Executive Expenses

**Audits in Final Stage of Completion**

**High Risk**

Server Administration  
EFS Project Management

**Above Average Risk**

CLA- Department of Psychology  
University of Minnesota Morris  
UMD Athletics  
School of Mathematics  
Veterinary Medical Clinic

**U Wide Audit**

Top Travelers  
Purchasing Card

**Audits started in FY 07, but will be completed in FY 08**

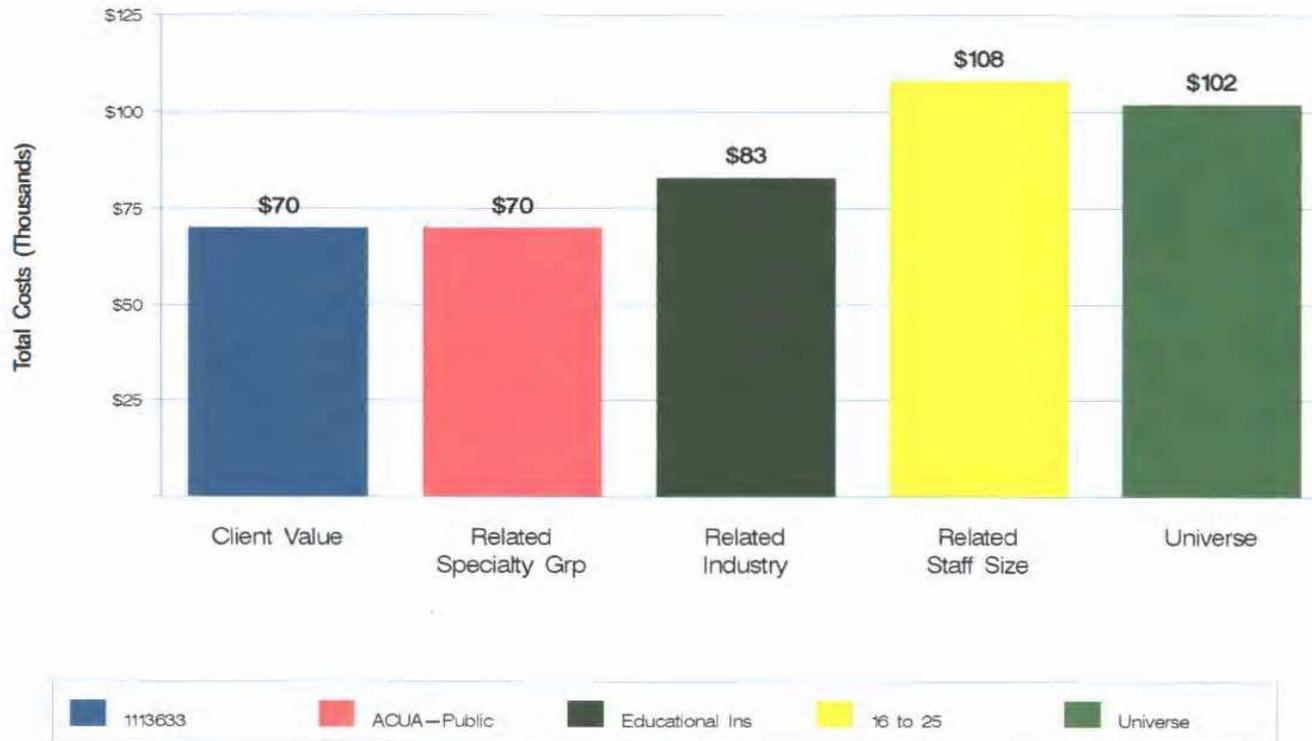
**Above Average Risk**

Office of the VP for Equity and Diversity  
Cancer Center

**Low Risk**

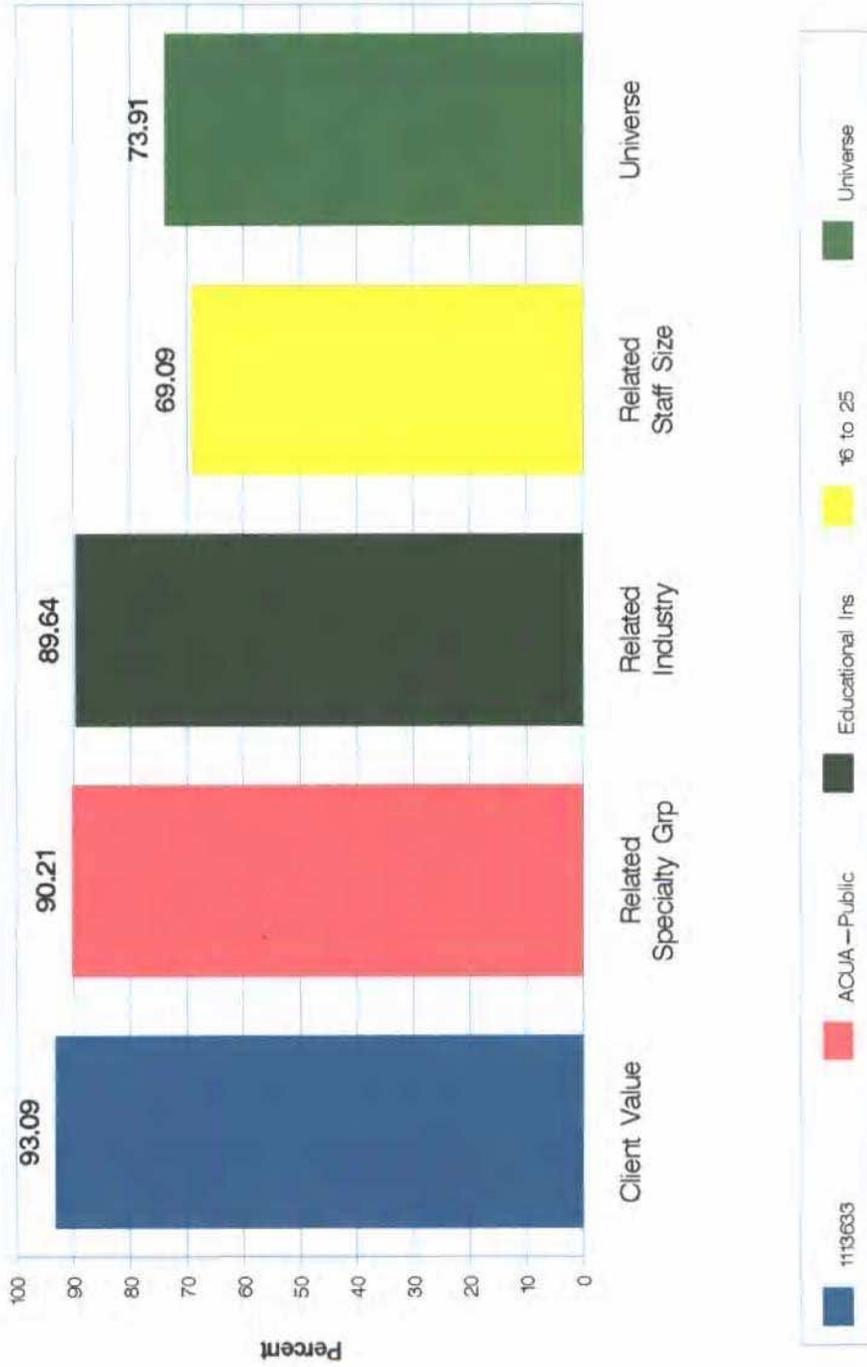
Recreational Sports  
University Press

**TOTAL COSTS PER AUDITOR — TRAVEL EXCLUDED**  
*Internal Auditing Department*



# SALARIES AS A PERCENT OF TOTAL COSTS

Internal Auditing Department



The Institute of Internal Auditors' **GAIN** Global Auditing Information Network

### *GAIN Performance Index*

Benchmark	Client Value 1113633	Weight	Client Index	Universe Index
Average Years Audit Staff Experience	16.00	x 3.2368 =	51.79	26.07
Percent of Audit Recommendations Implemented	90.00	x 0.3075 =	27.68	27.68
Management Expectations of Internal Auditing	4.00	x 6.1500 =	24.60	20.69
Role of Internal Auditing Viewed by the Audit Committee	4.00	x 6.1500 =	24.60	21.70
Auditee Satisfaction Survey Results	42.00	x 0.6000 =	25.20	24.02
Audit Committee Risk Concerns	5.00	x 3.5143 =	17.57	16.12
Days (under 60) from End of Fieldwork to Report Issuance	16.00	x 0.8600 =	13.76	23.29
<b>Total Performance Index</b>			185.20	159.57



**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Audit Committee**

**July 11, 2007**

**Agenda Item:** Follow-up: University Preparedness for All-Hazard Emergencies

review       review/action       action       discussion

**Presenters:** Vice President Kathleen O'Brien

**Purpose:**

policy       background/context       oversight       strategic positioning

To follow up on the Audit Committee's discussion of the University's emergency preparedness program at its May 2007 meeting.

**Outline of Key Points/Policy Issues:**

The University of Minnesota is committed to the safety and security of its students, faculty and staff. While it's impossible to fully anticipate every possible emergency situation, the University's Department of Emergency Management has developed a systematic approach to preparing for, responding to and recovering from major emergencies.

This agenda item is intended to respond to Committee member questions which were not addressed at the May meeting due to time constraints.

**Background Information:**

Emergency management is the systematic approach to preparing for, responding to, and recovering from major emergencies. While all emergencies cannot be avoided all the time, especially in a place as big and complex as the University, some can be prevented, and most can be managed in ways that minimize their impacts.

The University's Department of Emergency Management provides oversight of emergency operations plans for all University campuses and facilities statewide and prepares for emergencies ranging from terrorism to chemical, radiological, and biological spills to fires, medical emergencies, and natural disasters.