

**UNIVERSITY OF MINNESOTA**

**BOARD OF REGENTS**

**Audit Committee**

**Thursday, November 13, 2008**

**8:30 - 10:15 a.m.**

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

**Committee Members**

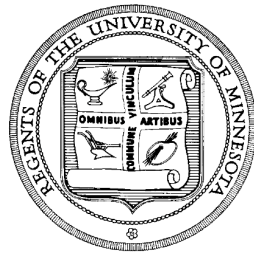
Linda Cohen, Chair  
Clyde Allen, Vice Chair  
Dallas Bohnsack  
John Frobenius  
Venora Hung  
Dean Johnson

**Student Representatives**

Jordan Bronston  
Dustin Norman

**A G E N D A**

1. External Audit Report - D. Seck/D. Loberg (p. 2)
2. Evolving the University's Research Infrastructure to Support Emerging Trends in Federal Funding Opportunities - T. Mulcahy (pp. 3-5)
3. Revisit of Institutional Risk Profile - L. Cohen/G. Klatt (p. 6-11)
4. Board of Regents Policy: *Audit Committee Charter* - Review - G. Klatt (pp. 12-14)
5. Board of Regents Policy: *Internal Controls* - Review - G. Klatt (pp. 15-17)
6. Internal Audit Update - G. Klatt (pp. 18-53)
7. Information Items - G. Klatt (pp. 54-60)



**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Audit Committee**

**November 13, 2008**

**Agenda Item:** External Audit Report

review       review/action       action       discussion

**Presenters:** Associate Controller, Denise Seck  
Don Loberg, Principal, Larson Allen  
Craig Popenhagen, Principal, Larson Allen

**Purpose:**

policy       background/context       oversight       strategic positioning

The purpose of this presentation is to communicate to the Audit Committee the External Auditor's opinion on the accuracy and reliability of the University of Minnesota's fiscal year 2008 financial statements. The presentation is intended to help inform the Committee in assuring that the University of Minnesota has the appropriate policies, procedures and systems of controls in place to produce accurate and reliable financial information.

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

- Discussion of the fiscal 2008 financial statements and audit results
- Required communications to the Audit Committee, including:
  - External Auditor's responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133;
  - Significant accounting policies;
  - Accounting estimates;
  - Audit adjustments
- Financial Statement highlights for 2008
- Emerging issues related to fiscal year 2009 financial statement audit

**Background Information:**

The Audit Committee is delegated the responsibility to oversee the results of the work of the external auditor on behalf of the Board of Regents. A copy of the 2008 financial statements is available in the Board office.



**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Audit Committee**

**November 13, 2008**

**Agenda Item:** Evolving the University's Research Infrastructure to Support Emerging Trends in Federal Funding Opportunities

review       review/action       action       discussion

**Presenters:** Vice President Timothy Mulcahy

**Purpose:**

policy       background/context       oversight       strategic positioning

This presentation will summarize an analysis by the Vice President for Research of present and emerging compliance risks associated with the University's research agenda and how the University's new integrated research compliance structure is poised to address those risks.

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

This presentation will:

- 1) Summarize the strengths and vulnerabilities of current research compliance programs;
- 2) Identify those areas where risk exposures are expected to increase as a result of emerging trends in federal funding;
- 3) Identify challenges the University will face in managing increase risks, and
- 4) Specify actions, planned or in development, that will ensure that the University's integrated research compliance model enhances our current environment that complies with ethical, moral, and legal standards of conduct.

**Background Information:**

**Board of Regents Audit Committee**  
**November 13, 2008**  
**Evolving the University's Research Infrastructure to**  
**Support Emerging Trends in Federal Funding Opportunities**

In the fall of 2007, the Vice President for Research charged a committee of University compliance administrators to recommend appropriate organizational structures and strategic direction for the Office of the Vice President for Research (OVPR) to assure efficient, integrated research compliance. This review required an examination of the current structures of the OVPR in order to identify existing strengths and weaknesses including an assessment of the ability of the existing structures to handle evolving environmental changes in compliance such as:

- Rising expectations for compliance and oversight
  - New regulations, especially research
  - Higher expectations for transparency and accountability
  - Increasing standards for governance: compliance infrastructure and programs
- Decentralization
  - Major challenge to oversight and expertise within colleges and units
- Financial pressure
  - Compliance costs rarely funded through grant activities
  - Challenge to adequately resourcing compliance both system-wide and within colleges and units.
  - Education, assuring core competencies, monitoring, administrative support for key activities

Based on this evaluation the committee recommended an organizational structure that supported the strategic direction and vision set by the Vice President for Research (VPR) for this effort.

### **The Vision**

Over the past decade or so, the University of Minnesota has developed and implemented several independent research compliance and oversight programs within the Office of the Vice President for Research, all of which have earned a reputation as strong, effective and beneficial programs. With this solid foundation in research compliance competency as background, the VPR wanted to take these research compliance programs to the next level – **functional integration**. Through the creation of the Institutional Compliance Office and its compliance partner programs across campus, the University has also taken bold steps over the past four to five years to contribute to a campus culture of compliance. To be maximally effective, the research compliance operations in the OVPR need not only to integrate seamlessly among themselves, but must interface with the growing network of compliance partners and responsibilities across the campus. In order to achieve this vision of truly full integration, the compliance functions in the OVPR need to be re-thought and re-organized. The ultimate goal of such a re-organization would be to have all of OVPR compliance functions organized operationally and, where appropriate, physically so that they can interact effectively with each other, optimizing the effectiveness of their individual areas of responsibility. The functions also need to interact effectively with the other units on campus engaged in compliance. Furthermore the compliance functions should be aligned to provide the most efficient operation possible given the ever changing financial picture and complex regulatory environment

Effective compliance programs must engage in a continuous, cyclical combination of policy and procedure generation, training and education, compliance monitoring, and reporting. Policies need to be carefully developed to identify what the goal of each function is. Education for various constituents needs to be provided so that everyone subject to the policy(ies) clearly understands what is expected in order to comply. Monitoring and reporting reveals whether or not the goals are being met and if not, identifies barriers and remedies to compliance. If behavior does not coincide with the goals, mechanisms for improving compliance need to be devised, communicated and implemented. In support of all of these efforts there needs to be a mechanism to ensure that sufficient authority is available to guarantee that all parts of the compliance structure work in a balanced and harmonious fashion that is flexible and responsive to feedback and the inevitable change in the research environment.

It must be acknowledged that all compliance units function within two distinct spheres – oversight and operations. While each compliance unit monitors the compliance of others (oversight), each unit itself is also subject to policies and procedures with which it must comply (operations). For example, the IRB ensures that researchers follow human subject regulations (oversight), however, the IRB itself must be operationally compliant and therefore subject to policy, procedures, education, monitoring and reporting requirements of an IRB. In order to avoid potential conflicts, units should not therefore provide oversight for their own operations, nor should operational units and the oversight units responsible for monitoring their performance report to the same director. Ideally, oversight will always be independent of the unit being monitored.



**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Audit Committee**

**November 13, 2008**

**Agenda Item:** Revisit of Institutional Risk Profile

review       review/action       action       discussion

**Presenters:** Regent Linda Cohen  
Associate Vice President Gail Klatt

**Purpose:**

policy       background/context       oversight       strategic positioning

To review the Institutional Risk Profile developed by the Audit Committee in 2005 to determine if any changes are warranted.

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

The Institutional Risk Profile provides a visual depiction of the University's enterprise level risk from the governance perspective. To be an effective and relevant governance tool, enterprise risk assessment must remain contemporaneous and current. The risk landscape of any organization changes over time. Thoughtful consideration as to whether new risks have emerged since the Risk Profile was developed in 2005, or identified risks have been mitigated to the extent that inclusion on the profile is no longer appropriate, will ensure the profile remains relevant to the work of the Board of Regents.

**Background Information:**

The Institutional Risk Profile was developed by the Audit Committee in 2005 after a year of receiving information from administrative leaders on the financial, operational, compliance, and strategic risks associated with University activities.

**Board of Regents Audit Committee**  
**Revisiting the Institutional Risk Profile “Heat Map”**  
**November 13, 2008**

**What is the purpose of the Institutional Risk Profile?** Boards of Directors are increasingly expected to provide oversight over an entity’s enterprise risk management activities. Boards are expected to understand an organization’s most significant risks, along with the actions being taken to mitigate them, and to be aware of and concur with the entity’s appetite for risk.

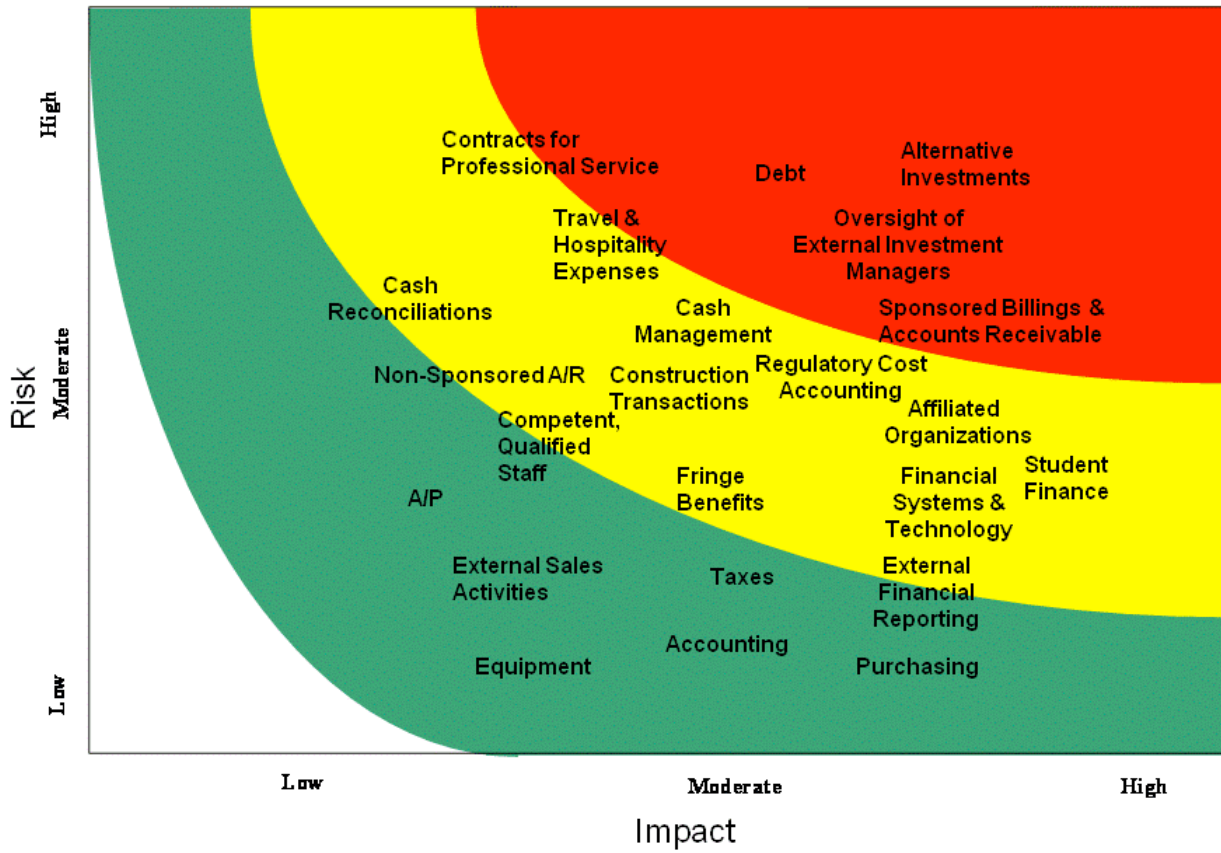
**What is the Construct of the Risk Profile?** Several enterprise risk management models exist: the Committee of Sponsoring Organizations (COSO) *Enterprise Risk Management – Integrated Framework*, the Joint Australian/New Zealand Standard, and the United Kingdom Turnbull guidance are the most widely used models. The COSO – ERM Integrated Framework was used as the basis for this process because 1) the Board of Regents *Internal Controls* policy is based on the COSO *Integrated Framework of Internal Control*, and 2) the COSO framework was endorsed within the Sarbanes-Oxley legislation and is the model most often used in the United States.

Within the COSO model, risk is defined as “the possibility of an event occurring that will have an impact on the achievements of objectives. Risk can involve either: 1) events which can have adverse effects, or 2) opportunities which are not pursued. Risk is measured in terms of impact and likelihood.” The Institutional Risk Profile is charted on a graph with likelihood and impact as the vertical and horizontal axis respectively. A risk in the upper right hand portion of the heat map would indicate an area where there is a high likelihood of occurrence resulting in a significant impact on the University. In risk profiles developed across industry sectors, it is common for strategic risks to reside in the upper right hand quadrant, with operational risks most often appearing in the middle of the heat map; this is consistent with the University’s heat map.

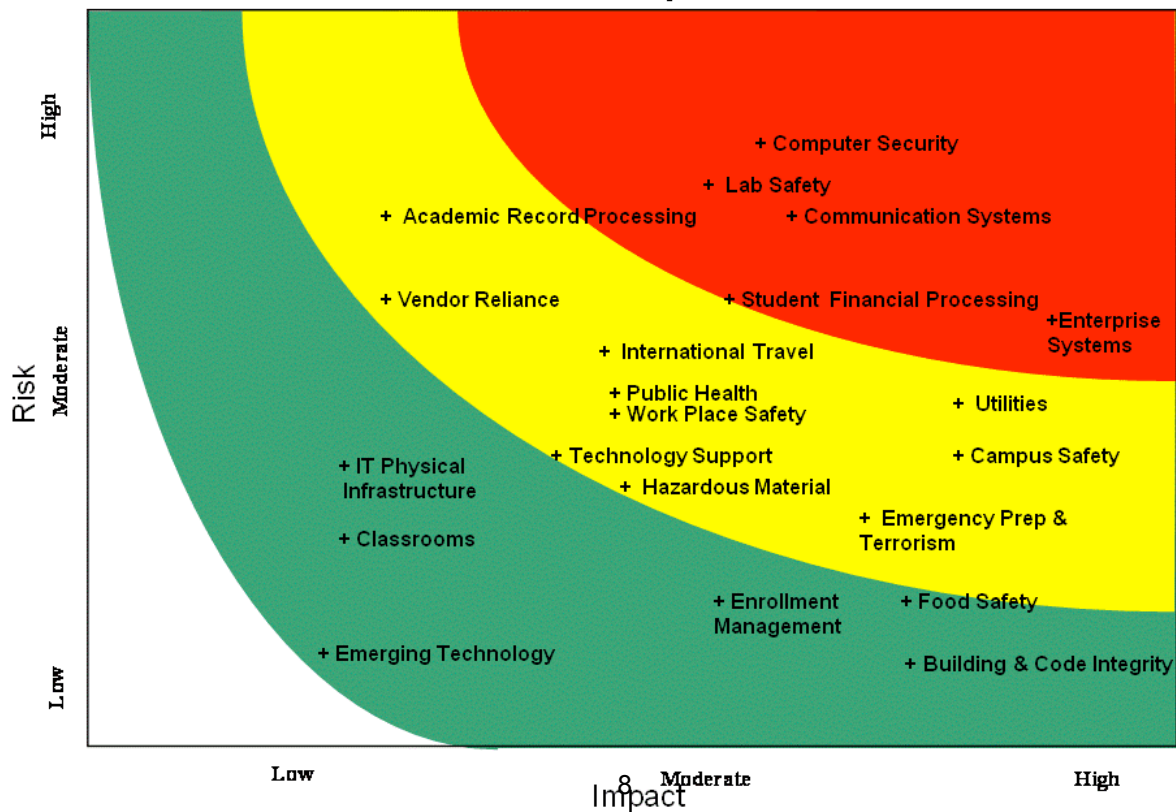
The risks shown on the Profile are considered “inherent”, or raw, risks. As such, the placement on the heat map does not consider the impact of the actions taken by the administration to mitigate them. If such consideration was given, the risks would then represent “residual” risk, and the placement of the risks on the heat map would undoubtedly shift considerably. Several administrative units have developed heat maps to help manage the risks within their portfolios. Some of these units have further refined this assessment to look at both inherent and residual risks. Both perspectives have significant value in the actual management of risk and the resultant prioritization of resources to these efforts.

**How was the initial Risk Profile developed?** The Audit Committee began the process of developing the Institutional Risk Profile in November 2004. Between November 2004 and May 2005 senior administrative leaders developed and presented to the Audit Committee risk profile heat maps for the four risk categories of the COSO risk management framework: financial risk, operational risk, compliance risk, and strategic risk. Our external auditors at the time also completed a heat map of their view of the University’s risks. These heat maps are included below.

# Financial Operations Risk Profile Heat Map

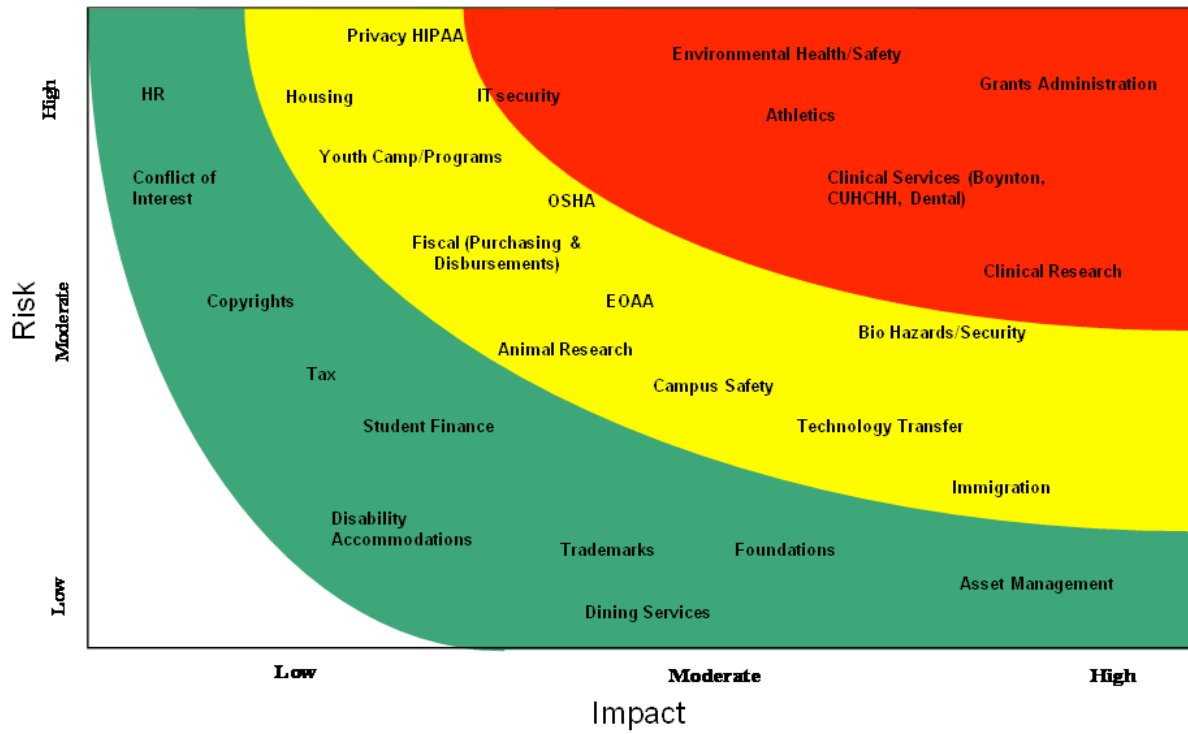


# Operational Risk Profile Heat Map

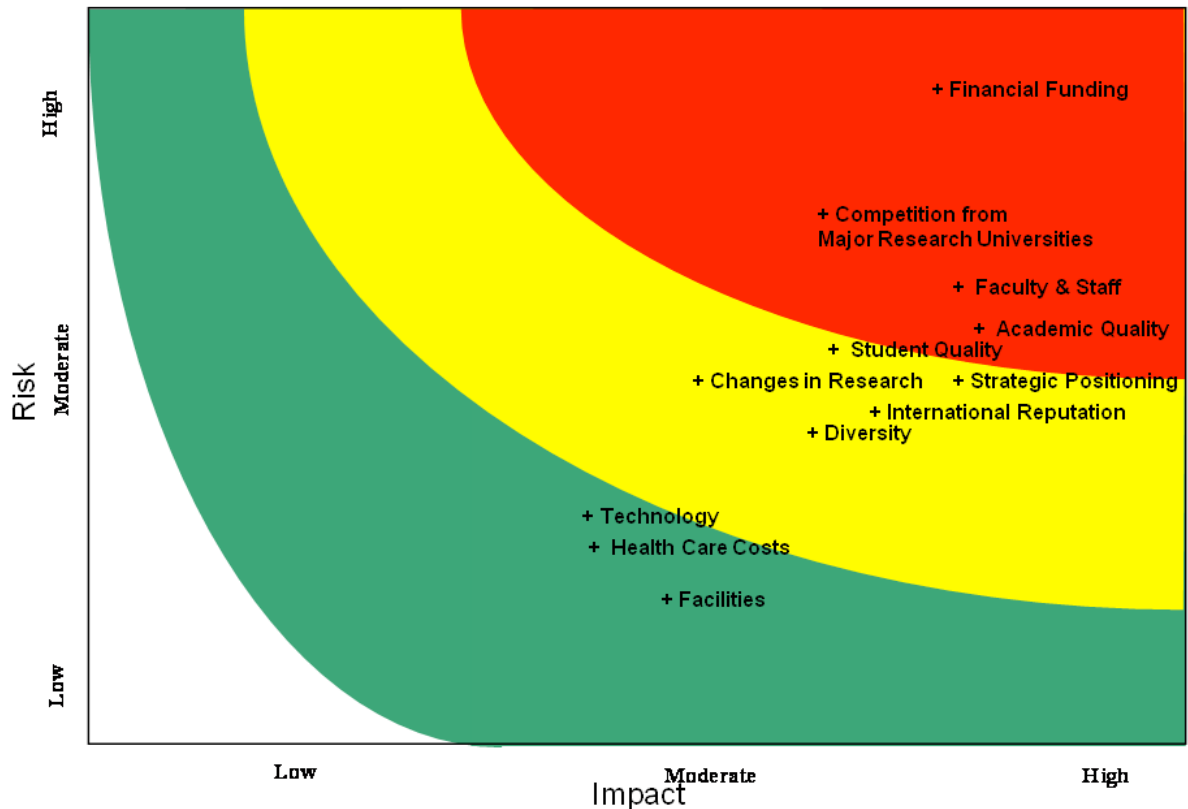




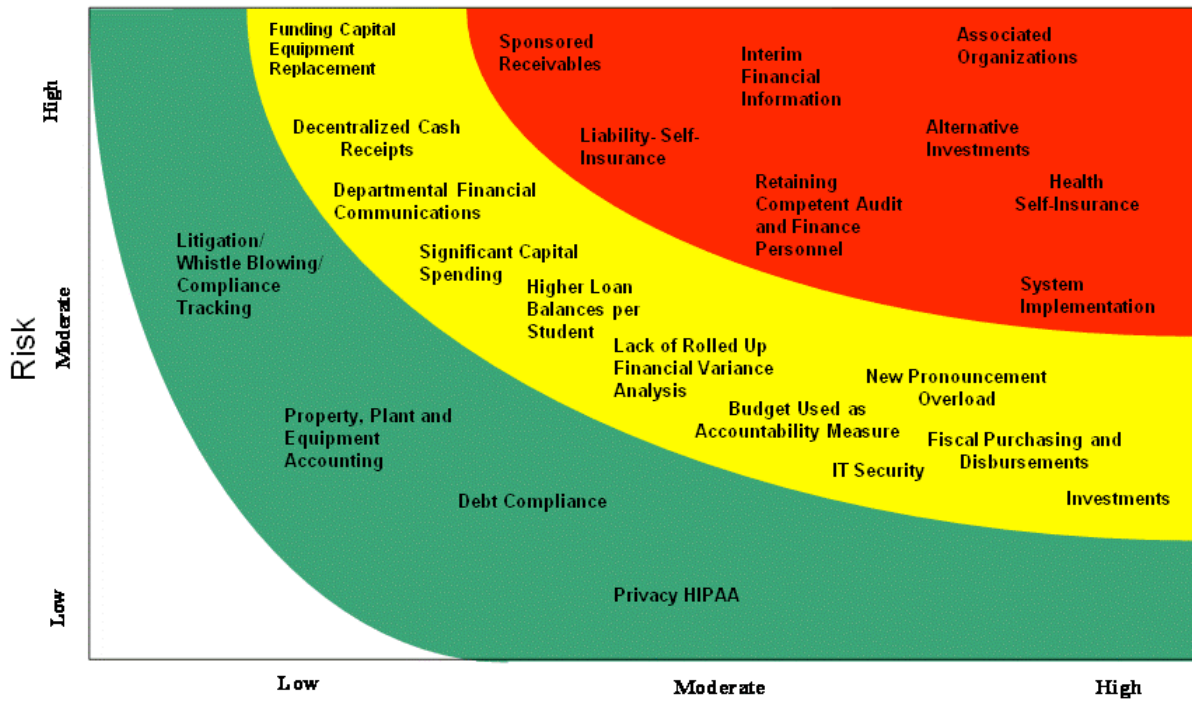
## Institutional Compliance Risk Profile Heat Map



## Academic Strategic Risk Profile Heat Map

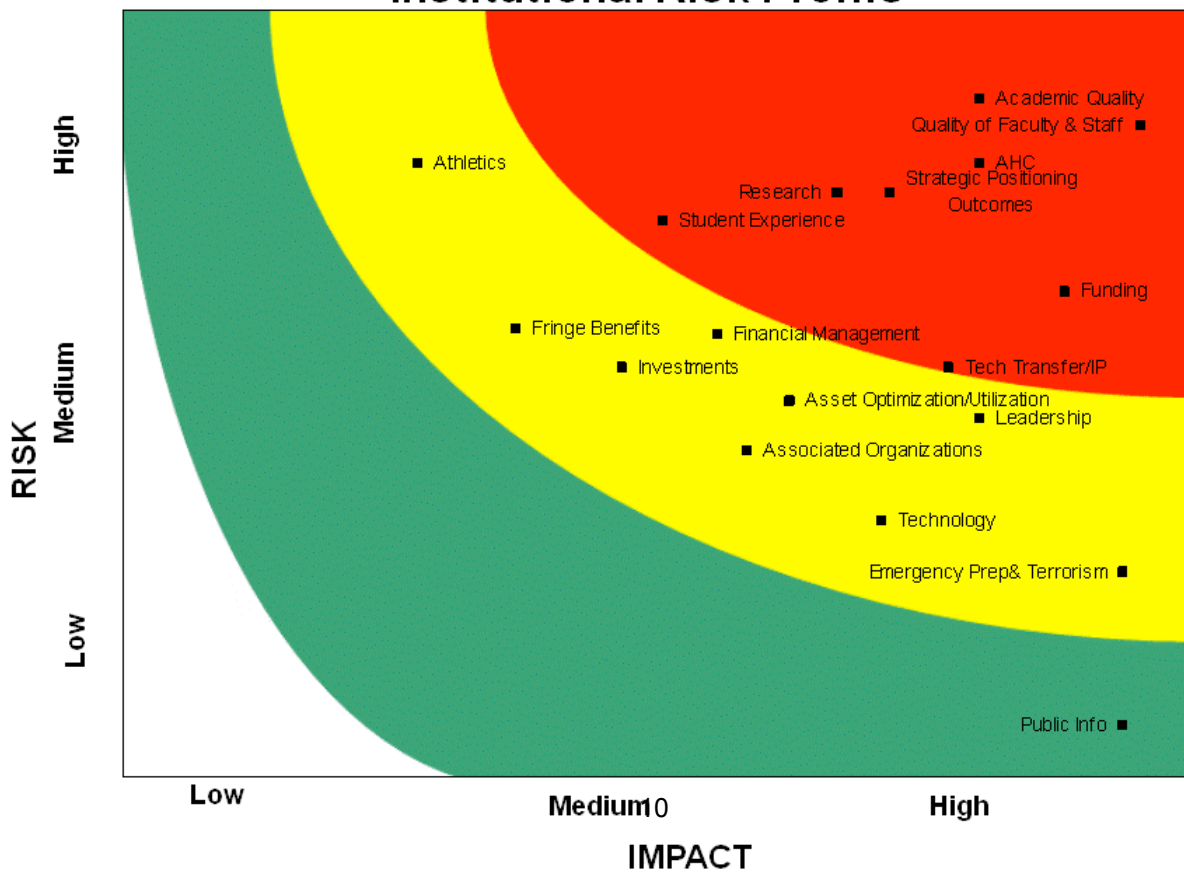


# External Audit Risk Profile Heat Map



Impact

# Audit Committee Institutional Risk Profile



Over the summer of 2005 discussions were held with individual Audit Committee members to facilitate the distillation of these risk discussions and identify the risks the Committee felt were of highest import to the Board of Regents as the University of Minnesota's governing body. The institutional risk profile was constructed based on this Regental input. The Audit Committee finalized the risk profile "heat map" at its September 2005 meeting. It is the last "heat map" presented on the previous page.

**How is the Profile Used? What is its value?** The development of the Institutional Risk Profile began a meaningful discussion of the University's institutional risk and created the opportunity for the Audit Committee to be informed by the administration of those risks deemed by the administration to be significant to the achievement of the University's strategic goals. The exercise also provided a template to support the discussion and assessment of risk that has since been utilized in a number of areas within the University that manage significant risk portfolios. A shared understanding has developed over time which has facilitated communication about risk within the institution. There is a common understanding of what it means for a risk or activity to be "in the red zone." The institutional risk profile is frequently referred to in the work of the University. Further, it provides important guidance for both the development of the Office of Internal Audit's annual plan, as well as the scope of individual audits. The institutional risk profile distills the complexity of the University of Minnesota into an understandable presentation of the areas/activities which have the greatest impact for its success. This information provides important perspective for committee members as they carry out their work as Regents, including the work of its committees.

**Why is it important to revisit the Profile?** To be an effective and relevant governance tool, enterprise risk assessment must remain contemporaneous and current. The risk landscape of any organization changes over time. The existing "heat map" is now three years old. Thoughtful consideration as to whether new risks have emerged during this period, or identified risks have been mitigated to the extent that inclusion on the profile is no longer appropriate, will ensure the profile remains relevant to the work of the Board of Regents.



**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Audit Committee**

**November 13, 2008**

**Agenda Item:** Board of Regents Policy: Audit Committee Charter

review       review/action       action       discussion

**Presenters:** Associate Vice President Gail Klatt

**Purpose:**

policy       background/context       oversight       strategic positioning

To review proposed changes to Board of Regents policy: *Audit Committee Charter*.

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

The review of the Board of Regents Policy: *Audit Committee Charter* is being done as part of the Board Office's ongoing policy review process.

The only proposed amendment to the existing Board of Regents Policy: *Audit Committee Charter* being recommended is the rewording of Subd 4 (e) to eliminate the reference to a specifically named administrative policy.

**Background Information:**

The Board of Regents Policy: *Audit Committee Charter* was adopted in 1988 and was most recently amended in 2005.

**President's Recommendation for Action:**

The President recommends adoption of the proposed amendment to Board of Regents Policy: *Audit Committee Charter*.



UNIVERSITY OF MINNESOTA  
**BOARD OF REGENTS POLICY**

Page 1 of 2

Board Operations

**AUDIT COMMITTEE CHARTER**

**Adopted:** October 14, 1988

**Amended:** October 13, 1989; March 13, 1998; May 14, 2004; March 11, 2005

**DRAFT** for review November 13, 2008

**AUDIT COMMITTEE CHARTER**

**Subd. 1. Organization.** The Audit Committee of the Board of Regents (Board) shall be a permanent committee consisting of at least four members of the Board. Audit Committee members shall be appointed by the Board chair, recognizing the need for financial expertise and continuity of membership from year to year.

**Subd. 2. Reservation of Authority.** Consistent with Board of Regents Policy: *Reservation and Delegation of Authority*, the Board reserves to itself authority to adopt policies regulating the audit function; approve selection of external public accountants and the Director of Internal Audit; review audit plans; and evaluate the performance of the independent auditor and, jointly with the president, the performance of the internal audit function.

**Subd. 3. Purpose.** The Audit Committee is to assist the Board in discharging its oversight responsibilities related to the audit function by:

- (a) promoting the development of an effective and continuously improving control environment, in concert with the administration, to achieve the institution's objectives through an appropriate system of risk assessment and internal controls;
- (b) overseeing the University's integrated framework of internal controls and risk assessment practices to ensure that the administration executes the provisions of Board of Regents Policy: *Internal Controls*;
- (c) serving as an informed voice on the Board by relaying the audit perspective when related issues are brought before the Board and its standing committees; and
- (d) providing a direct channel of communication to the Board for the internal auditor and the independent public auditor.

**Subd. 4. Duties.** Specific duties of the Audit Committee include the following:

(a) **Oversight of the Independent Auditor.** The independent auditor reports directly to the Board through the Audit Committee. The Audit Committee shall recommend for Board approval the engagement and related fees of the independent auditor to perform the annual financial statement and federal compliance audits. The Audit Committee shall approve in advance all audit and non-audit services provided by the independent auditor with a value greater than \$25,000 or that may impair the



UNIVERSITY OF MINNESOTA  
**BOARD OF REGENTS POLICY**

Page 2 of 2

Board Operations

**AUDIT COMMITTEE CHARTER**

**Adopted:** October 14, 1988

**Amended:** October 13, 1989; March 13, 1998; May 14, 2004; March 11, 2005

**DRAFT** for review November 13, 2008

audit firm's independence regarding the University. Such impairment of independence is currently limited to prohibited non-audit services as defined in the United States General Accounting Office *Government Auditing Standards*. Engagements not requiring approval by the Board shall be reported to the Audit Committee at the next scheduled meeting of the committee. The Audit Committee shall annually review and evaluate the independent auditor's performance, independence, and effectiveness of coordination with other assessment activities, including internal audit.

**(b) Oversight of the Internal Audit Function.** The Audit Committee shall recommend for Board approval (1) the appointment or removal of the director of audits, (2) changes to the Audit Department charter, and (3) any material revisions to internal audit plans or budgets. In consultation with management and the internal auditor, the Audit Committee shall review the annual internal audit plan and the extent to which it addresses high risk areas.

**(c) Review of Financial Statements.** The Audit Committee shall review, in advance of final issuance, the proposed formats and wordings of the annual financial report, including the management's discussion and analysis, financial statements, footnotes, statistics, and disclosures.

**(d) Review of Audit Results.** The Audit Committee shall review the internal and external audit results and discuss significant issues of internal control and compliance with the independent auditor, internal auditor, and management. The Audit Committee shall monitor management's progress in addressing audit recommendations.

**(e) Investigation of Reported Concerns Regarding Accounting or Auditing Matters.** The Audit Committee shall be apprised of investigations conducted under the administrative policy *Dealing with Allegations of Financial or Operational Misconduct*.

**(f) Requests for Audits.** The Audit Committee is authorized to request supplemental reviews or other audit procedures by the internal auditor, the independent auditor, or other advisors.

**(g) Approval of Engagements of Audit Firms Other Than the University's Principal External Auditors.** The Audit Committee shall approve all engagements of external audit firms to perform work or provide services with a value greater than \$25,000 or that may impair the audit firm's independence regarding the University. Such impairment of independence is currently limited to prohibited non-audit services as defined in subd. 4 (a) of this policy. Engagements not requiring approval by the Board shall be reported to the Audit Committee at the next scheduled meeting of the committee.



**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Audit Committee**

**November 13, 2008**

**Agenda Item:** Board of Regents Policy: Internal Controls

review       review/action       action       discussion

**Presenters:** Associate Vice President Gail Klatt

**Purpose:**

policy       background/context       oversight       strategic positioning

To review proposed changes to the Board of Regents policy: *Internal Controls*.

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

The review of the Board of Regents Policy: *Internal Controls* is being done as part of the Board Office's ongoing policy review process.

The proposed amendments to the policy involve the reformatting of the policy to conform to new Board policy standards, including the incorporation of guiding principles. The substantive content of the policy remains unchanged.

It is proposed that the name be changed to Board of Regents Policy: *Internal Control*.

**Background Information:**

The Board of Regents Policy: *Internal Controls* was adopted in 1988 and was amended in 2004.

**President's Recommendation for Action:**

The President recommends adoption of the proposed amendments to Board of Regents Policy: *Internal Controls*.



UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS POLICY

Page 1 of of 2

DRAFT for review November 13, 2008

INTERNAL CONTROLS

~~Subd. 1. Integrated Framework.~~ The control model for the University of Minnesota (University) is the Integrated Framework of Internal Control as promulgated by the congressionally established Committee of Sponsoring Organizations (COSO).

~~Subd. 21. Objectives~~ **Guiding Principles.** The ~~president or delegate~~ University's ~~shall administer an~~ integrated framework of internal control and risk assessment practices ~~shall ensure that ensures:~~

- (a) University activities and operations function effectively and efficiently;
- (b) University activities and operations compliance comply with laws, regulations, and University policies and standards;
- (c) University processes result in accurate and reliable financial information and reports;
- (d) University resources are adequately protected; ~~and~~
- (e) traditional and emerging strategic, operational, financial, compliance, and reputational risks are ~~being~~ properly identified and appropriately managed;
- (f) all material risks facing the University are identified and assessed routinely at all levels and within all University functions;
- (g) control activities and other mechanisms are proactively designed to address and manage significant risks;
- (h) information critical to identifying risks and meeting the University's mission and strategic objectives is communicated through established channels throughout the University; and
- (i) controls are monitored and identified problems are addressed in a timely manner.

~~Subd. 32. Implementation Principles~~ **Delegation of Authority.** The president or delegate shall establish the foundation for sound internal control within the University through directed leadership, shared values, and a culture that emphasizes accountability ~~such that:~~

- ~~(a) all material risks facing the University are identified and assessed routinely at all levels and within all University functions;~~
- ~~(b) control activities and other mechanisms are proactively designed to address and manage significant risks;~~
- ~~(c) information critical to identifying risks and meeting the University's mission and strategic objectives is communicated through established channels throughout the University; and~~





UNIVERSITY OF MINNESOTA  
**BOARD OF REGENTS POLICY**

Page 2 of of 2

Administrative

**INTERNAL CONTROLS**

Adopted: May 8, 1998

Amended: May 14, 2004

**DRAFT** for review November 13, 2008

~~(d) monitoring of controls is performed and identified problems are addressed in a timely manner.~~

**Subd. 43. ResponsibilityAccountability.** Notwithstanding any delegation made by the president to administer this policy, the president shall be responsible to the Board of Regents (Board) for the faithful execution of the integrated framework of internal control consistent with the policies of the Board and applicable law.



**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Audit Committee**

**November 13, 2008**

**Agenda Item:** Internal Audit Update

review       review/action       action       discussion

**Presenters:** Associate Vice President Gail Klatt

**Purpose:**

policy       background/context       oversight       strategic positioning

To update the Audit Committee on Internal Audit activities, results, and observations.

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

- Since our last follow-up for the May 2008 meeting, 40% of the outstanding recommendations rated as “essential” were implemented by University departments. This percentage equals our expected implementation rate, and is a significant improvement over recent quarters. An updated control evaluation chart is included for each audit to show progress made on the “essential” items. Eleven units fully implemented all their remaining “essential” recommendations.
- Four audit reports containing 26 recommendations rated as “essential” were issued in the last two months.
- The results of an internal quality self-assessment concluded the Office of Internal Audit generally conforms to the *International Standards for the Professional Practice of Internal Auditing*.
- Participation in a comprehensive benchmarking study with other internal audit groups showed we compared very favorably with our peers on many key indicators.

**Background Information:**

This report is prepared on a quarterly basis and is presented to the Audit Committee in conformance with Board Operations and Agenda Guidelines.

## **Internal Audit Update**

University of Minnesota Regents Audit Committee  
November 13, 2008

This report includes:

- Audit Observations/Information/Status of Critical Measures
- Status of “Essential” Recommendations & Bar Charts Showing Progress Made
- Audit Activity Report
- Audit Reports Issued Since September 5, 2008
- A Review of the TCF Bank Stadium External Audit Coverage
- Results of a UM Internal Audit Quality Self-Assessment
- A Comparison of UM Internal Audit Metrics to Other Internal Audit Groups

Details for any of the items in this report are available on request. Individual reports were sent to the President, Provost, Vice Presidents, and Chancellors about these internal audit issues.

### **Audit Observations/Information**

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

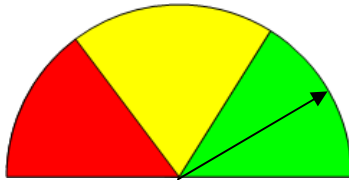
As part of our on-going efforts to provide the Audit Committee with critical information in as concise a format as possible, we have developed the following three charts to present a “snapshot” status report on work performed by the Office of Internal Audit.

The first chart, “Essential Recommendation Implementation”, provides our overall assessment of the success University departments had during the last quarter 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 2009 Annual Audit Plan. Readings less than green could be influenced by a variety of factors (i.e. insufficient staff resources; increased time spent on non-scheduled audits or investigations).

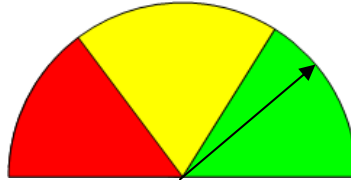
The final chart, “Time Spent on Investigative Activities”, provides a status report on the amount of time consumed by investigative activities. Our annual plan provided an estimated budget for this type of work, and the chart will indicate if we expect that budget to be sufficient. Continued readings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

### Essential Recommendation Implementation



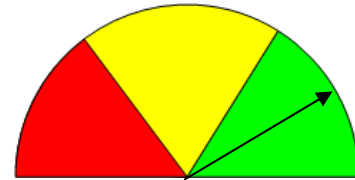
Implementation rates were 40% for the quarter, equal to our expected rate.

### Progress Towards Annual Audit Plan Completion



Time spent to date on the FY 2009 audit plan is consistent with what was expected and budgeted.

### Time Spent on Investigative Activities



Time spent on investigative activities is consistent with the budget for the year.

## Progress on Resolving Information Technology (IT) Audit Findings

The resolution/implementation rate for IT audit findings has increased this quarter to a rate of 33%. We attribute this dramatic improvement in the implementation rate to the strong commitment from the CIO's office and the Collegiate IT Directors group to establishing strategies and tools that help streamline the resolution of the outstanding concerns and identify ways collegiate directors can better support their units in managing IT risks.

The Collegiate IT Directors established two subgroups to work with OIT and Internal Audit on improving the implementation of audit recommendations. Both these groups have made substantial and tangible progress.

The first Collegiate IT Directors subgroup, which is working on actions and tools that can be immediately leveraged to resolve common-theme findings, has focused on disaster recovery preparations. The immediate dividends of their effort can be illustrated in the fact that one-third of the implemented findings this quarter were associated with disaster recovery concerns. The actions of this subgroup also improved the quality of the resolution actions. This subgroup, with assistance from OIT, has developed and piloted disaster recovery planning and testing templates. This subgroup's action plan includes both developing cooperative efforts between collegiate units to resolve outstanding disaster recovery findings and establishing additional tools and processes to further enhance the quality of disaster recovery preparation across the University.

The second Collegiate IT Directors subgroup is developing tools to help collegiate units expand their ability in identifying, prioritizing and managing IT risks. The subgroup is currently designing a template that is intended to help collegiate IT directors rank and prioritize risk so efforts to enhance control mechanisms are focused on areas of greatest risk/return on investment. The

subgroup has begun to pilot test a prototype of the template. The efforts of this subgroup dovetail well with the deliverables coming from the first subgroup.

A process to consistently monitor the actions and time frames associated with resolving outstanding IT findings throughout the institution was also established by the CIO's office and should contribute to an ongoing improvement in the implementation rate.

While significant progress has been made in improving resolution rates, the CIO and the Collegiate IT Directors realize it is premature to declare victory over this concern. The Collegiate IT Directors subgroups realize they still have work to complete and they intend to recommend that another subgroup of the larger Collegiate IT Directors group be started to work on another set of common theme findings, such code change management or server security concerns.

**Status of "Essential" Recommendations as of October 31, 2008**

Report Date	Audit	# of Essential Recommendations in the Report	# of Essential Recommendations Remaining From Prior Quarter	Current Quarter Results			Overall Progress Towards Implementation*	Any Individual Issues With < Satisfactory Progress?
				Implemented	Partially Implemented	Not Implemented		
Jan-05	A Review of Education Abroad Programs	4	1		1		Satisfactory (a)	
Jan-05	University of Minnesota - Crookston	11	1		1		Satisfactory	
Apr-05	Enterprise Imaging System	4	1		1		Satisfactory	
Jun-05	UMD School of Fine Arts	10	2	2			Completed	
Aug-05	Intercollegiate Athletics	12	2	1			Satisfactory	
Sep-05	Facilities Management Maintenance Operations	10	1		1		Satisfactory	
Dec-05	Disaster Recovery	1	1	1			Completed	
Jul-06	Medical School Duluth	6	1		1		Satisfactory	
Sep-06	eResearch Systems	1	1	1			Completed	
Nov-06	Law School	5	1	1			Completed	
Nov-06	OPPR-Central Units Supporting Research	5	2		2		Satisfactory	
Jan-07	UMD-College of Liberal Arts	9	1	1			Completed	
Jan-07	University Libraries	5	1	1			Completed	
Jan-07	Department of Neurology	5	2	2			Completed	
Apr-07	University Stores	3	2		2		Satisfactory	
May-07	Ticketing System - Phase 1 Review	4	3		3		Satisfactory	
May-07	Central Authentication Services	4	3		3		Satisfactory	
Jun-07	Epidemiology & Community Health	11	6	5	1		Satisfactory	
Jun-07	School of Physics & Astronomy	5	3		3		Satisfactory	
Jul-07	Department of Psychology	10	6	3			Satisfactory	
Aug-07	General Clinical Research Center	2	1		1		Satisfactory	
Aug-07	UM - Morris Campus	12	10	4		6	Satisfactory (b)	
Aug-07	School of Mathematics	2	2		2		Satisfactory	
Sep-07	University Press	8	7	4		2	Satisfactory	
Oct-07	UMD Intercollegiate Athletics	9	6	3		2	Satisfactory	
Oct-07	Department of Recreational Sports	6	3	3			Completed	
Oct-07	Veterinary Medical Center	4	3	3			Completed	
Nov-07	Department of Central Security	8	6	3			Satisfactory	
Dec-07	Central Computing Operations System Administration	1	1	1			Completed	
Jan-08	Department of Computer Science and Engineering	4	2	2			Completed	
Jan-08	University of Minnesota Cancer Center	4	4	3		1	Satisfactory	
Jan-08	Office of the Vice President for Equity and Diversity	9	9	1		8	Satisfactory	
Jan-08	Weisman Art Museum	8	6	3			Satisfactory	
Jan-08	Active Directory Administration Managed by OIT	9	9	2		7	Satisfactory	
Jan-08	College of Biological Sciences	9	7	3		4	Satisfactory	
Jan-08	Natural Resources Research Institute	7	6	2		4	Satisfactory	
Apr-08	M Key Two-Factor Authentication	2	2	1		1	Satisfactory	
Apr-08	University of Minnesota Bookstores	5	5	2		3	Satisfactory	
Apr-08	UMD Swenson College of Science & Engineering	7	7	6		1	Satisfactory	
Apr-08	CPPM - Unifiter Project Management System	3	3	2		1	Satisfactory	
Apr-08	Athletic Facilities	4	4	1		3	Satisfactory	
<b>Total:</b>		<b>248</b>	<b>144</b>	<b>57</b>	<b>78</b>	<b>9</b>		

(a) Required computer programming has now been completed, and the system is expected to be used on a test basis for 2009 May intercession and Summer Session students.

(b) Progress to date has been limited. All six items "not implemented" address information technology concerns, and UMM is searching for a new IT Director. A new Finance Director will also start with UMM in November.

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

**"Essential" Recommendation Implementation Trends**

**Month / Year of Follow-up Report**

	Nov. 2008	May 2008	Feb. 2008	Sept. 2007	May 2007	Feb. 2007	Sept. 2006	May 2006	Feb. 2006	Average
# of Essential Recommendations Receiving Follow-up	144	157	102	86	96	91	114	108	112	112
# of Recommendations Considered Fully Implemented	57	35	31	32	29	48	46	27	44	39
Implementation Percentage	40%	22%	30%	37%	30%	53%	40%	25%	39%	35%

<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>	<b>Audit Observations And Comments</b>
A Review of Education Abroad Programs Jan-05	P	E. Thomas Sullivan Meredith McQuaid	The University should roll-out to all colleges and departments a uniform process for the assessment of program costs associated with study abroad programs. This process should ensure all study abroad program charges are billed to the student's University financial account.	According to the Office of Student Finance, an automated system is now in production and functional. Per the Study Abroad Office, during Spring 2009 they will register students using the system for May and Summer 2009 sessions. This will be the trial run and Study Abroad will also use their other program as back up. The entire Twin Cities campus will be live for Fall 2009, with all campuses live by Spring 2010.	
# of Items: 1 University of Minnesota - Crookston Jan-05	P	Charles Casey Robert Jones	For standard keys issued UMC needs to implement a process to ensure keys are returned as students or staff leave campus. The return of keys should be a requirement before issuing final paychecks, transcripts etc. Also the use of an appropriate key deposit can facilitate their return.	A new UMC FM director has been hired. However, processes have not yet been developed to implement this recommendation.	
# of Items: 1 Enterprise Imaging System Apr-05	P	Amie Dardis Dan Wagner	Management and OIT Data Security should continue to work with the vendor to address security concerns identified. User authentication and intrusion monitoring processes should be enhanced to address security concerns noted in this review.  OIT Data Security should continue to work with the vendor about the problem with deleted IDs in the application. The application should be modified to allow userIDs to be deleted without affecting audit trails. The application should also be modified so application users do not have to have accounts established within the operating system.  As management works with the vendor to correct these problems, management should continue its efforts to get upgrades in a more timely manner.	The upgrade of the ImageNow system this past March to version 6.1 included security enhancements that made M Key -2 factor authentication a technically realistic option for user authentication. Proof of concept testing in August and September showed that using M Key with ImageNow would work. M Key will be implemented in the test environment in November or December. Imaging and OIT Data Security have agreed on production implementation of M Key by the end of the first quarter of 2009.	
# of Items: 1 Intercollegiate Athletics Aug-05	P	Joel Maturi	The Athletic Ticket Office should ensure that employees are adequately trained in Paciolan and cross trained in areas that affect their current duties, and potentially back-up duties.	We have hired a new ticket manager who is getting close to getting up to speed in Audience View. We have improved our cross-training of employees and are covered within our overall operations where we would not be significantly impacted by one employee leaving or taking an extended leave.  The accounting function within Audience View and the cross training of our accounting personnel is a priority moving forward. We will analyze our ticket office accounting	

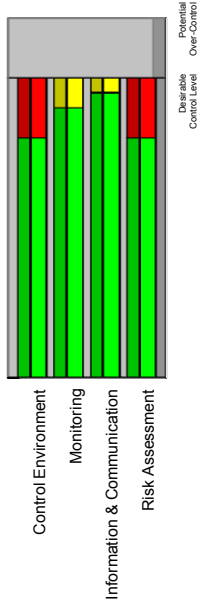
<i>Audit/ Report Date</i>	<i>Status-Partially Implemented (P) or Not Implemented (N)</i>	<i>Senior Management Contact</i>	<i>Summary of the Issue/Risk Involved</i>	<i>Current Comments From Management</i>	<i>Audit Observations And Comments</i>
<p># of Items: 1</p> <p>Facilities Management Maintenance Operations Sep-06</p>	P	Mike Berthelsen	<p>FM should develop a procedures manual to ensure that necessary activities are conducted for payroll and are processed timely and accurately by more than one payroll staff. There also should be cross-training in the FM payroll unit.</p>	<p>functions and job descriptions and try and make some significant improvements in the next 8 months.</p> <p>We still rely very heavily on Audience View staff and the internal OIT department to help us navigate the ticketing system and get key elements completed (renewals, reporting, etc.). We have too many key functions that we cannot do with just ATO staff. We have worked directly with Audience View and OIT to come up with a short term plan to fix our "five key issues". We need fixes to current problems in place by January 1, 2009.</p> <p>Until we get the Audience View system "up to speed", we will not be able to effectively cross-train in all areas.</p>	
<p># of Items: 1</p> <p>Medical School Duluth Jul-06</p>	P	<p>Gary Davis Deborah Powell</p>	<p>The School of Medicine should generate a written agreement to govern its financial relationship with the Duluth Family Practice Center.</p>	<p>Medical School administrators and Duluth hospitals have continued to make progress toward a new agreement of affiliation. The negotiations are continuing.</p>	
<p># of Items: 1</p> <p>OVPR-Central Units Supporting Research Nov-06</p>	P	<p>Tim Mulcahy Michele Chin-Purcell, Moira Keane</p>	<p>The OVPR should consider moving towards maintaining one single database for research activities. The database could be divided into different compliance modules with access restrictions for control purposes. The database should have reporting capabilities which would identify trends and track identified issues and their resolutions.</p>	<p>The OVPR agrees with the need to provide an integrated compliance database system. Central funding has now been secured and during the last year there were delays due to EFS as well as AAA-LAC probationary issues. Progress continues and currently is back on schedule. The business analysis phase is expected to be completed by April 2009 and at that time we will be ready to issue an RFP. The Research Compliance Module project is on OIT's 6-year work plan, and resources/OIT work planning is in process for post-RFP.</p>	



<i>Audit/ Report Date</i>	<i>Status-Partially Implemented (P) or Not Implemented (N)</i>	<i>Senior Management Contact</i>	<i>Summary of the Issue/Risk Involved</i>	<i>Current Comments From Management</i>	<i>Audit Observations And Comments</i>
	P	Tim Mulcahy Michele Chin-Purcell, Moirra Keane	<p>The RSPP and the ORA should work with the ORA to develop procedures for follow up of issues identified in reviews. The procedures should at least include:</p> <ul style="list-style-type: none"> <li>•how issues received at the RSPP will be tracked</li> <li>•when the issues are to be referred to either the IRB or IACUC</li> <li>•how the process for the follow up will be determined</li> <li>•what type of documentation will be maintained</li> <li>•when and how resolutions will be reported to the ORA.</li> </ul>	<p>Implementation is not expected to take place until the end of calendar 2009.</p> <p>A new tracking system has been installed and is currently fully functional. RSPP reorganization is now complete and open positions have been filled. Both Executive Directors of RSPP and ORA/RIOP are working collaboratively on finalizing procedures (SOPs) for their office functions as well as where their procedures overlap.</p>	
	# of items: 2				
	<b>Total:</b> 8				

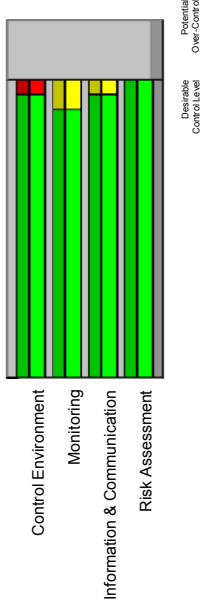
The bar charts shown below are presented to provide pictorial displays of the progress units are making on implementing audit recommendations rated as "essential". The bar chart included in the original report is shown in the left column, along with updated bar charts showing the previous quarter and 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 May 2008, 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

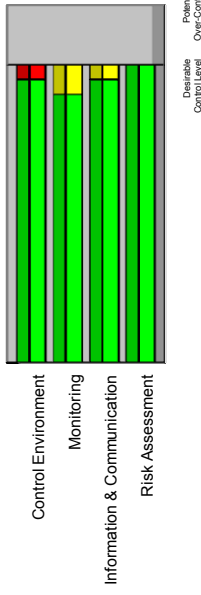


### Previous Quarter Evaluation

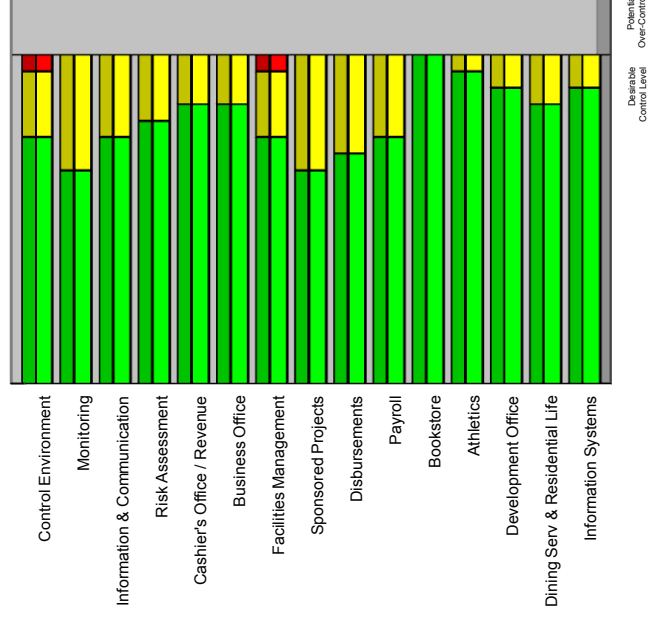
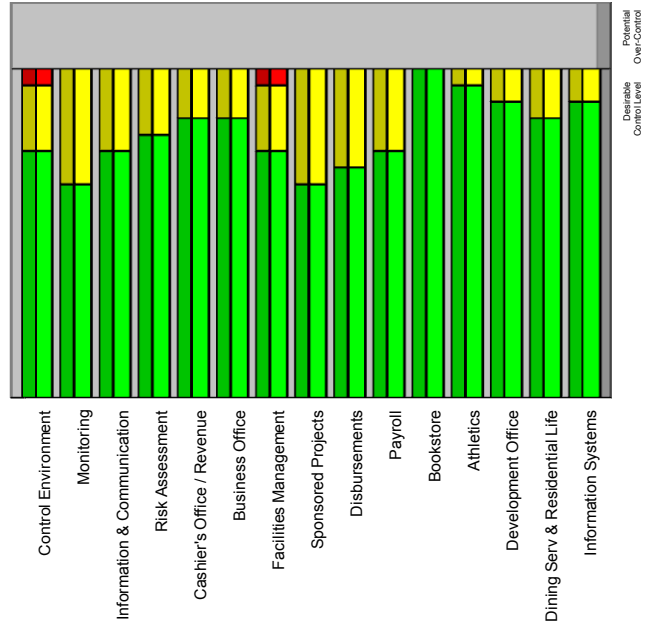
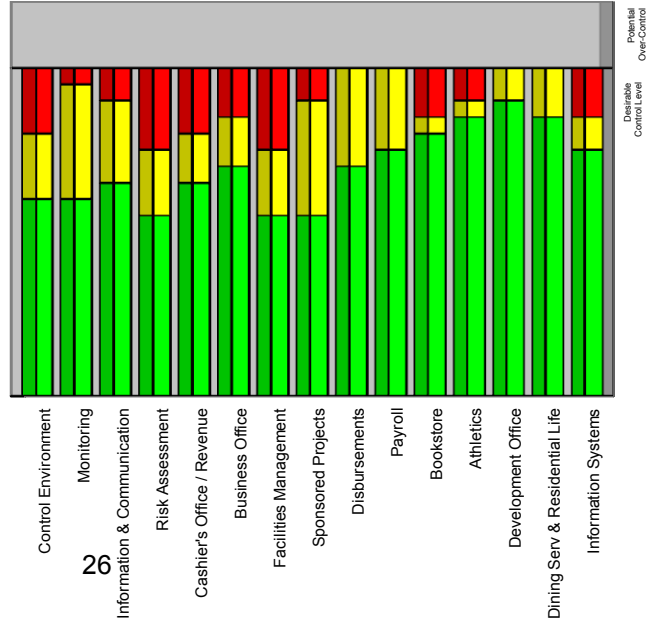
#### A Review of Education Abroad Programs (January 2005)



### Current Quarter Evaluation



#### UM - Crookston (January 2005)



Adequate Control

Significant Control Level

Critical Control Level

Potential Over-Control

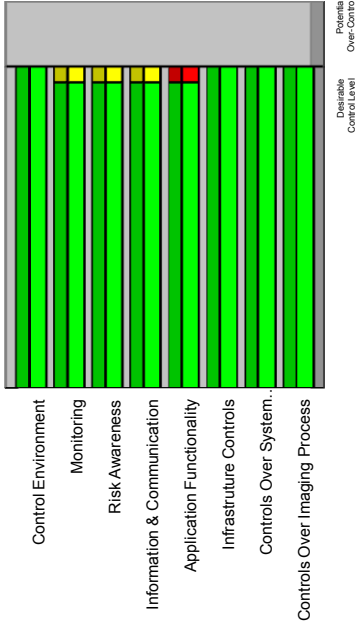
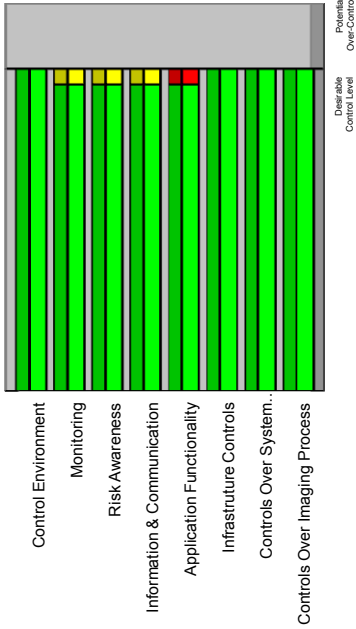
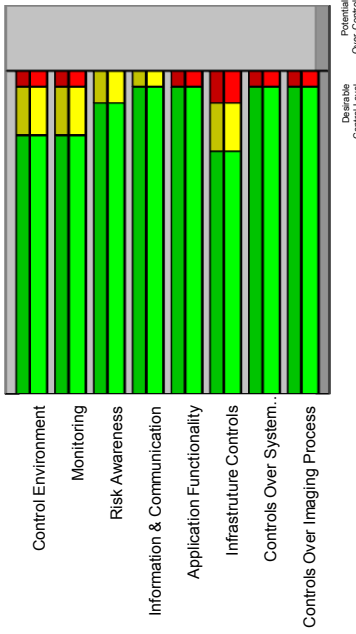
Potential Over-Control

Original Report Evaluation

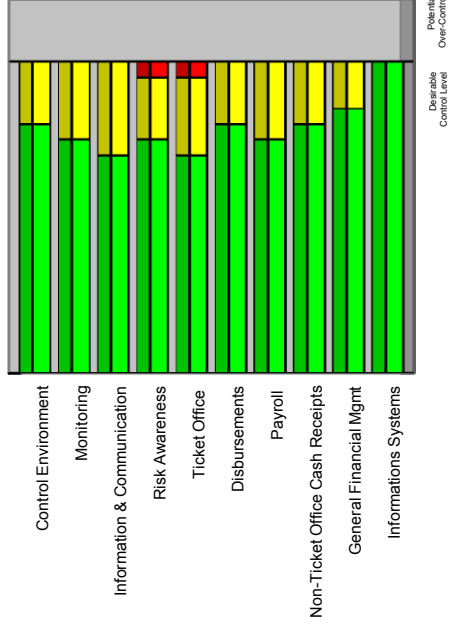
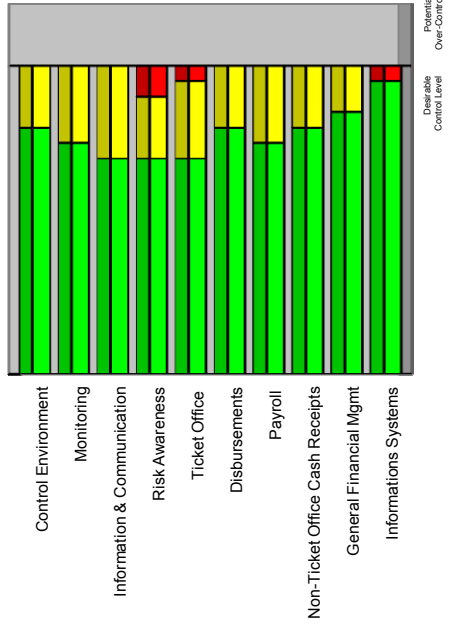
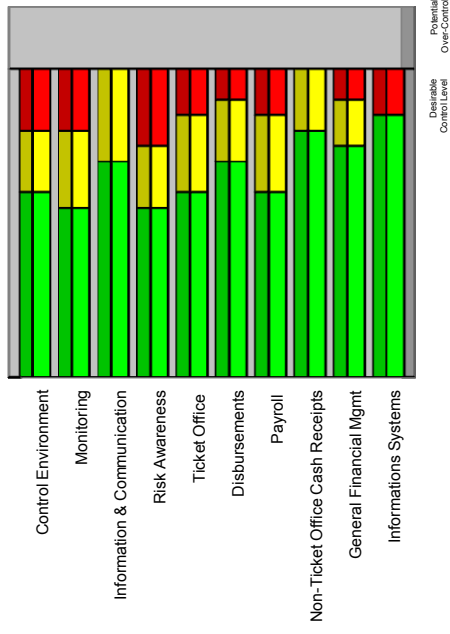
Previous Quarter Evaluation

Current Quarter Evaluation

Enterprise Imaging System (April 2005)



Department of Intercollegiate Athletics (August 2005)



Adequate Control

Significant Control Level

Critical Control Level

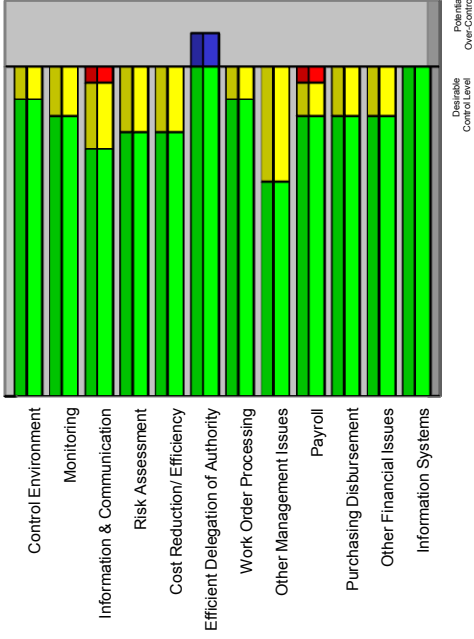
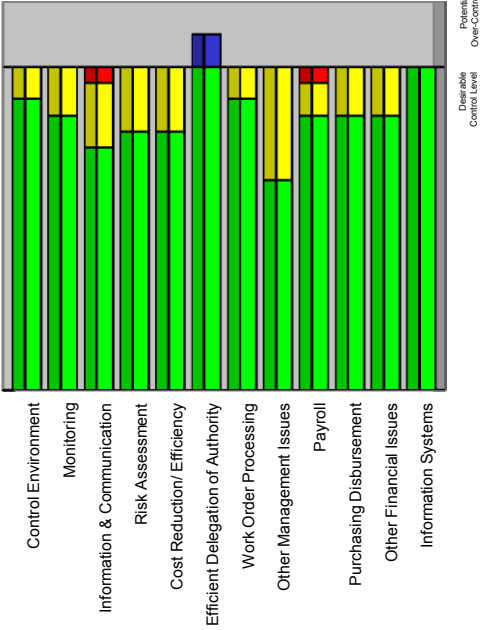
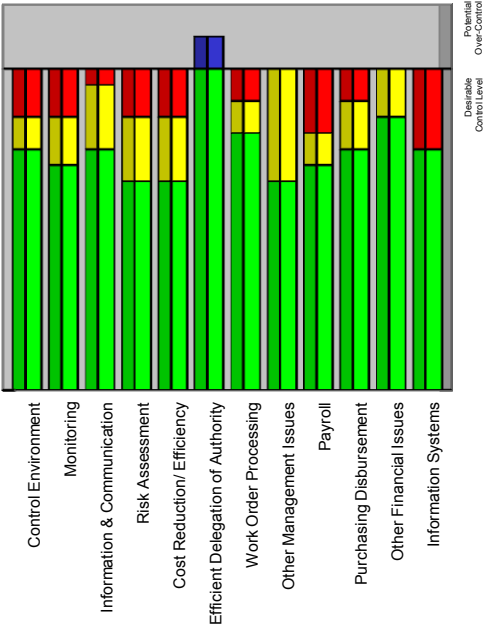
Potential Over-Control

Original Report Evaluation

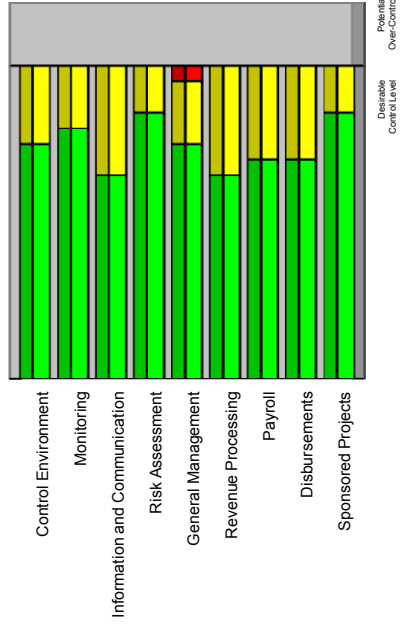
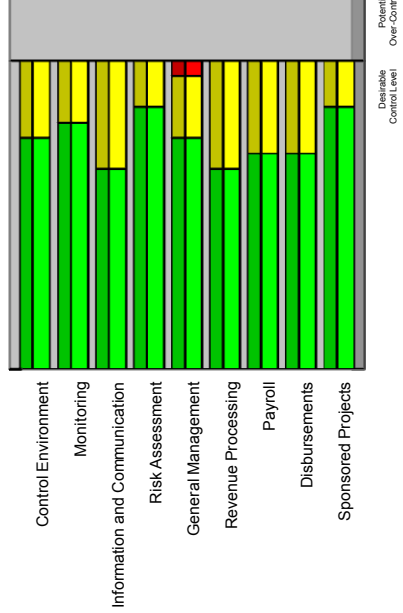
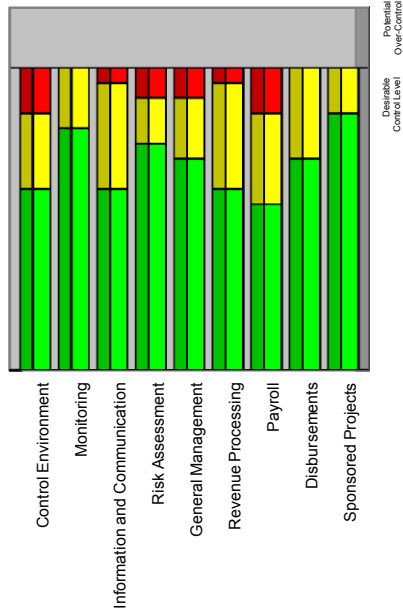
Previous Quarter Evaluation

Current Quarter Evaluation

Facilities Management Maintenance Operations (September 2005)



Medical School Duluth (July 2006)



Adequate Control

Significant Control Level

Critical Control Level

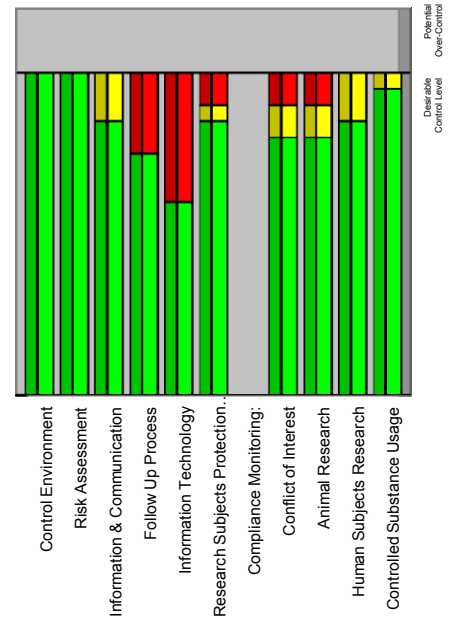
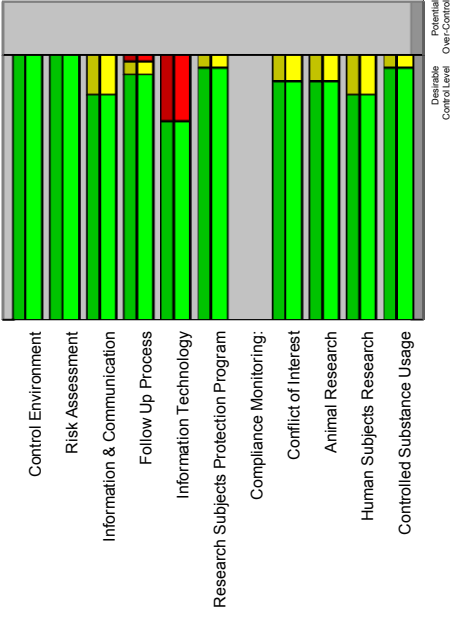
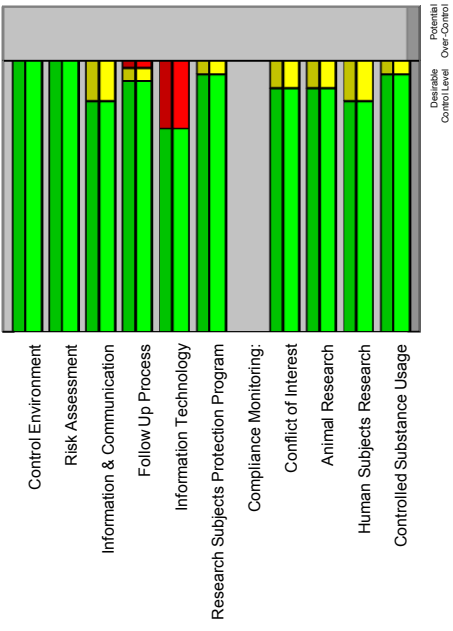
Potential Over-Control

Original Report Evaluation

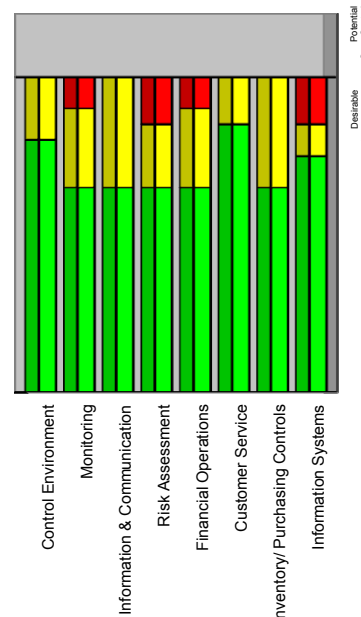
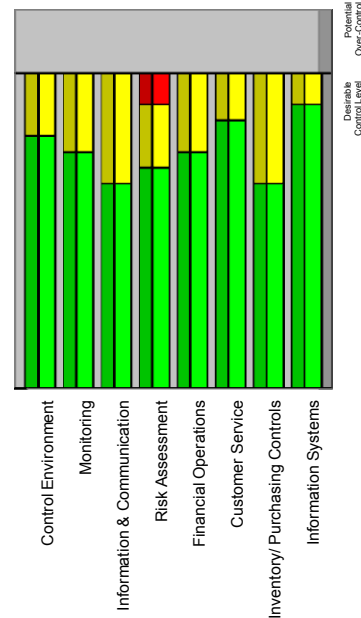
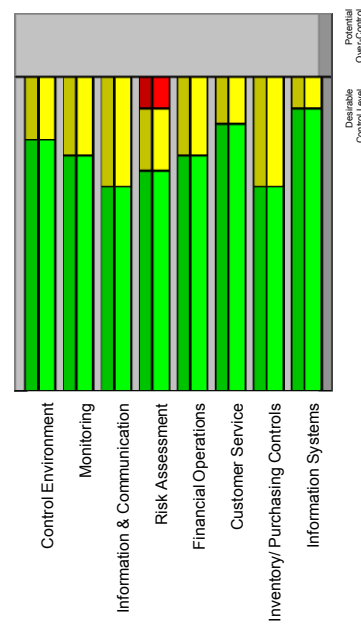
Previous Quarter Evaluation

Current Quarter Evaluation

OVP- Central Units Supporting Research (November 2006)



University Stores (April 2007)



Adequate Control

Significant Control Level

Critical Control Level

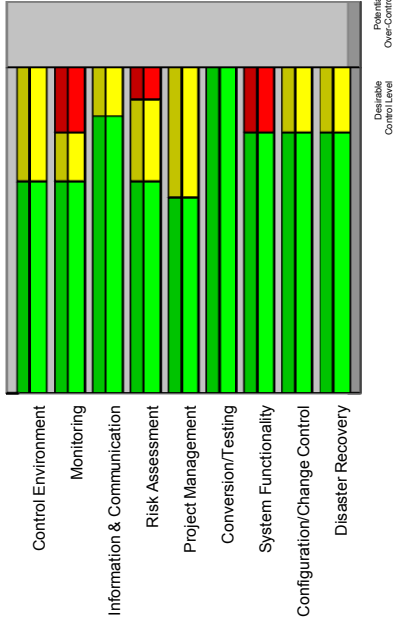
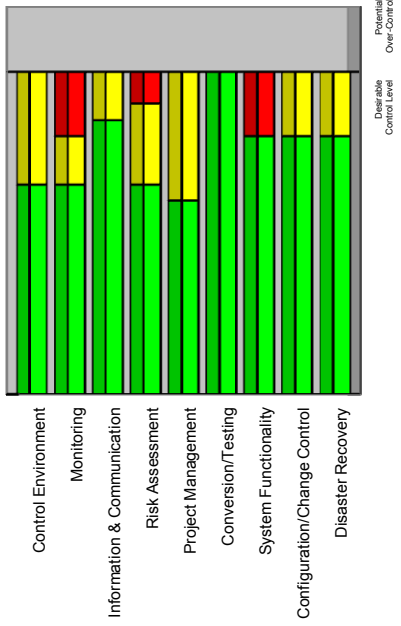
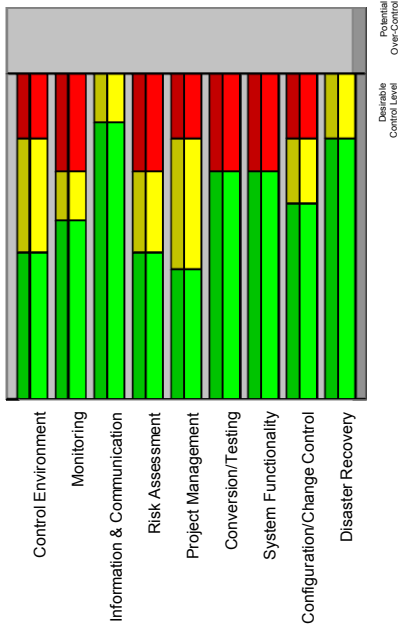
Potential Over-Control

Original Report Evaluation

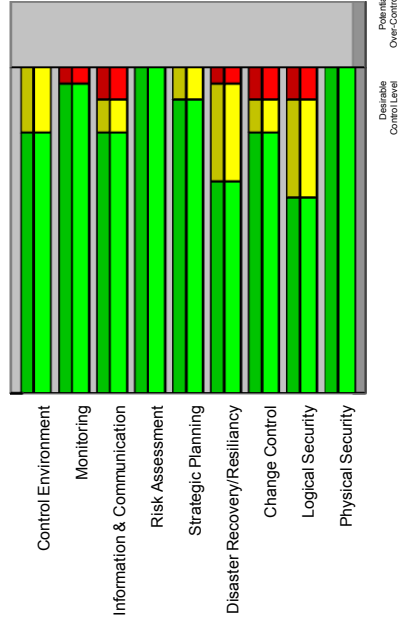
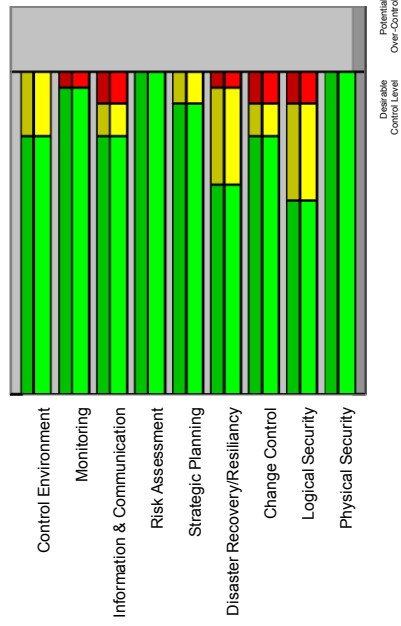
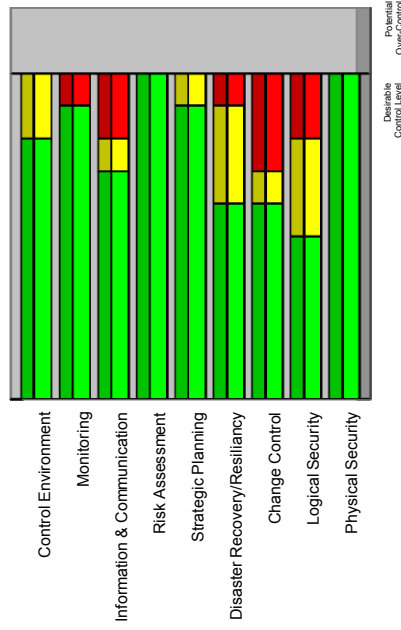
Previous Quarter Evaluation

Current Quarter Evaluation

Ticketing System Phase 1 Implementation Review (May 2007)



Central Authentication Services (May 2007)



Adequate Control

Significant Control Level

Critical Control Level

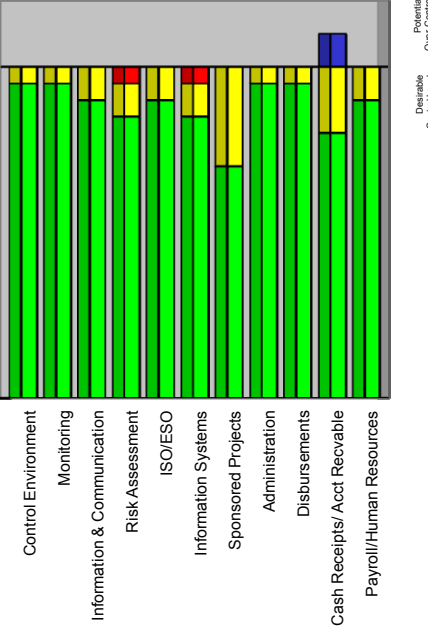
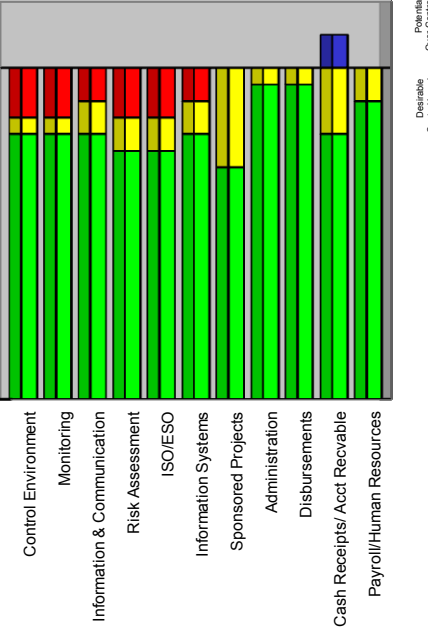
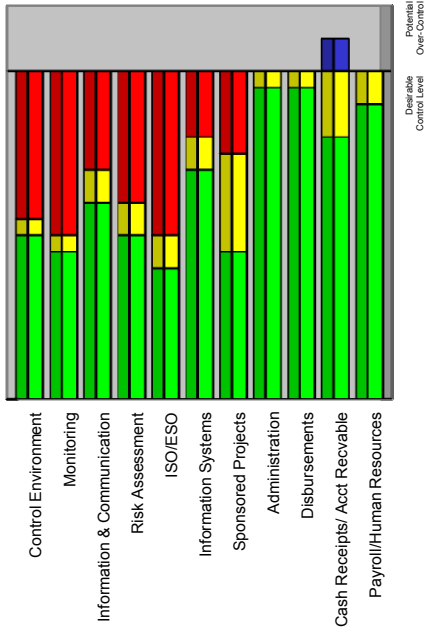
Potential Over-Control

Original Report Evaluation

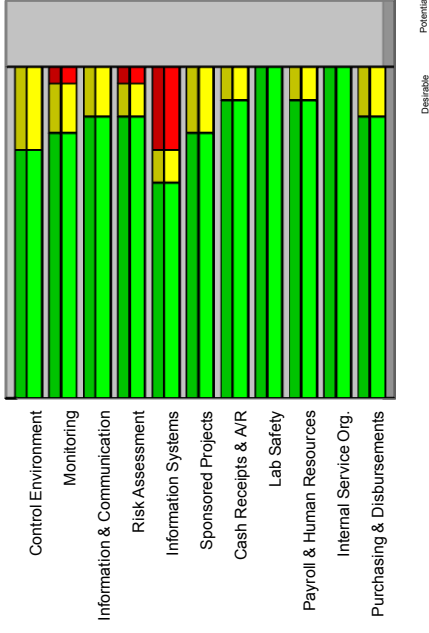
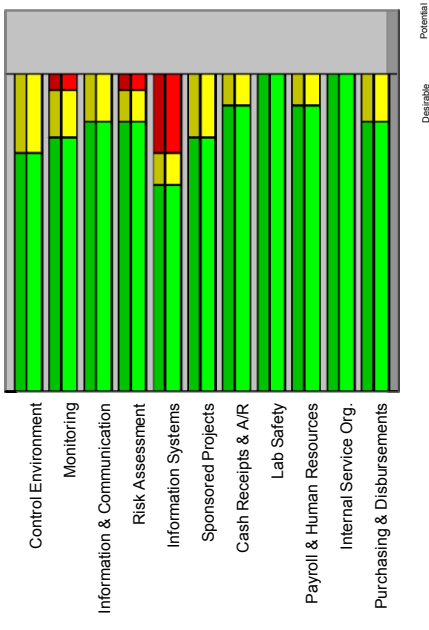
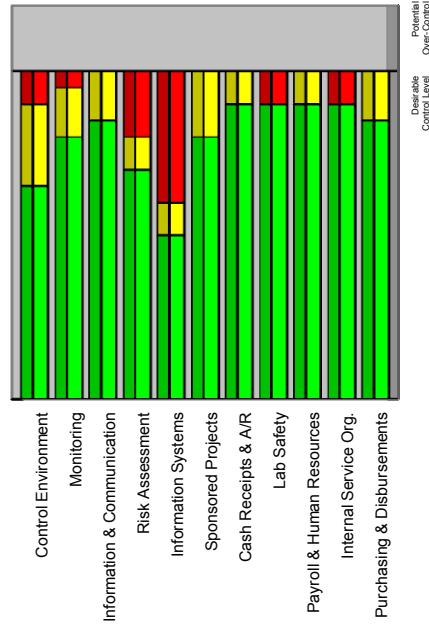
Previous Quarter Evaluation

Current Quarter Evaluation

Department of Epidemiology and Community Health (June 2007)



School of Physics and Astronomy (June 2007)



Adequate Control

Significant Control Level

Critical Control Level

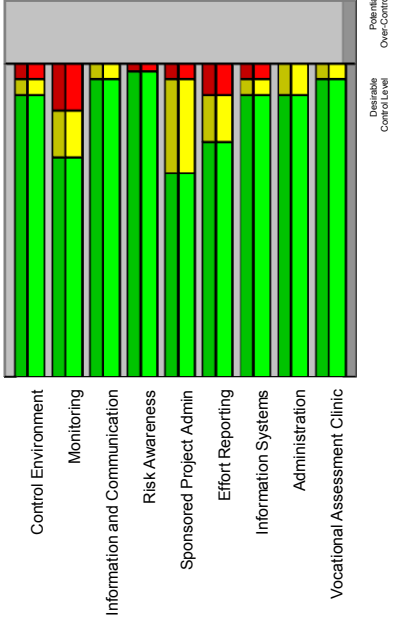
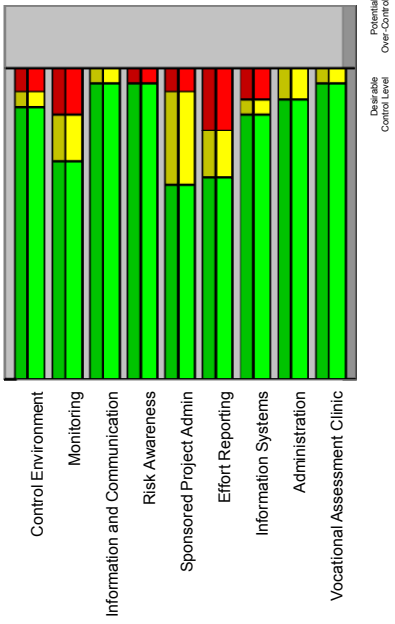
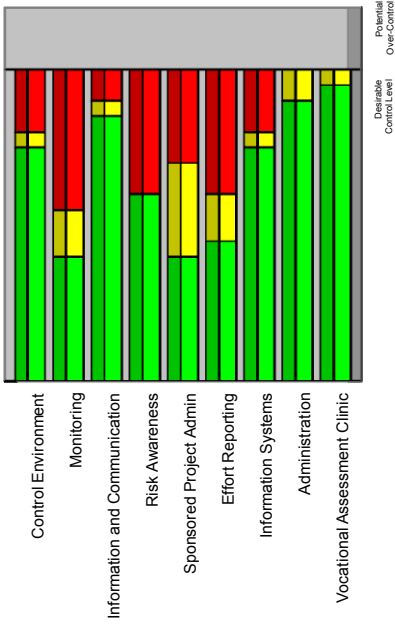
Potential Over-Control

Original Report Evaluation

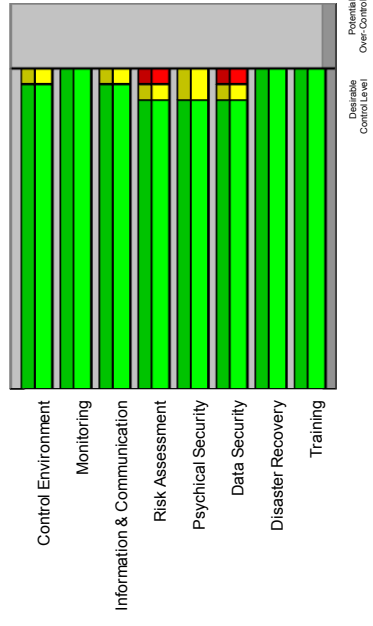
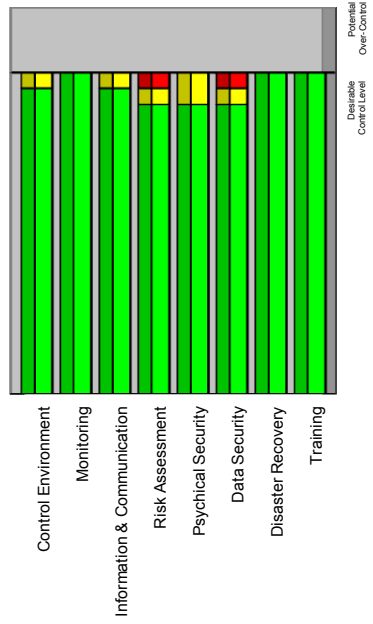
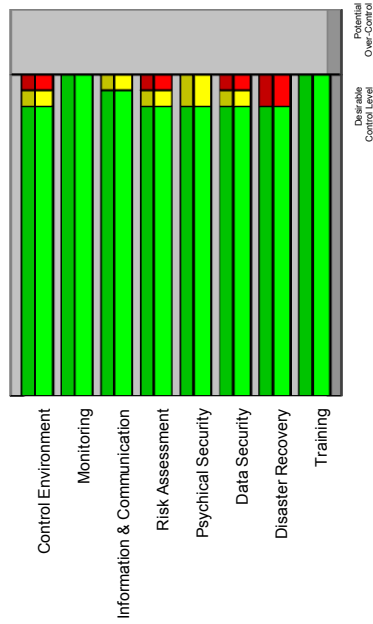
Previous Quarter Evaluation

Current Quarter Evaluation

Department of Psychology (July 2007)



General Clinical Research Center (August 2007)



Adequate Control

Significant Control Level

Critical Control Level

Potential Over-Control

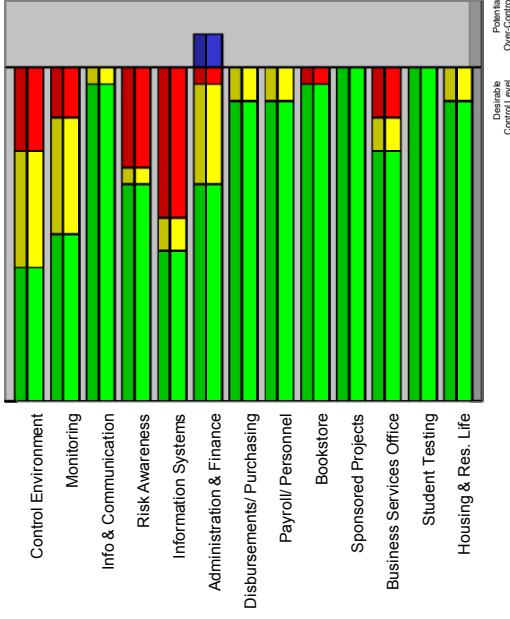
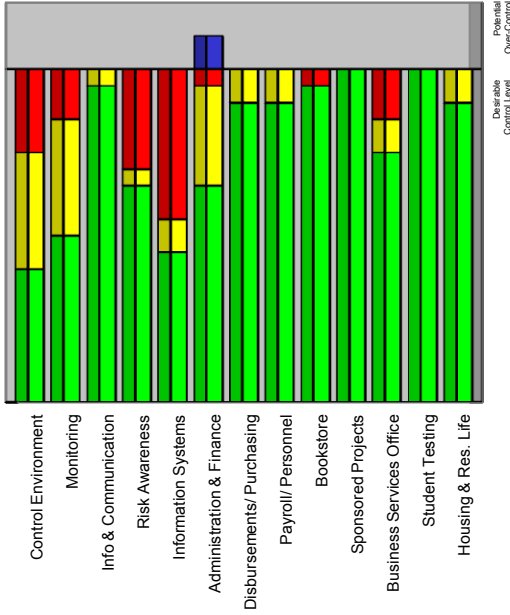
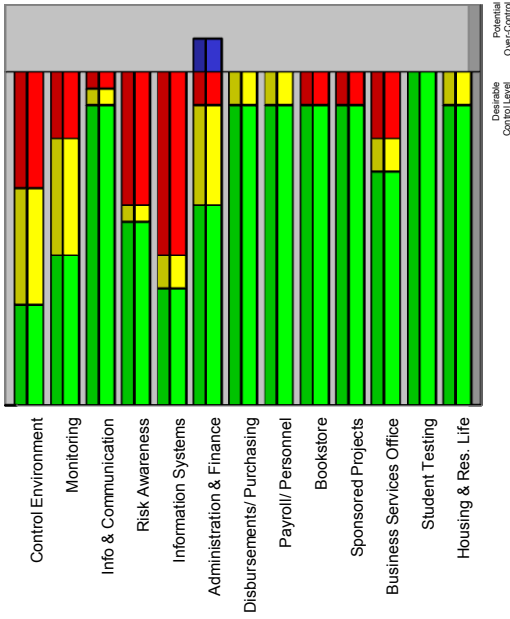


Original Report Evaluation

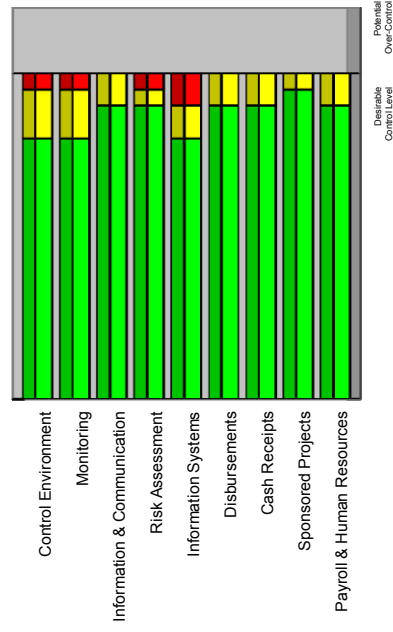
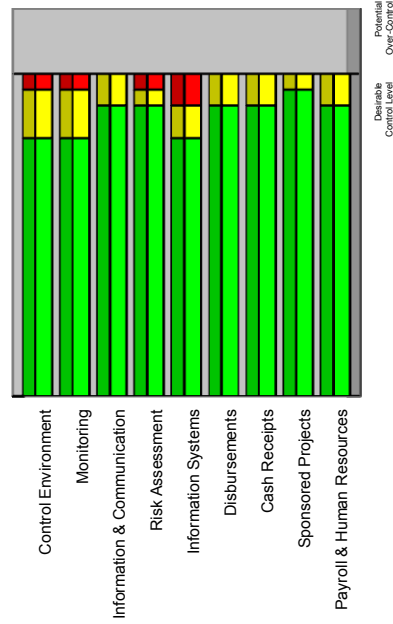
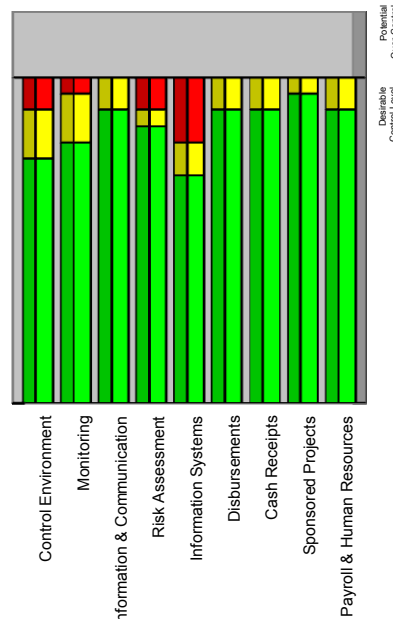
Previous Quarter Evaluation

Current Quarter Evaluation

University of Minnesota Morris (August 2007)



School of Mathematics (August 2007)



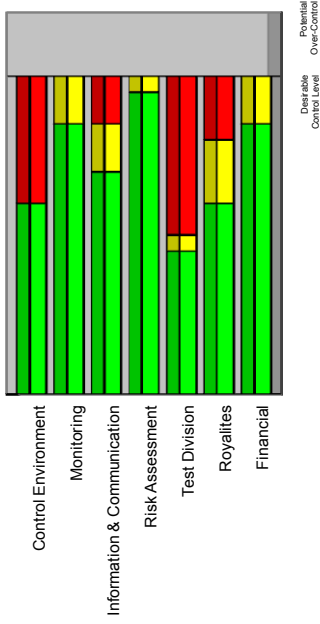
Adequate Control

Significant Control Level

Critical Control Level

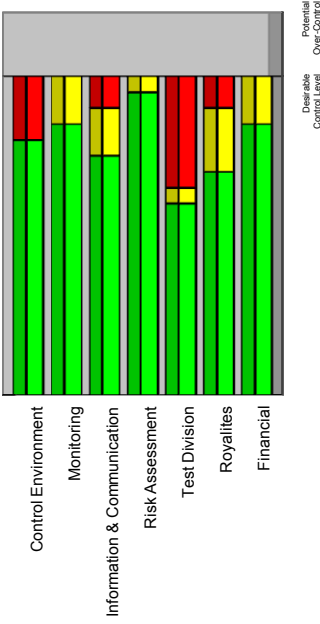
Potential Over-Control

Original Report Evaluation

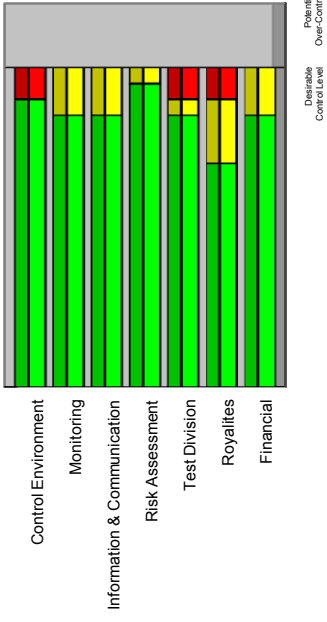


Previous Quarter Evaluation

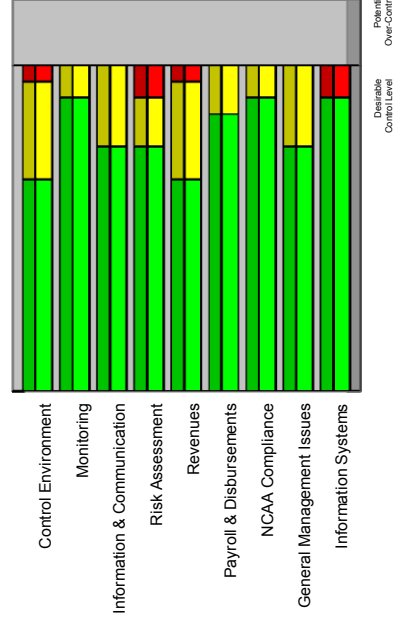
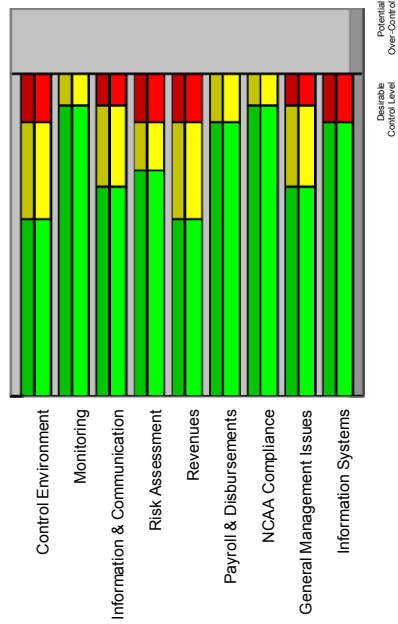
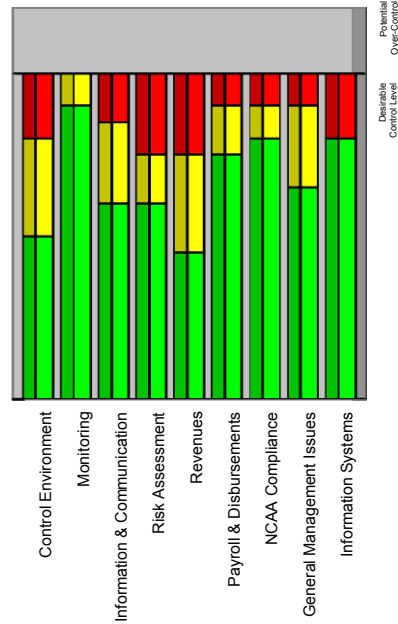
University Press (September 2007)



Current Quarter Evaluation



UMD Intercollegiate Athletics (October 2007)



Adequate Control

Significant Control Level

Critical Control Level

Potential Over-Control

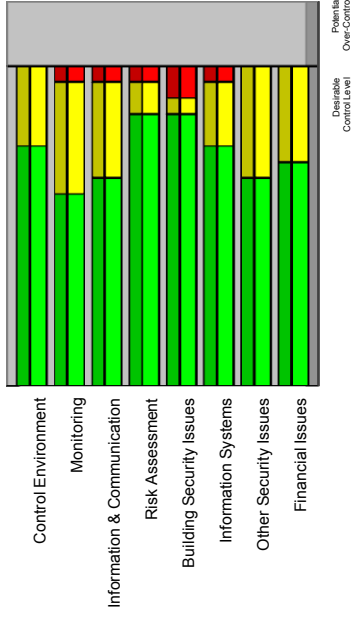
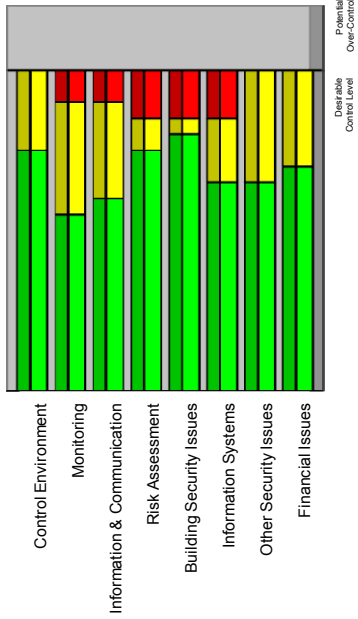
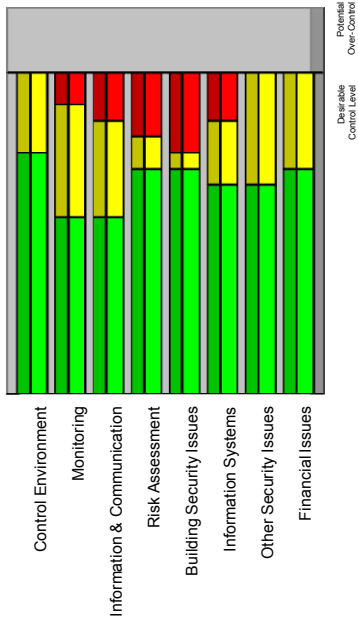
Potential Over-Control

Original Report Evaluation

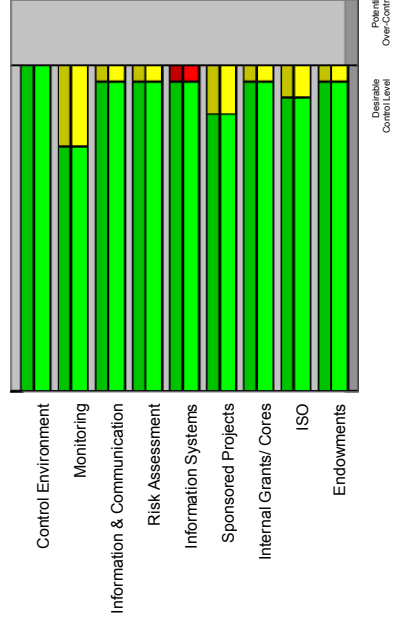
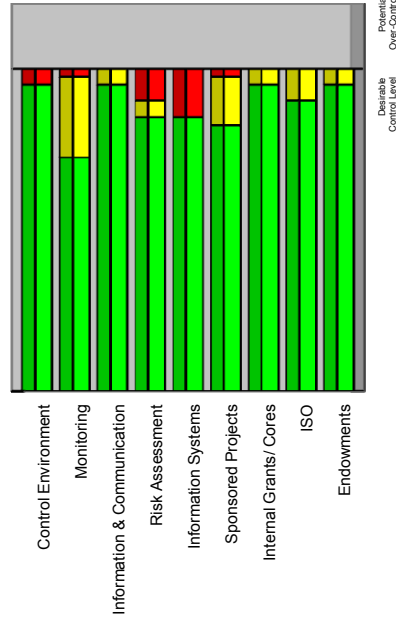
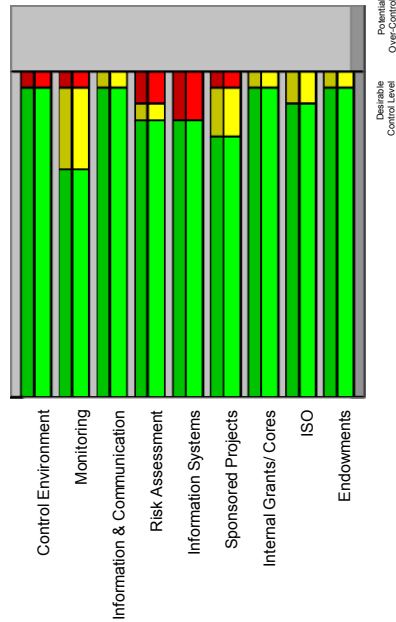
Previous Quarter Evaluation

Current Quarter Evaluation

Department of Central Security (November 2007)



MIN Cancer Center (January 2008)



Adequate Control

Significant Control Level

Critical Control Level

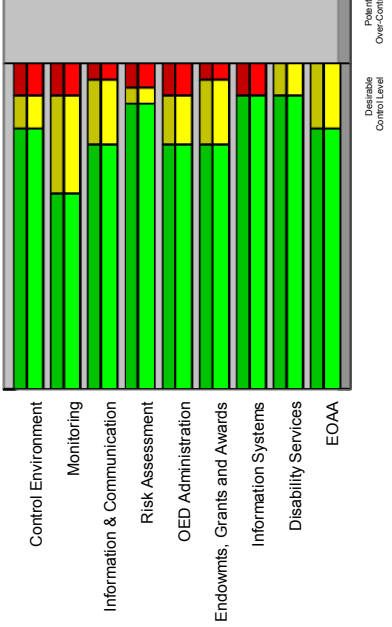
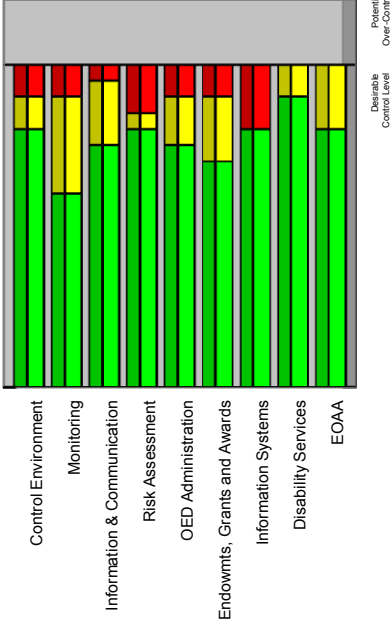
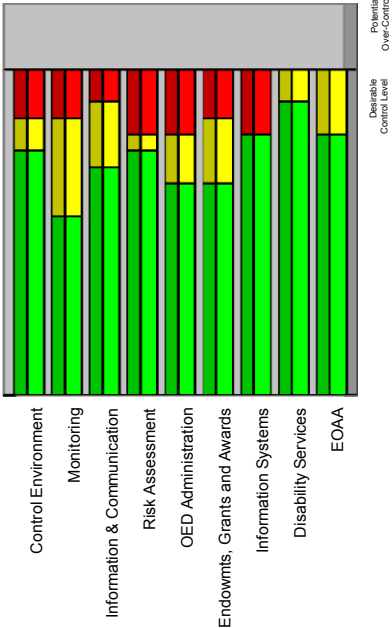
Potential Over-Control

Original Report Evaluation

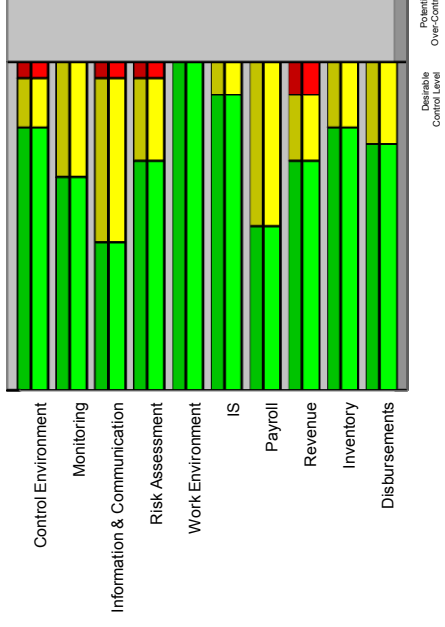
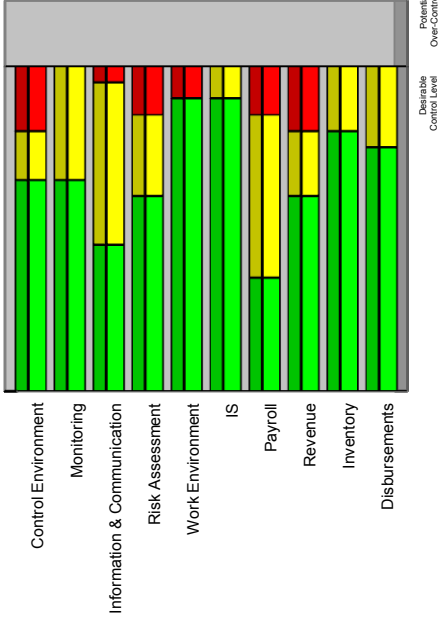
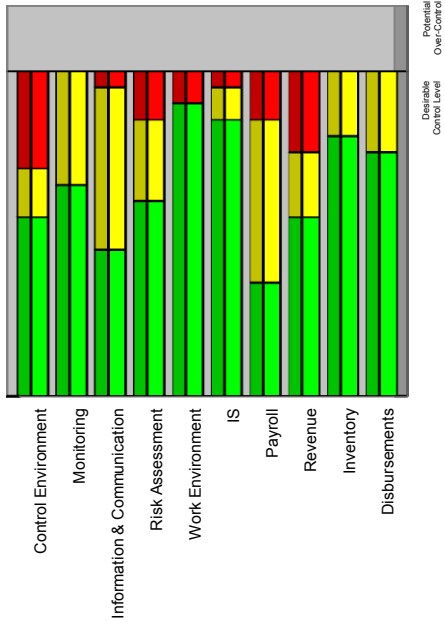
Previous Quarter Evaluation

Current Quarter Evaluation

Office of the Vice President for Equity and Diversity (January 2008)



Weisman Art Museum (January 2008)

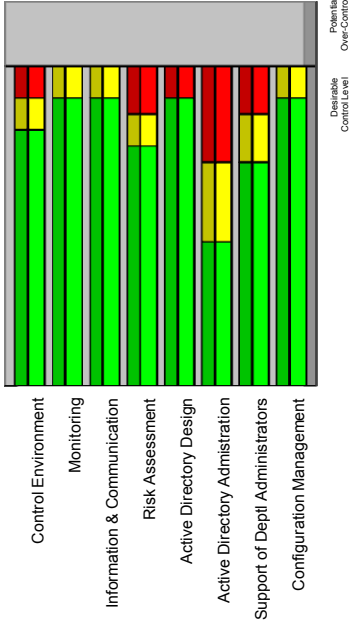
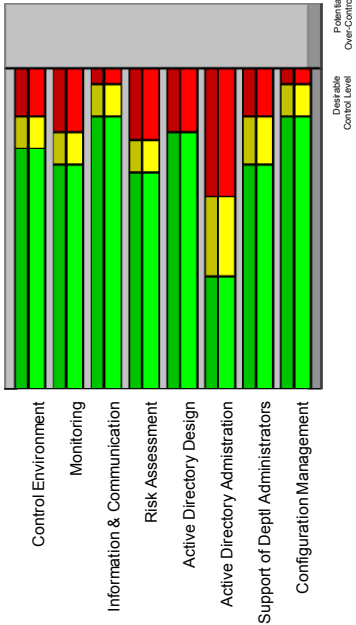
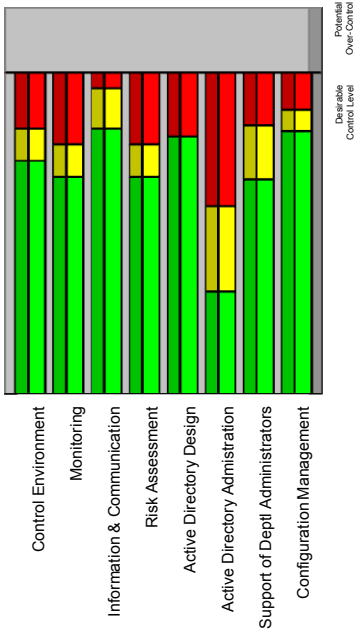


Original Report Evaluation

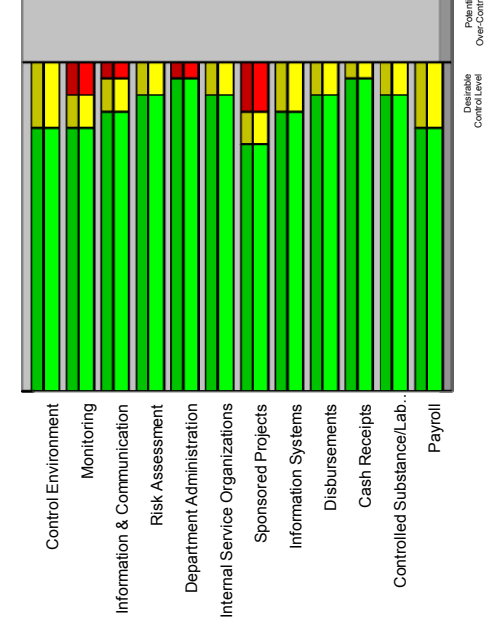
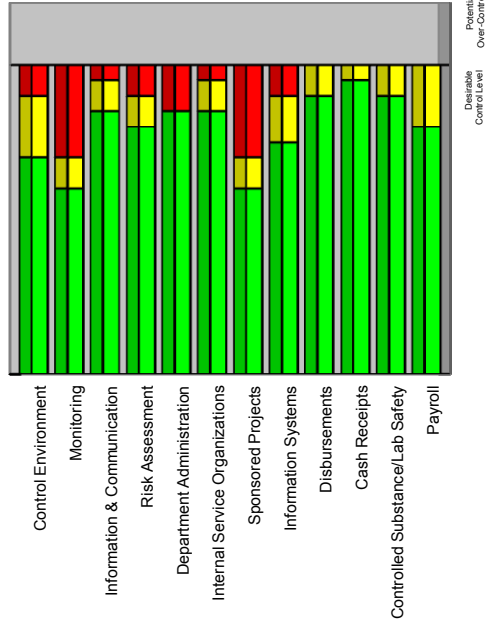
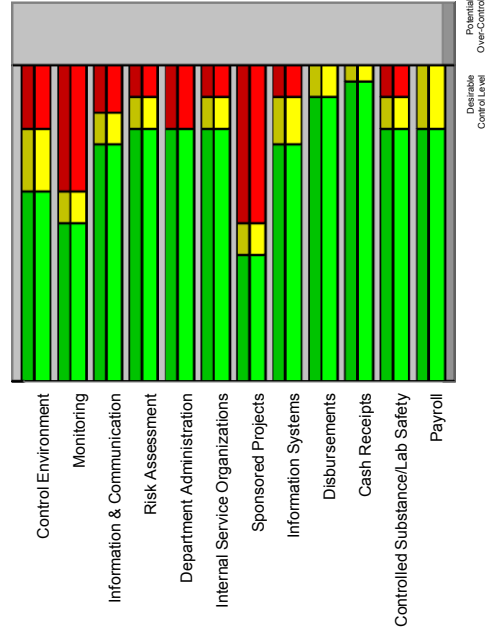
Previous Quarter Evaluation

Current Quarter Evaluation

Active Directory Administration Managed By OIT (January 2008)



College of Biological Sciences (February 2008)



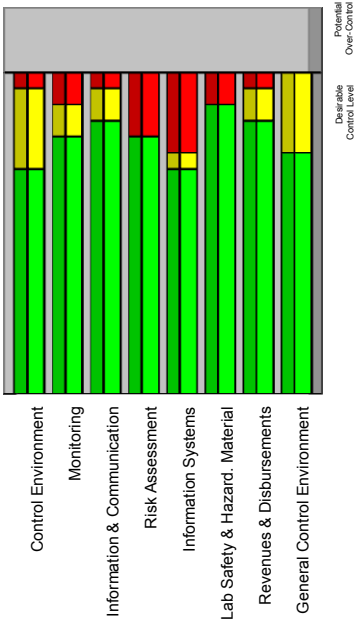
Adequate Control

Significant Control Level

Critical Control Level

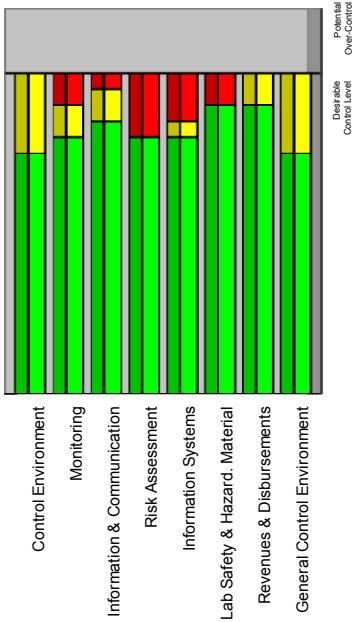
Potential Over-Control

Original Report Evaluation

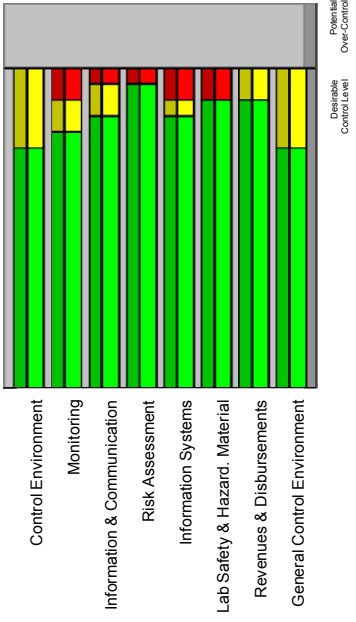


Previous Quarter Evaluation

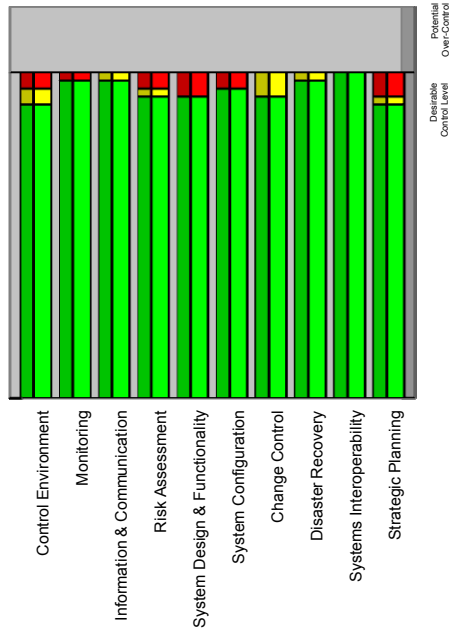
Natural Resources Research Institute (February 2008)



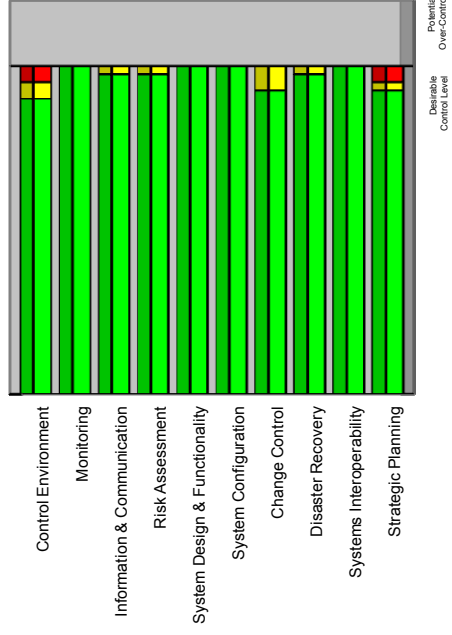
Current Quarter Evaluation



M Key Two-Factor Authentication (April 2008)



NO PREVIOUS CONTROL EVALUATION CHART



Adequate Control

Significant Control Level

Critical Control Level

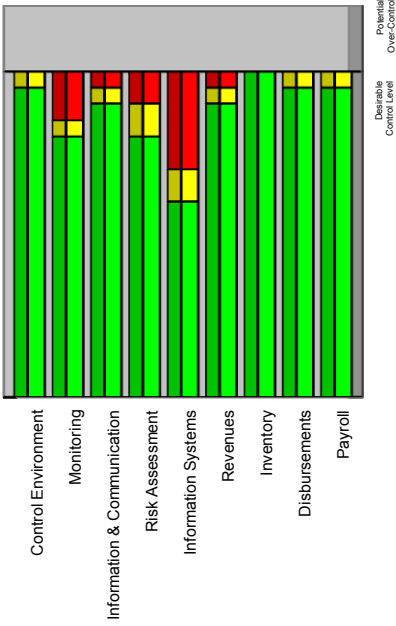
Potential Over-Control

Original Report Evaluation

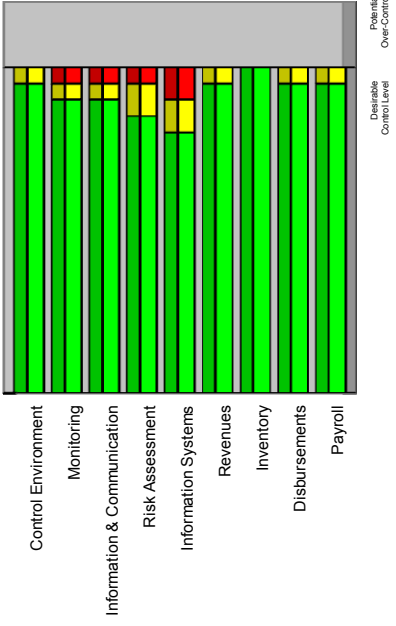
Previous Quarter Evaluation

Current Quarter Evaluation

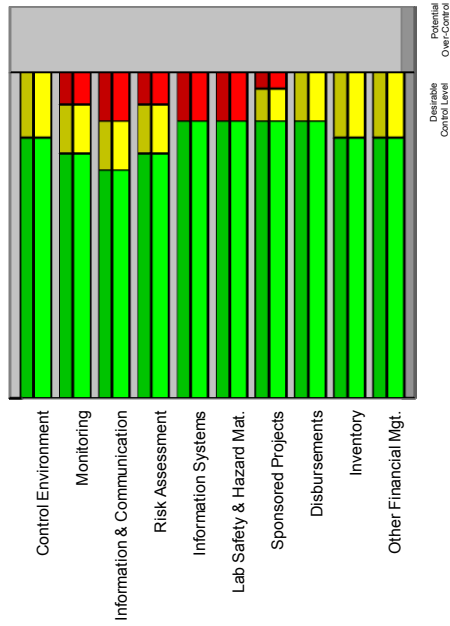
University of Minnesota Bookstores (April 2008)



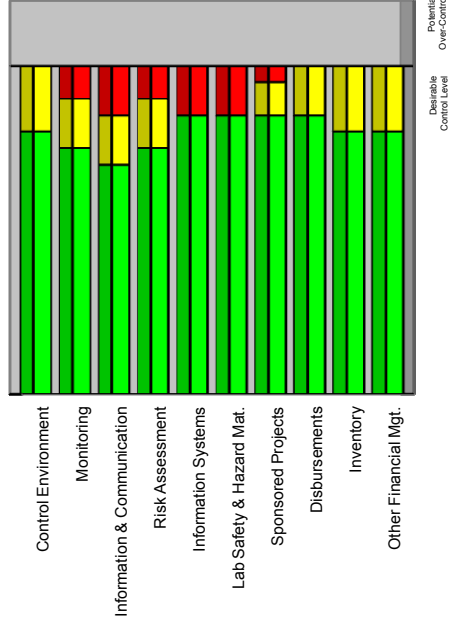
NO PREVIOUS CONTROL EVALUATION CHART



UMD Swenson College of Science & Engineering (April 2008)



NO PREVIOUS CONTROL EVALUATION CHART



Adequate Control

Significant Control Level

Critical Control Level

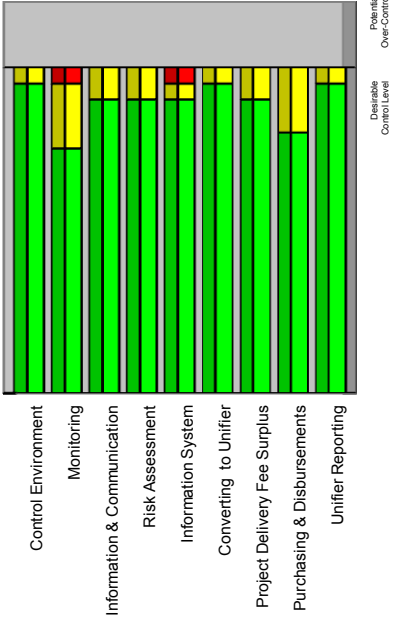
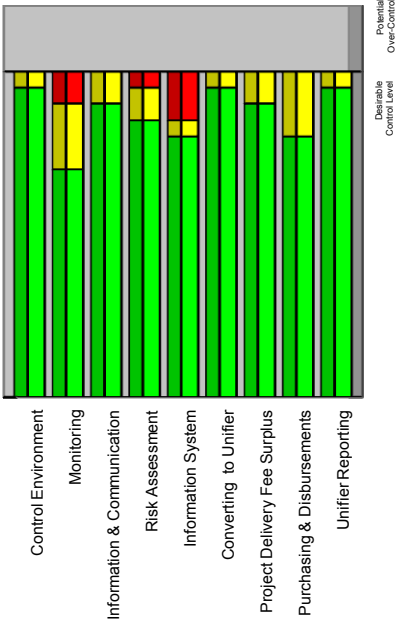
Potential Over-Control

Original Report Evaluation

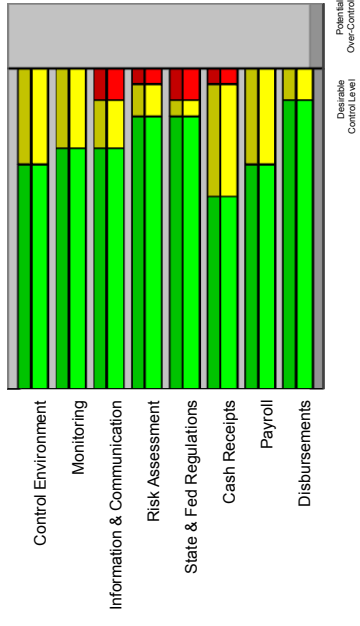
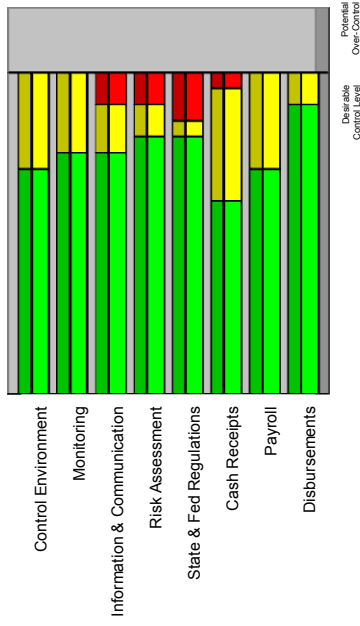
Previous Quarter Evaluation

Current Quarter Evaluation

CPPM - Unifier Project Management System (April 2008)



Athletic Facilities (April 2008)



Adequate Control

Significant Control Level

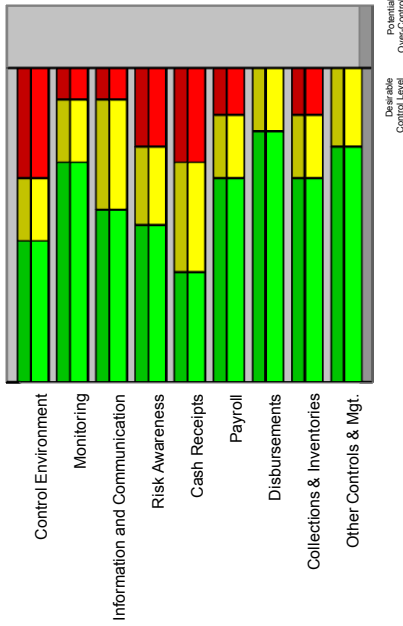
Critical Control Level

Potential Over-Control



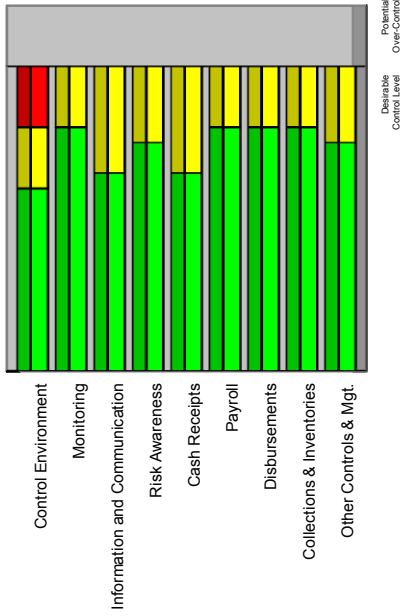
# Units with Charts that Fully Implemented their "Essential" Recommendations During the Past Quarter

## Original Report Evaluation

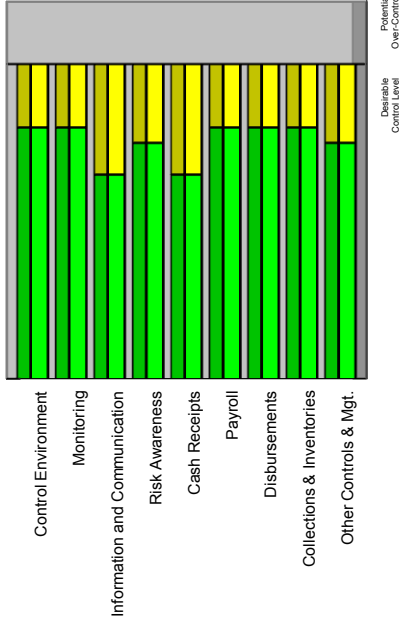


## Previous Quarter Evaluation

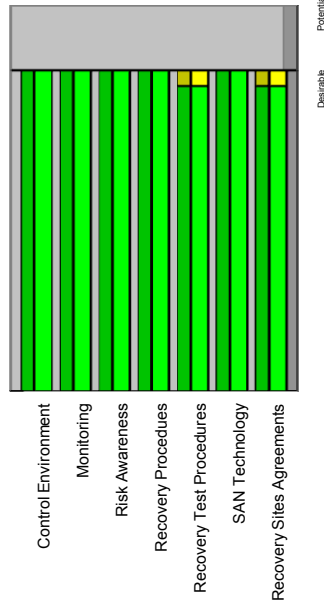
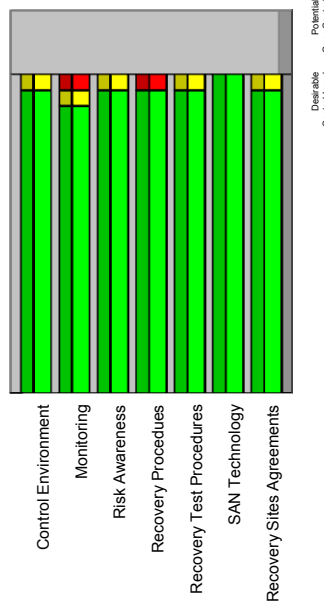
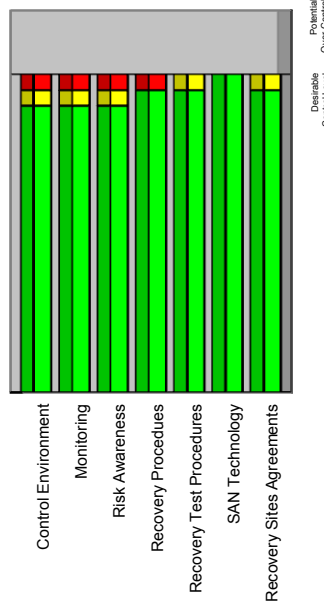
### UMD School of Fine Arts (June 2005)



## Current Quarter Evaluation



### Disaster Recovery (December 2005)



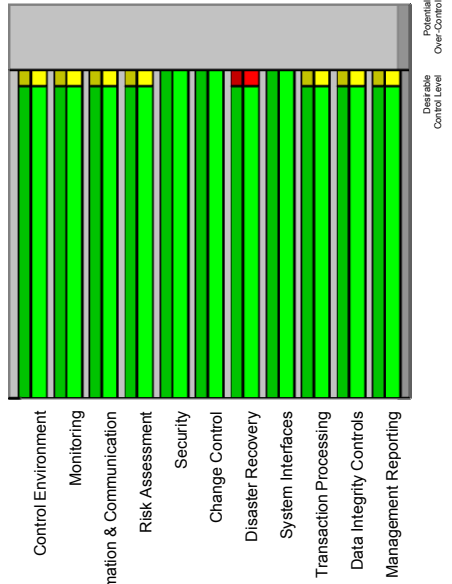
Adequate Control

Significant Control Level

Critical Control Level

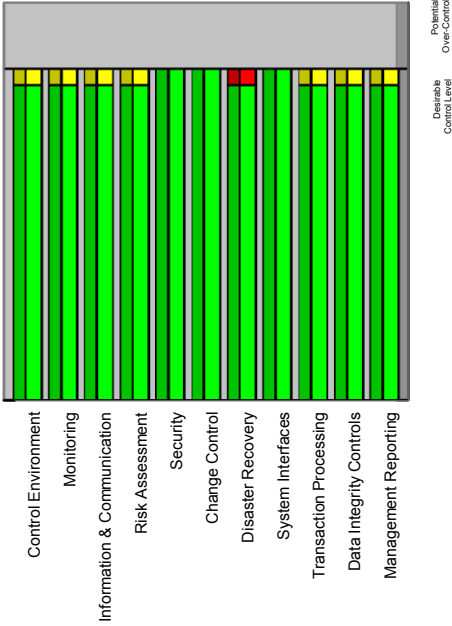
Potential Over-Control

Original Report Evaluation

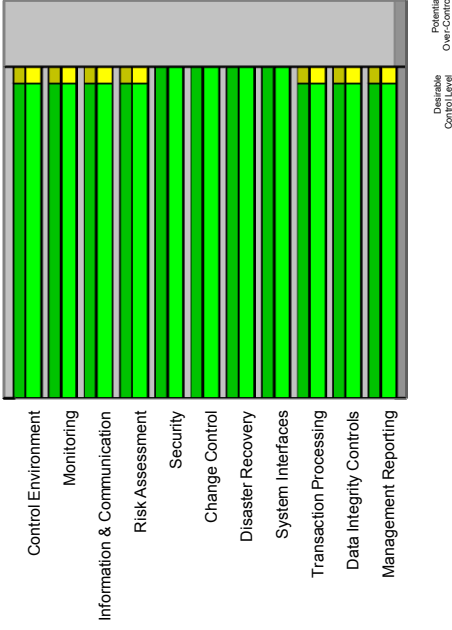


Previous Quarter Evaluation

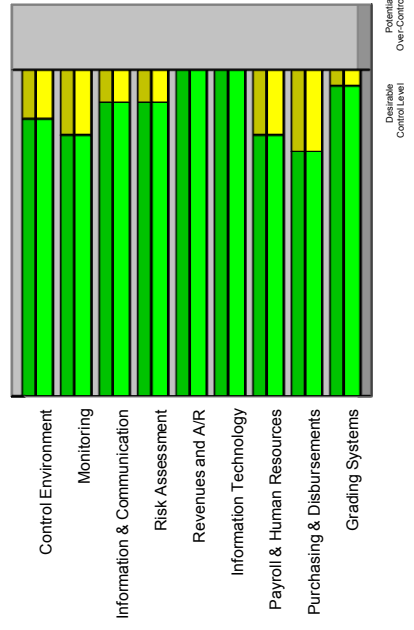
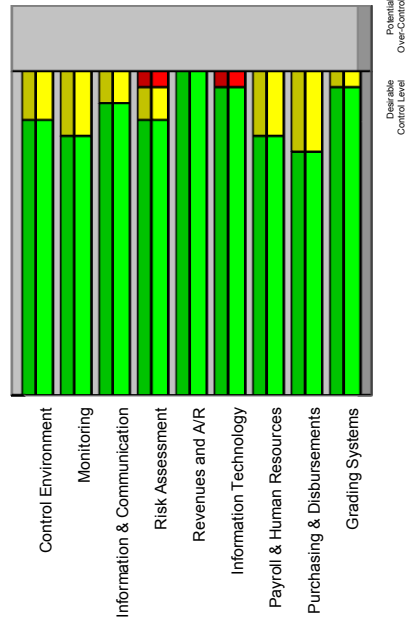
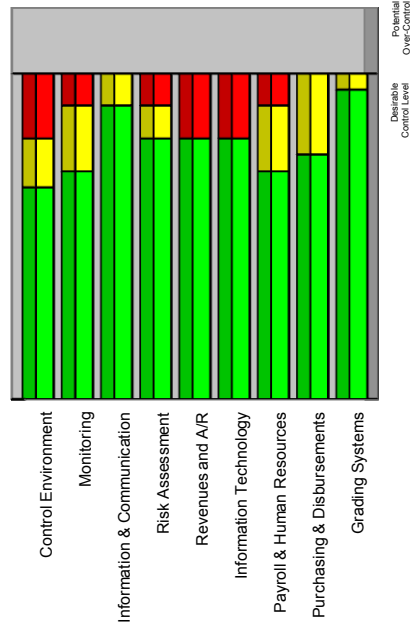
eResearch Systems (September 2006)



Current Quarter Evaluation



Law School (November 2006)



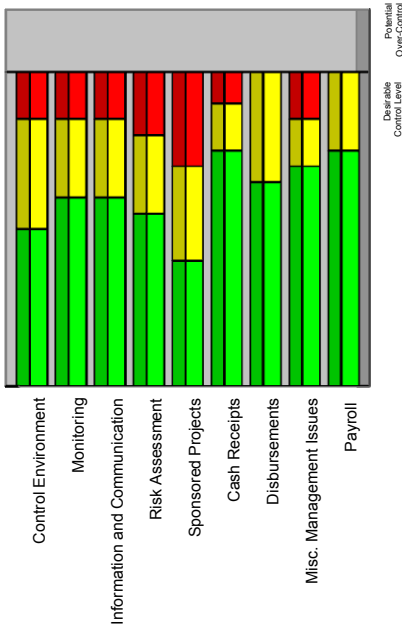
Adequate Control

Significant Control Level

Critical Control Level

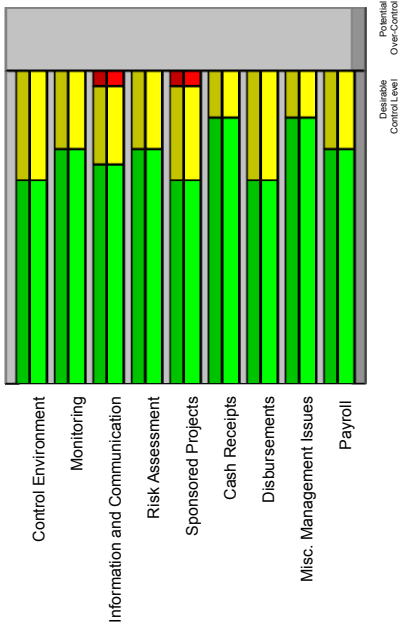
Potential Over-Control

Original Report Evaluation

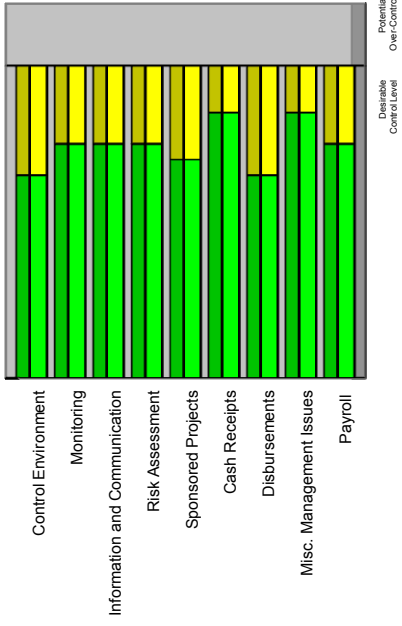


Previous Quarter Evaluation

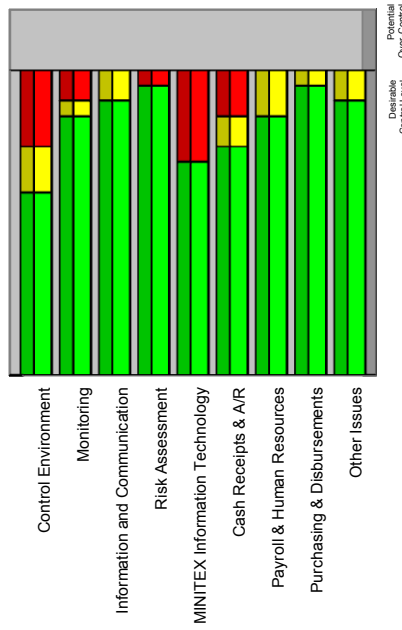
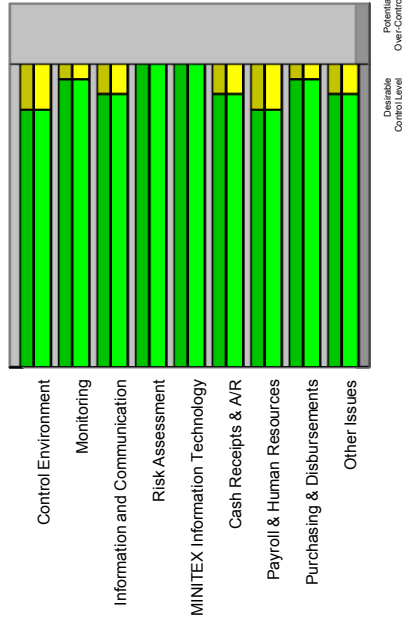
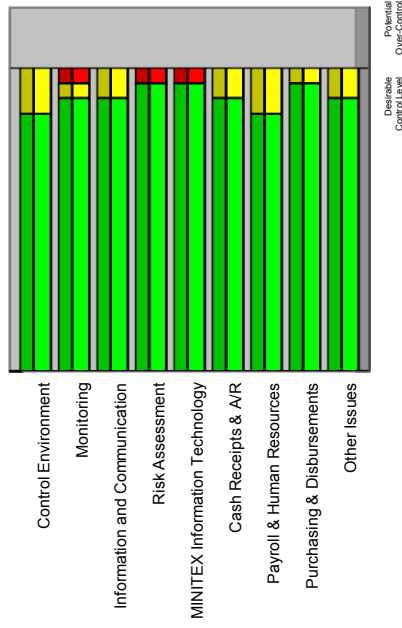
UMD - College of Liberal Arts (January 2007)



Current Quarter Evaluation



University Libraries (January 2007)



Adequate Control

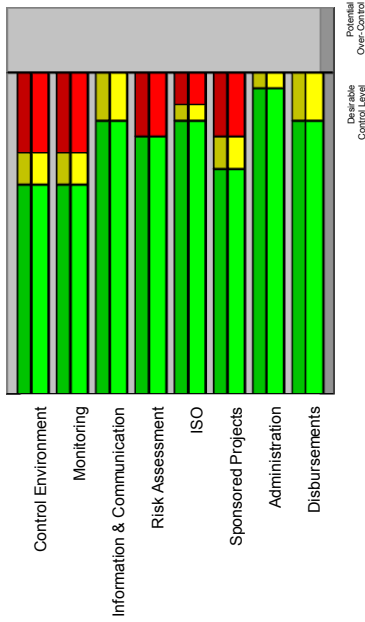
Significant Control Level

Critical Control Level

Potential Over-Control

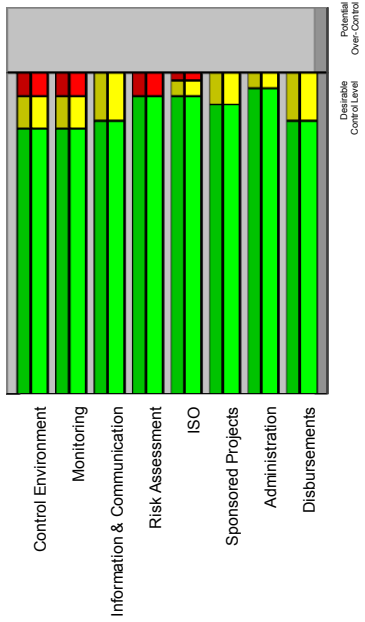
Potential Over-Control

Original Report Evaluation

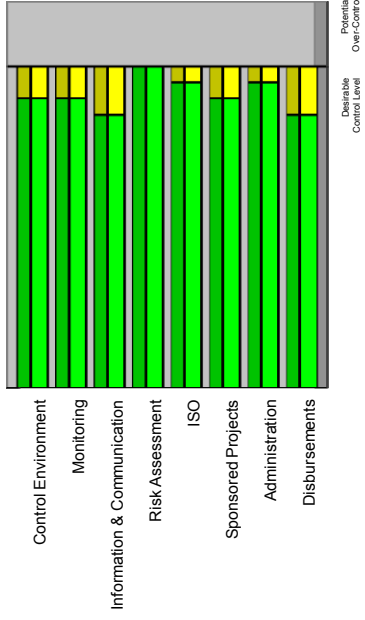


Previous Quarter Evaluation

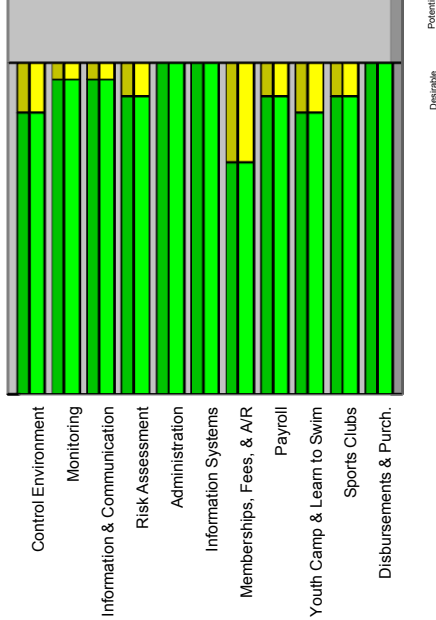
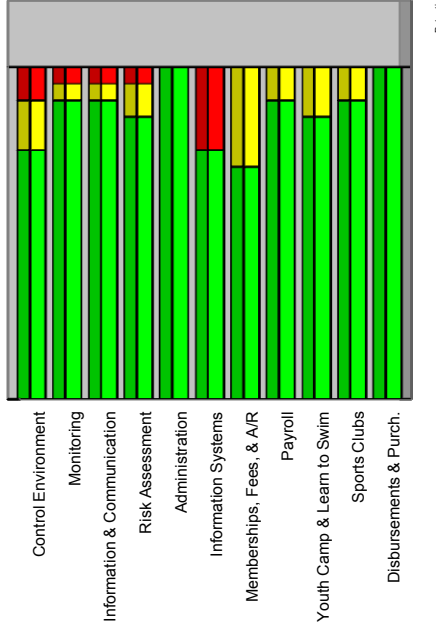
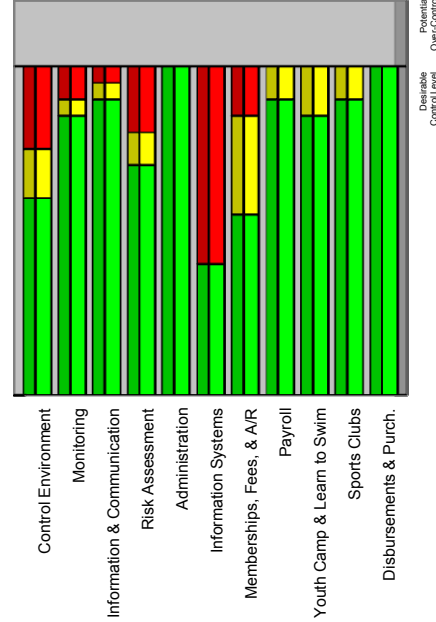
Department of Neurology (January 2007)



Current Quarter Evaluation



Department of Recreational Sports (October 2007)



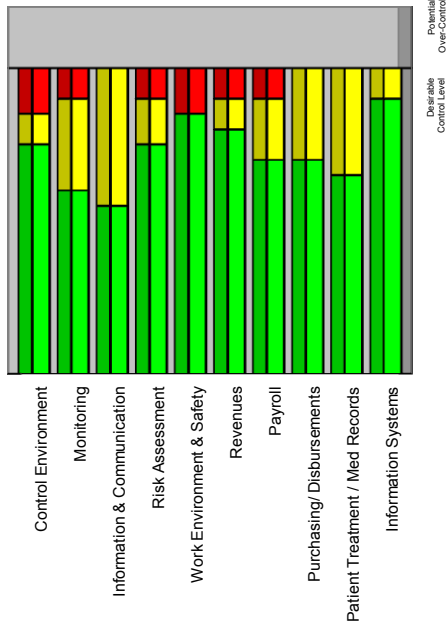
Adequate Control

Significant Control Level

Critical Control Level

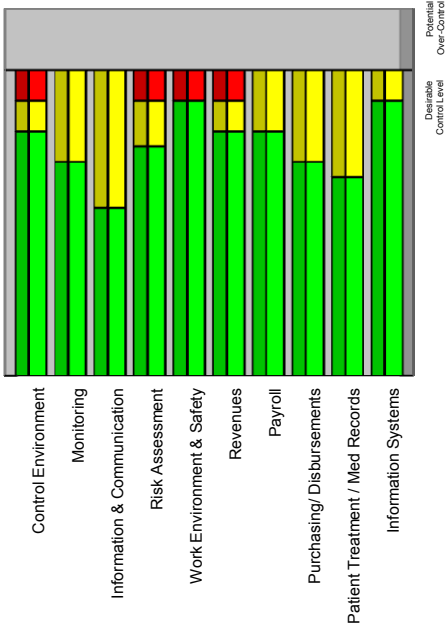
Potential Over-Control

Original Report Evaluation

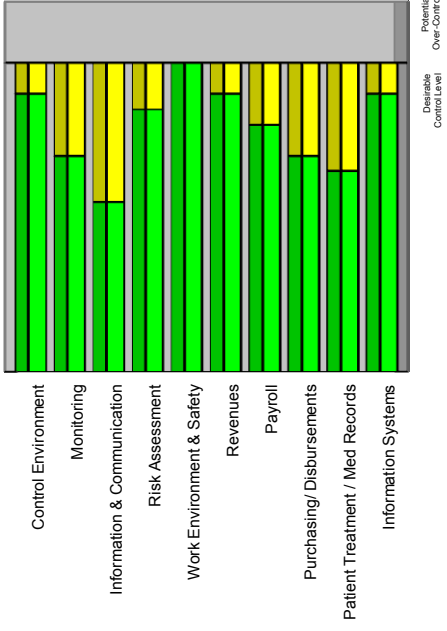


Previous Quarter Evaluation

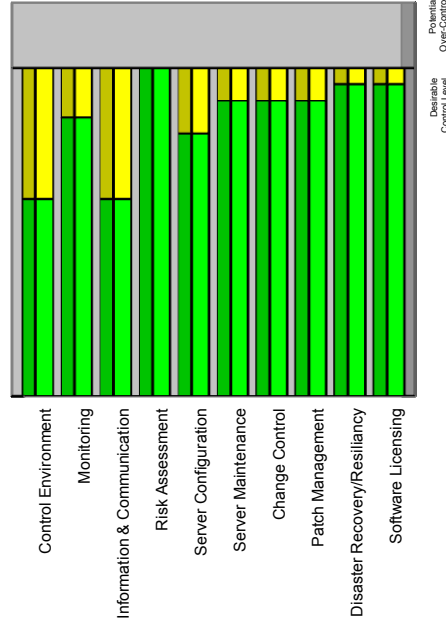
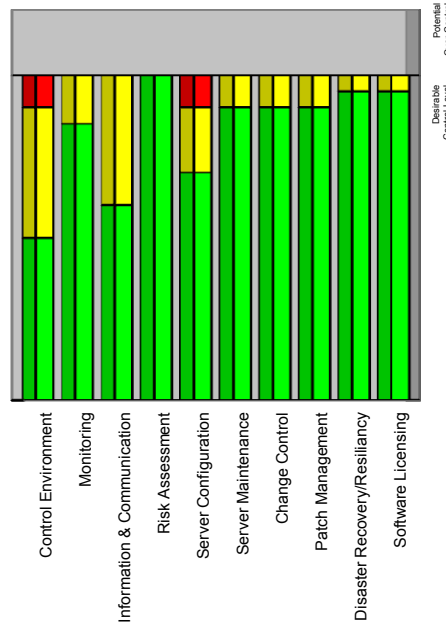
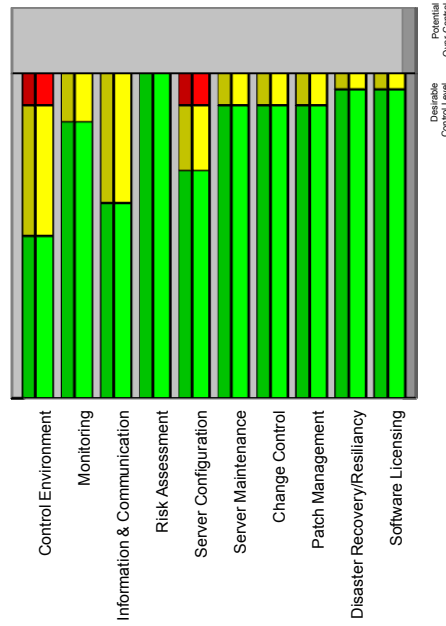
Veterinary Medical Center (October 2007)



Current Quarter Evaluation



Central Computing Operations System Administration (December 2007)



Adequate Control

Significant Control Level

Critical Control Level

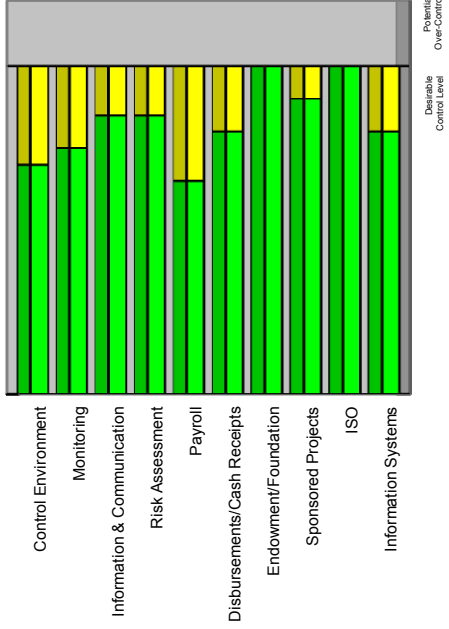
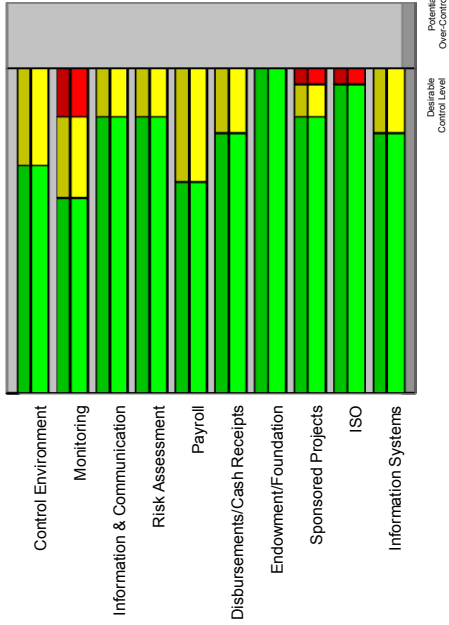
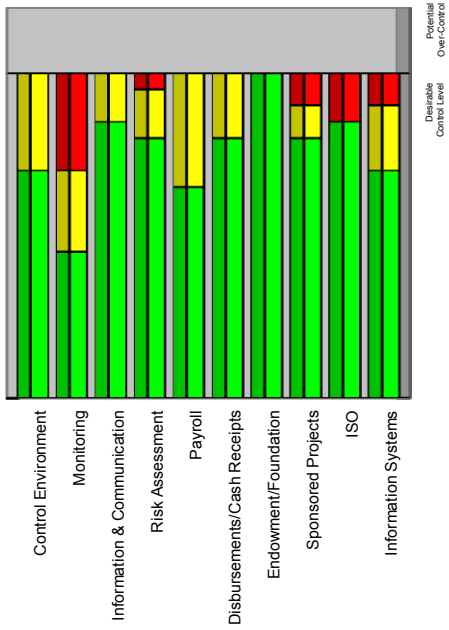
Potential Over-Control

Original Report Evaluation

Previous Quarter Evaluation

Current Quarter Evaluation

Department of Computer Science and Engineering (January 2008)



Adequate Control

Significant Control Level

Critical Control Level

Potential Over-Control

## **Audit Activity Report**

### **Scheduled Audits**

- Completed audits of: the Department of Mechanical Engineering, the Department of Biomedical Engineering and the Institute for Engineering in Medicine, the College of Education and Human Development, and the Department of Integrative Biology & Physiology. Details are shown on the following charts.
- Began/continued audits of: UMD Housing & Residence Life, the UMD Cashier's Office, Fleet Services, Sub-awards (University-wide), OIT Security and Assurance, Effort Reporting (University-wide), the School of Dentistry, the Center for Magnetic Resonance Research, the UMD Bookstore, and the Department of Concerts and Lectures.

### **Scheduled Compliance Review**

- Completed a NCAA Compliance Review in Women's Basketball. A letter report was issued to management.

### **Investigations**

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

### **Special Projects**

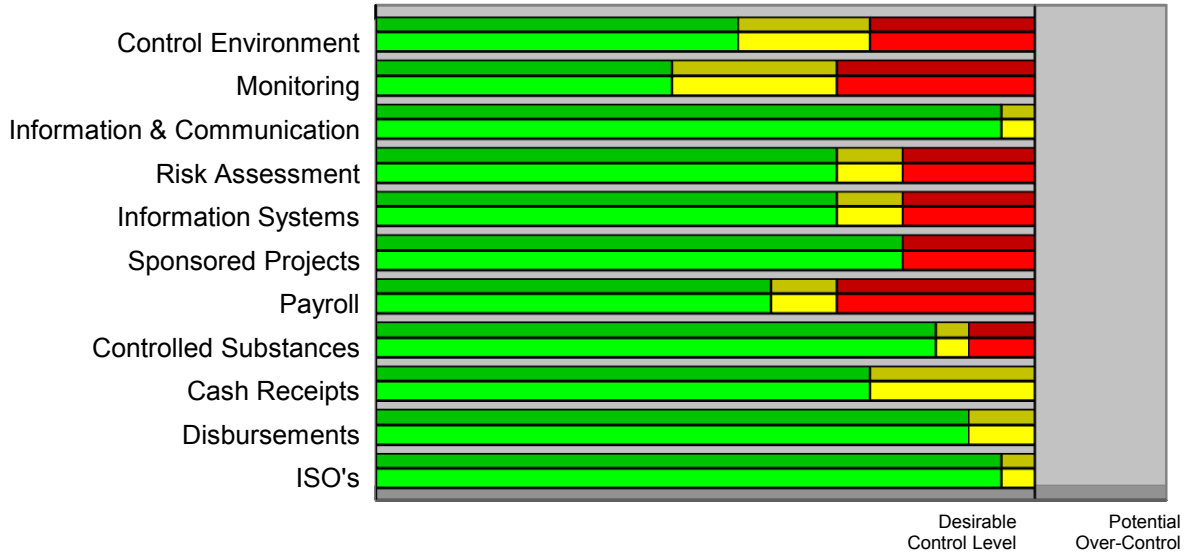
- In conjunction with the Department of Central Security, began a review of Facilities Management building key controls.
- Provided consulting services related to: data security, disaster recovery planning, PCI compliance, and University payroll exception testing.
- Conducted a review of TCF Bank Stadium external audit coverage. Details are provided in the following materials.
- Performed an internal quality self-assessment in preparation for an external peer review of the internal audit function. Details are provided in the following materials.
- Completed a comparison of UM Internal Audit metrics to those of other internal audit groups. Details are provided in the following materials.

### **Other Audit Activities**

- Participated in the following:
  - HRMS PeopleSoft Steering Committee
  - Fairview Health Systems Audit Committee
  - University of Minnesota Foundation Audit Committee
  - Enterprise Financial System Executive Steering Committee
  - Research Compliance Committee
  - Executive Compliance Oversight Committee
  - Institutional Conflict of Interest Committee
  - NCAA Self-Study Committee
  - Search Committee for Director of Accounting Services
  - International Risk Advisory Committee
  - Information Technology Collegiate Leaders Audit Finding Taskforces
  - OSH Steering Committee
  - University Enterprise Laboratories, Inc. Task Force

# Audit Reports Issued Since September 2008

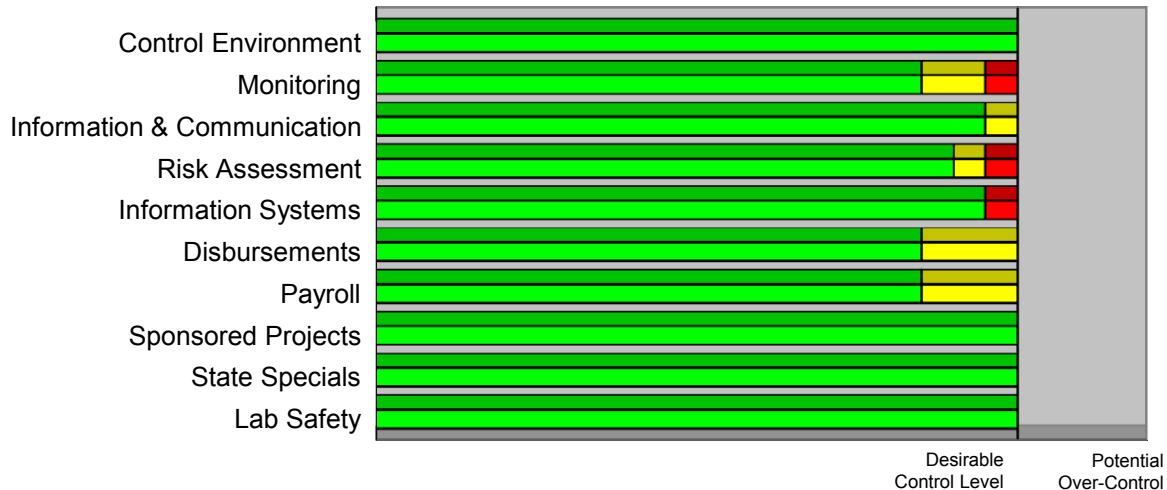
## Department of Mechanical Engineering



Report #	907	Issue Date	Sep-08
# of Essential Recs.	9	Total # of Recs.	18
Overall Assessment	Needs Improvement	Adequacy of MAP	Satisfactory

The audit of Mechanical Engineering contained more essential recommendations than other recent audits of units within the *Institute of Technology*. *Information systems, payroll, and sponsored project administration* were among the areas with "essential" recommendations. There is room for substantial improvement in many of the department's operations to ensure activities are well-controlled, in compliance with University policies, and operating in an effective and efficient manner.

## Department of Biomedical Engineering and the Institute for Engineering in Medicine

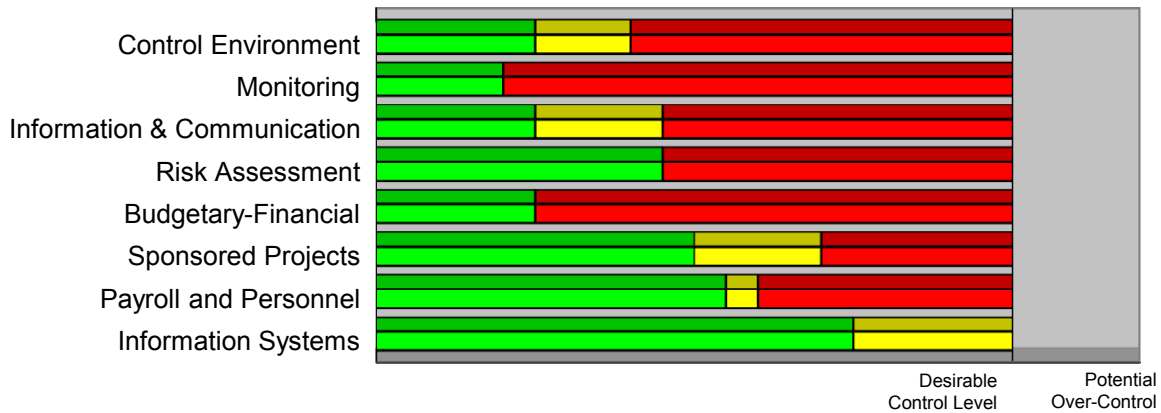


Report #	908	Issue Date	Sep-08
# of Essential Recs.	1	Total # of Recs.	5
Overall Assessment	Good	Adequacy of MAP	Satisfactory

These two units from the Institute of Technology and the Medical School were combined for this audit due to their extensive sharing of administrative and support staff. Based on the results of the audit the majority of the activities in these units are very well controlled, in compliance with University policies, and operating in an effective and efficient manner.



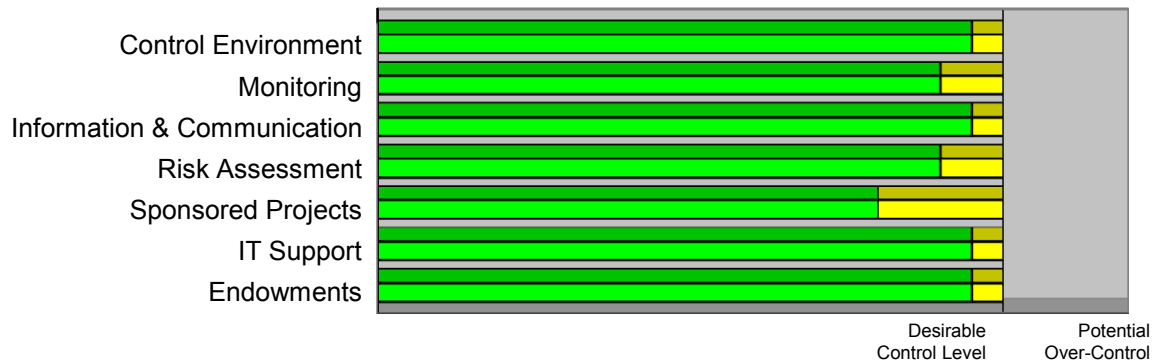
## College of Education and Human Development



Report #	909	Issue Date	Oct-08
# of Essential Recs.	16	Total # of Recs.	35
Overall Assessment	Needs Improvement	Adequacy of MAP	Satisfactory

This was the first audit of the College of Education and Human Development (CEHD) since its reorganization in 2006 and resulted in a large number of “essential” recommendations. Fiscal accountability and the overall control environment need to be improved. CEHD has experienced significant deficits and depletion of carry forward balances. Plans for managing within CEHD’s budget have not been effective, nor have direct links between planned expenditures and available resources been established. Leadership changes have recently been made and the Provost and the Office of Budget and Finance have provided resources to develop a plan of action to address the CEHD’s finances.

## Department of Integrative Biology and Physiology



Report #	910	Issue Date	Nov-08
# of Essential Recs.	0	Total # of Recs.	11
Overall Assessment	Good	Adequacy of MAP	Satisfactory

We believe the department's administration has established an effective system of controls that addresses most of its major risks. The eleven recommendations, all of which are rated “Significant”, address meeting sponsored project requirements, reporting effort timely, IT support, and gift expenditures.

**University of Minnesota – Office of Internal Audit  
Review of TCF Bank Stadium External Audit Coverage**

As the TCF Bank Stadium project got under way the Office of Internal Audit met with the Office of Budget and Finance to determine how to provide appropriate audit coverage for the project. It was mutually decided that the University should contract with an audit group that specializes in construction auditing, and preferably one with experience in auditing stadium projects. We subsequently worked with the Budget Office to develop an RFP to identify qualified construction auditing firms, and we jointly interviewed several of the companies providing these construction auditing services.

Construction Consulting Services (CCS) was selected to provide this audit coverage for the TCF Bank Stadium project. Factors in choosing CCS included their specific experience in auditing stadium projects, their positive working relationship on other projects with Hines, the company hired by the University to provide project management on the stadium project, and the competitive nature of their proposal (\$33,250).

We reviewed the scope of work proposed by CCS, and are satisfied that their scope is sufficiently comprehensive to provide an appropriate and thorough review of the project. The CCS audit includes three stages: a review of the proposed labor billing rates by M.A. Mortenson, the general contractor, in Spring 2007; an interim review conducted in Summer 2008; and a final audit after the completion of the project in September 2009. The first two phases of this audit have been completed.

We met with Mr. Lewis Cox, a Partner with CCS, when he was completing the interim audit in August 2008. We also have reviewed the audit reports submitted by CCS for both the labor rate audit and the interim audit. The CCS audits to date have not disclosed any material non-compliance with the Mortenson contract. Most of the CCS audit issues have addressed the need to obtain additional information from Mortenson to demonstrate compliance with the terms of their contract.

As indicated above, Hines was hired by the University to be the project manager on the stadium project. As such, it is their responsibility to follow-up with Mortenson on the issues raised by the University's external auditor. We met with Mr. Larry Pezek, Hines Vice President – Construction, to inquire about their response to the actions suggested by CCS. Mr. Pezek shared with us their correspondence with Mortenson addressing the issues raised. Appropriate steps are being taken to ensure compliance with the Mortenson contract.

From the beginning of the stadium project the Office of Budget and Finance has been committed to ensuring infrastructure expenses that benefit both TCF Bank Stadium and the East Gateway District are equitably split between the stadium project and the development of the East Gateway District. The Budget Office has developed principles and implemented a framework to ensure such costs (e.g. roads, utilities, storm water management, and environmental remediation) are shared fairly.

The University's project manager, Hines, indicates the TCF Bank Stadium is on-time and on-budget. That would mean substantial completion by July 2009 with the stadium ready for the first Gopher home football game on September 12, 2009. It also means completing the stadium project within the total approved budget of \$288.5 million. Through September 2008, after processing change orders, there was \$5.6 million remaining in project contingency funds. Both the Hines project manager and the project coordinator in the Office of Budget and Finance indicated that, while the time line is rather tight, it is their opinion the stadium project is right on track.

**University of Minnesota - Office of Internal Audit  
Results of a UM Internal Audit Quality Self-Assessment  
October 2008**

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**EXECUTIVE SUMMARY**

In accordance with IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)*, we conducted a quality self-assessment to ensure conformity with the *Standards*, evaluate the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement. As part of the assessment, we evaluated the Office of Internal Audit's (OIA) ability to carry out its mission including adding value and improving operations of the University of Minnesota.

The self-assessment was performed using the methodology outlined in the IIA's *Quality Assessment Manual, 5<sup>th</sup> Edition* and included compiling and reviewing detailed documentation, confidential staff surveys and staff interviews to obtain sufficient documentation to allow us to assess and support overall compliance with the *Standards*. We also reviewed the OIA's risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes to assess a broad perspective of OIA's activities.

We found the OIA to have a well organized structure conducive to compliance with the *Standards*. OIA has a well established rapport with senior leaders of the University and the Board of Regents, lending OIA the support and credibility needed to effect necessary change. The reporting relationship of OIA allows for the independence and objectivity in fulfilling their responsibilities. The audit staff is highly capable with complementary and auxiliary expertise in information systems, research, investigations, analytics and data analysis. We found the risk assessment methodology and processes to be particularly well developed and sound, the results of which are valued and leveraged for institutional purposes. The information systems planning, risk assessment and coverage is progressive, capitalizing on an effective partnership with the Office of Information Technology.

**OPINION AS TO CONFORMITY TO THE STANDARDS**

It is our opinion that the Office of Internal Audit *generally conforms* to all *Standards* in effect on the date of our review. According to the IIA *Quality Assessment Manual*, "generally conforms" means we have concluded the "internal audit activity has a charter, policies, and processes that are judged to be in accordance with the *Standards*, with some opportunities for improvement, as discussed in our recommendations" below:

- Cycle time for completion of audits can be improved, especially the time delays related to work paper review.
- The timing of the performance evaluations should be customized to meet the varying feedback needs of the staff.
- Employee development processes should be enhanced to provide for mentoring opportunities and systematic skill development.
- Communication should be improved to ensure participating auditor understanding of annual risk methodologies and planning considerations.
- Opportunities to expand staff exposure to different managers, clients and audit modules should be considered to provide variety and to expand skill sets.
- Information systems training is needed to improve generalist audit staff's effectiveness and credibility with the audit client.

**University of Minnesota - Office of Internal Audit**  
**A Comparison of UM Internal Audit Metrics to Other Internal Audit Groups**

The Office of Internal Audit participates in a comprehensive benchmarking study, the Global Audit Information Network (GAIN), conducted by the International Institute of Internal Auditors. The study is conducted bi-annually and the most current results were received in September. The specific survey results for the Office of Internal Audit that are most relevant to the Audit Committee's responsibility for the oversight of the internal audit function will be reviewed at the Audit Committee meeting. Based on our GAIN results, we have drawn the following overall conclusions:

In the area of **audit coverage**, compared to other respondents, we:

- Define our audit universe more broadly.
- Complete a higher percentage of our audit plan.
- Include a fewer number of audits in our annual audit plan, but those audits are broader in scope.
- Audit a higher percentage of our audit universe.
- Audit a greater percentage of defined risk categories.
- Devote a similar percentage of our resources to the completion of assurance audit work.
- Provide a higher level of audit coverage which enables us to render overall control opinions.

In the area of **audit recommendations**:

- Our audits result in a far higher number of findings than our higher education peers (40-50% higher).
- Our percentage of findings considered to be "essential" (33%) is consistent with that of other respondents.
- The University's implementation of audit recommendations takes longer than other respondents.

In the area of **productivity**:

- We spend a larger percentage of our resources completing fieldwork (the evidence gathering/testing portion of the audit process) than do our comparative peers.
- Our cycle time is longer than our comparative peers; but not by as much as would be expected given our institutional policy of providing thirty days for management to prepare their corrective action plan. Our time to audit report issuance compares very favorably to our peers.

In the area of **audit staffing and proficiency**:

- Our salaries as a percentage of our overall budget are consistent with our comparative groups while our benefit costs are notably higher.
- Unlike the other comparative groups, we did not experience any turnover during the reporting period.
- Our staff generally compares favorably in regards to the number holding professional certifications.
- Our staff is significantly more experienced than our peers.
- We plan less time for staff training, but actually provide more training than our comparative groups.
- Our staff size has remained the same, while the staff of our comparative groups have increased 7-8%.

In the area of **best practices**, we:

- Formally solicit service level feedback after each audit project.
- Undergo periodic external peer reviews.

These practices are followed by only half of our comparative peers.



**UNIVERSITY OF MINNESOTA  
BOARD OF REGENTS**

**Audit Committee**

**November 13, 2008**

**Agenda Item:** Information Items

review       review/action       action       discussion

**Presenters:** Associate Vice President Gail Klatt

**Purpose:**

policy       background/context       oversight       strategic positioning

To provide the Audit Committee with the Semi-Annual Controller's Report.

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

Semi-Annual Controller's Report

This report presents a summary of activities completed by the Controller's Office in the last six months that enhance financial accounting and reporting, strengthen internal controls, reduce financial or compliance risks to the University, and improve efficiencies and service.

**Background Information:**

The Controller's Report is prepared semi-annually and presented to the Regents Audit 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  
NOVEMBER 13, 2008**

This report presents a summary of activities completed by the Controller's Office in the last six months that have improved financial reporting, enhanced internal controls, reduced financial risks, improved services to the University community, or created efficiencies in financial operations.

**I. Accounting and Financial Reporting Matters**

The Controller's Office recently adopted three new accounting and reporting standards issued by the Governmental Accounting Standards Board (GASB), and eight new Statements on Auditing Standards (SAS's). The adoption of these standards for fiscal year 2008 resulted in additional liabilities being recorded as well as changes to the footnote disclosures to comply with the requirements. In addition, four additional standards are being evaluated for implementation in subsequent fiscal years. These standards and the related implementation dates are as follows:

Implemented for June 30, 2008

- GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*
- GASB Statement 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*
- GASB Statement 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*
- SAS No. 104 – SAS No. 111

Effective June 30, 2009

- GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*
- GASB 52, *Land and Other Real Estate Held as Investments by Endowments*

Effective June 30, 2010

- GASB 51, *Accounting and Financial Reporting for Intangible Assets*
- GASB 53, *Accounting and Financial Reporting for Derivative Instruments*

The following is a brief summary of these new standards.

Accounting and Reporting Standards

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* – This Statement was implemented for fiscal year 2008 reporting. This Statement addresses how public entities (state and local governments, public universities, etc.) should account for and report their costs and

obligations related to postemployment healthcare and other non-pension benefits. Collectively, these benefits are commonly referred to as “other post-employment benefits” or OPEB. GASB Statement No. 45 generally requires that public entity employers account for and report the annual cost of OPEB, and the outstanding obligations and commitments related to OPEB, in essentially the same manner as they currently do for pensions. The provisions of GASB Statement 45 may be applied prospectively and do not require governments to fund their OPEB plans. A liability of \$11.2 million was recorded on the University’s fiscal year 2008 financial statements related to the OPEB liability. Footnote disclosures were also added.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* – This Statement was implemented for fiscal 2008 reporting. Public entities sometimes exchange an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments – generally, a single lump sum. This statement establishes criteria that public entities will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The statement did not impact the University as there are no transactions meeting this criterion.

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* - The Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities such as site assessments and cleanups. The statement excludes pollution *prevention* or *control* obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset. The statement provides that, once any of the defined obligating events has occurred, the University would be required to estimate the expected pollution remediation outlays and determine whether such outlays should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. This statement will be effective for the University’s fiscal year ending June 30, 2009.

GASB Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27* – This Statement was implemented for fiscal year 2008 reporting. The statement aligns financial reporting requirements for pension and with those for OPEB and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information by pension plans and by employers that provide pension benefits. The University’s footnote disclosures were enhanced and the required supplementary information was provided as required by the statement.

Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* – This statement addresses the recognition of intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. Additionally, it establishes a specified-conditions approach to recognizing intangible assets that are internally generated. GASB Statement No. 51 provides guidance on determining the useful life of intangible assets when contractual or legal provisions limit the length of their life. This statement is effective



for the fiscal year ending June 30, 2010, and the provisions of this statement are generally required to be applied retroactively for fiscal years ending after June 30, 1980.

Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments* – Accounting Standards previously required permanent and term endowments, including permanent funds, to report land and other real estate held as investments at their historical cost. This statement establishes consistent standards for the reporting of land and other real estate as investment by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Public entities also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. This statement is effective for fiscal year ending June 30, 2009.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* – The statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments. It will require the University to measure derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, at fair value. In addition, disclosure requirements will provide a summary of the government's derivative instrument activity and the information necessary to assess the University's objective for derivative instruments, their significant terms, and the risks associated with the derivative instruments. This statement is effective for the fiscal year ending June 20, 2010.

### Auditing Standards

Risk Assessment Standards: SAS No. 104—SAS No. 111 – SAS No. 104—SAS No. 111 were adopted for the University's fiscal year 2008 financial statement audit. In March 2006, the AICPA ASB issued eight Statements on Auditing Standards (SASs) that provide extensive guidance concerning the auditor's assessment of the risks of material misstatement in a financial statement audit, and the design and performance of audit procedures whose nature, timing, and extent are responsive to the assessed risks. Additionally, the SASs establish standards and provide guidance on planning and supervision, the nature of audit evidence, and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion regarding the financial statements under audit. These statements in general apply to the external auditors and will impact the University most heavily in the documentation of internal controls.

## **II. Efforts Undertaken by Controller's Office Departments to Enhance Service, Productivity, and Efficiency and to Improve Internal Controls**

### Risk Management & Insurance

For the last year, the Risk Management & Insurance department has been undergoing significant changes that are intended to improve the efficiency of its operations, and reduce the cost of risk

management. Last winter the department instituted regular workers compensation claims review meetings with the University's third party administrator, with a goal of closing more cases and getting a better handle on workers comp loss reserves. In March the department hired a new director. In June a departmental reorganization was instituted, with the intent of redeploying staffing across a broader range of risk management activities. Finally, the department has generated over \$75,000 in recurring savings this fall on annual insurance premiums.

### Accounting Services

The Accounting Services department was involved in a multitude of work related to the implementation of the Enterprise Financial System (EFS). This work included, but was not limited to: reviewing and revising financial business processes; re-writing of financial policies and procedures where necessary to maximize use of delivered PeopleSoft functionality; participation in the development of training and assessment materials for central and end users; participation as team members on modular and conversion teams for the system; serving in the capacity as business process owners and subject matter experts; assisting with implementation issues through the addressing of problem/issue tickets logged by the University Financial Helpline; and ultimately learning and using the new system as end users. In addition to the work on the EFS, the department underwent an organizational redesign to better align with the new system, and completed the University's annual external audit on time and with no significant issues.

The department continues to work on stabilization and reporting efforts related to the new system and is currently searching for a new department director to replace the existing director, who has accepted a finance and accounting position with the Morris campus.

### Sponsored Financial Reporting

The Sponsored Financial Reporting spent a significant amount of time and effort in preparation for the EFS implementation. Department personnel served as Business Process Owners, Subject Matter Experts, and implementation project team members. Sponsored data for approximately 6,000 sponsored projects was reviewed, adjusted, and successfully converted. End user sponsored reports have been designed and rolled-out to the campus. The department has been able to maintain acceptable rate of meeting deadlines for sending reports and invoices to sponsors. Finally, the department continues to assist with system stabilization and reporting efforts.

### Treasury Accounting, Internal and External Sales (TAIES)

The TAIES group is a newly formed department that is made up of individuals previously reporting to the Accounting Services department, the Disbursement Services department, and the Office of Investments and Banking. This department was formed to provide better oversight to the treasury accounting and cash reconciliation efforts as well as the University's internal and external sales activities. The new department has devoted significant effort to improve efficiency and effectiveness of these areas. As of fiscal year end 2008 all cash accounts had been reconcile timely, and reconciliation processes and procedures have been improved to ensure

continued timely and accurate reconciliations occur going forward. In addition, the internal sales policy and procedures have all been revised and rolled-out. On-line training was also developed and has been rolled-out to users to improve overall compliance and understanding. The external sales policy and procedures are currently undergoing a similar revision process to improve effectiveness and efficiency in this area.

The TAIES group was heavily involved in the EFS implementation and continues to be an integral part of the stabilization efforts.

### Accounts Receivable Services (ARS)

The Accounts Receivable Services group is a new department within the Controller's Office created as a result of reengineering business processes for managing non-sponsored accounts receivable activities at the University. Accounts Receivable Services is responsible for supporting departments throughout the University in the areas of customer maintenance, non-sponsored billing, accounts receivable, payment processing, billing related correspondence (e.g. statements, dunning letters) and collections. The primary goal of ARS over the next two years is to complete the phase-in of the reengineered billing and accounts receivable business processes, and full utilization of the billing and accounts receivable modules of the EFS. ARS will work with departments to transition departmental billing and accounts receivable activity into the new financial system during this time. These activities include processing of payments received via Electronic Funds Transfer, and recording and reconciling of merchant bankcard transactions.

Completion of this implementation will result in a number of benefits. First, use of the system will aggregate accounts receivable balances within the financial system, resulting in improved reporting and oversight of the University's non-sponsored accounts receivable assets. Second, overall organizational efficiencies will occur because moving certain decentralized functions to a centralized department, resources within colleges and departments will be freed up to be reallocated to their core mission. Finally, utilization of a single, enterprise-wide system will reduce the number of duplicative "shadow systems" that are created and maintained across the institution. So far, one college has officially "retired" a shadow billing system, and a coordinate campus has begun using the new system for billing activity previously tracked by desktop computer applications. Three other departments have also expressed an interest in using the new system to replace existing systems that they maintain locally.

### **III. Enterprise Financial System Post-Implementation Activities**

The new enterprise financial system went live on July 1, 2008. The new system consists of 14 modules that have replaced the previous central financial systems, and have impacted every financial process at the University. Post-implementation support continues to dominate the priorities for the Controller's Office and the Office of Information Technology. While there have been some successes, there have also been many unexpected problems and challenges. The approach and priorities for stabilizing the new system are summarized below.

As of the end of September the immediate priority has been to address gaps in reporting needs.

There are reports and reporting tools available with the new system, but we now know that they are not as user-friendly or accessible as we had hoped (especially non-sponsored reports). We have redeployed resources towards efforts that will make reports and the reporting tools more accessible and usable. We anticipate new reports will be rolled out in early to mid-November.

Following that priority, we continue to address “critical defects” as quickly as possible. A critical defect is defined as a failure of the system to function as designed or intended. A critical defect means an important process, like a purchase, cannot be completed because the system isn’t working. For the past four months, a significant amount of effort has been devoted to fixing critical defects, such as user access to the system, failure to dispatch purchasing requisitions to vendors, vendor payment problems, transaction approvals, and so forth.

Another critical success factor is financial community’s ability to effectively use the new system. Since August, considerable Training Services resources have been devoted to providing more hands-on assistance to financial system users in colleges and departments. This has included site visits, additional training, user labs, and a train-the-trainer rollout of the system’s inquiry and reporting tools.

After system defects are fixed, and users become more comfortable with the new system, we will begin to identify situations where our original assumptions and plans about how a business process should be delivered may not have hit the mark for end users. As these are identified, we will evaluate options for improving and enhancing those processes.

In terms of timeline, the system cannot be considered “stable” until it has gone through every major business cycle during the typical fiscal year, including a budget cycle and fiscal year end closing cycle. This time frame is in line with what the University has experienced with other major enterprise system implementations, such as the student and human resource implementations. Furthermore, a one to two year timeline is considered normal for implementation projects of this size, and is consistent with recent implementations at Purdue University and other Big Ten Schools that have successfully implemented Enterprise Financial Systems. Future enhancements to the system and the business processes will occur as rapidly as priorities and resources allow us to execute them.