

Process Audit Results

Board of Regents
Audit Committee
September 12, 2013

Discussion Topics

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

Benefits We Were Seeking

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



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

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Unit-Based Audits

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

Process-Based Audits

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

Process Audits

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

What's Been Accomplished

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

What Have We Found

Institutional Observations

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

What Have We Found

Institutional Observations

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

What Have We Found

Institutional Observations

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

What Have We Found

Institutional Observations

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

What Have We Found

Institutional Observations

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

What Have We Found

Institutional Observations

Student Related Processes

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

What Have We Found Institutional Observations

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

Illustrations

- Contract Management
 - 10 contracts managed independently by 5 units

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

Overall Institutional Observations

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

Overall Institutional Observations

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

Overall Institutional Observations

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

What Have We Learned Internal Audit

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

What Have We Learned Internal Audit

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

What Have We Learned Internal Audit

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



Questions

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