

**UNIVERSITY OF COLORADO  
DEPARTMENT OF INTERNAL AUDIT  
2014 AUDIT PLAN  
As of June 6, 2013**

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**I. Purpose**

The University of Colorado's Department of Internal Audit (Internal Audit) plan for fiscal year 2014 is provided for the information and consideration of the Board of Regents and its audit committee (regents), management, and other constituents of the university. Its primary purpose is to convey Internal Audit's role, objectives, and goals underlying its intent to make a valuable contribution to the university's continued success.

This document represents an ongoing plan that requires continual monitoring and revision as conditions warrant. The ongoing support of the regents, management, and other constituents in developing this plan and maximizing Internal Audit's effectiveness for the benefit of the university is greatly appreciated.

**II. Internal Audit's Role, Objectives and Operational Strategy**

Role and Objectives

As set forth in its charter, revised and adopted by the Board of Regents on November 2, 2006, Internal Audit's role is to provide independent, objective assurance and consulting activity designed to add value and improve the university's operations. Internal Audit helps the university accomplish its objectives by bringing a systematic, disciplined approach to the evaluation and improvement of university processes related to university-wide risk management, control, and governance.

More specifically, Internal Audit evaluates whether university processes, as designed and represented by management, are adequate and functioning in a manner to help ensure the following university objectives are achieved:

- Risks are appropriately identified and managed,
- Interaction with various constituents occurs as needed,
- Significant financial, managerial, and operational information is accurate, reliable, and timely,
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations,
- Resources are acquired and used in a reasonably economical and efficient manner, and are adequately protected,
- Programs, plans, and objectives are achieved,
- Quality and continuous improvement are fostered in the university's control processes, and
- Significant legislative or regulatory issues impacting the university are recognized and addressed appropriately.

## Operational Strategy

### *Activities*

Internal Audit employs its efforts in the following ways to accomplish its role and objectives:

- 1) Examination and evaluation – includes two components:
  - Audits - independently evaluate whether business processes are accomplishing university objectives as intended and identify ways to improve those processes.
  - Investigations - gather, analyze, and present information related to allegations of individual fiscal misconduct.
- 2) Counsel - participate on committees or engage in other advisory services to provide information and advice to management.
- 3) Education - provide informal and formal opportunities to help the university community understand and use sound business practices to achieve its objectives, particularly those that mitigate the risk of error and misuse.

### *Deliverables*

During the course of a year, Internal Audit may deliver any one or more of a number of formal or informal communications to assist the regents and management in identifying and mitigating risks and improving operations. The nature of the work in progress at the time the issue is identified and/or the level of perceived risk associated with the issue will generally dictate the form of communication utilized. Beginning in late fiscal year 2007, Internal Audit and management agreed to assign a risk rating to each identified audit issue in order to convey an understanding as to the relative significance of the issue to the unit or area involved, as well as the university as a whole. Each issue is assessed a rating of high, moderate or low, determined using agreed-upon criteria. Communications typically take on the characteristics identified below.

#### Formal Communications:

Audit Report - issued during or at the conclusion of an audit project; addressed to the president and/or campus chancellor as appropriate; generally utilizes balanced reporting (i.e. identifies both strengths as well as risks rated as high and moderate to the unit) to help ensure audit results are fairly presented; final reports include management's responses and action plans with respect to the issues identified. Lower risks may be identified within the report but will not require a management response.

Specific Issues Report - issued whenever an issue(s) is identified that is of sufficient risk to trigger reporting to senior management, but may not be directly within the specific scope of an audit; issued to an appropriate level of senior management to where the issue resides, although typically to the president or campus chancellor; includes management's response and action plan with respect to the issue(s) identified.

Investigation Report - issued at the conclusion of an investigation of individual fiscal misconduct; typically addressed to the individual's appointing authority; provides facts and evidence relevant to the law, rule, or policy that may have been violated as a result of the conduct alleged; no management response or action plan is incorporated in the communication.

Management Advisory – a memorandum issued to an appropriate level of management; used to report audit issues of relatively lesser impact or scale, or to advise management as the result of consultative services; although suggested actions may be included in the report, no management response or action plan is incorporated.

Regulatory Reports – a letter or other communication to convey the results of a review conducted in accordance with the requirements of an external regulatory body.

Informal Communications – includes emails, memoranda or verbal reports to communicate relatively lower risks, as well as educational and advisory work.

### *Annual Planning*

Internal Audit embarks on a formal planning process in the spring of each year to help determine the extent to which and in what areas it intends to expend its efforts the following year. Beginning in FY14, Internal Audit will utilize a quarterly approach to planning its audit and consulting activities. Using information gathered throughout the year through such means as interviewing university managers, communicating with peers and professional organizations regarding higher education risks in general, observing and understanding university operations, and soliciting information from senior management personnel, Internal Audit will assess risks and compile a list of potential audits to consider for each ensuing quarter. A list of potential audits and consulting projects will be continuously reviewed with university leadership and the Regents Audit Committee to establish the prioritization of future Internal Audit activity.

## **III. Challenges and Opportunities**

Several significant factors are considered in determining the application of Internal Audit resources for the benefit of the university.

### Diversity of Constituents; Complexity and Size of the University

Internal Audit is responsible for providing internal auditing services university-wide. Analysis of this audit universe reveals the existence of a multitude of business objectives and activities. These objectives and activities serve to accomplish the university's vision and campus-based missions, in service both to and on behalf of a wide variety of constituents. These constituents influence the university's operations in various forms. As the state's proclaimed flagship higher education institution, the university is particularly sensitive and subject to rigorous scrutiny of interested media, legislators, and the public at large. Competition for recognition as being among the top higher education and research institutions in the country demands high quality faculty and services and commitments under collaborative, contractual relationships with countless non-university entities. As an institution of higher education in the state of Colorado, the university receives funding from and is subject to a host of state mandates; however legislation passed in fiscal year 2010 and 2011 has removed some of the previous state requirements in academic, capital, and financial operations. The

transition from these state requirements to university rules and policies presents its own unique set of risks. Significant federal funding for financial aid and research also bring a myriad of external and ever increasing mandates. Finally, donors provide much needed funding, which influence specific activities, outcomes, and expectations.

Authority and responsibility for university operations are largely decentralized and widely distributed, spanning system administration and four campuses, with innumerable processes, activities, and units. While many university-wide business processes exist with respect to the university's financial, human resource, and student systems, numerous sub-processes and other unique approaches exist to accomplish the university's wide variety of business forms in pursuit of its missions and objectives. All organizational units have varying degrees of influence on the success of the various processes, depending on their roles, attitudes, and abilities to fulfill them. The wide distribution and variation of responsibility and activities across the university is a challenge to attaining sufficient audit coverage to provide an adequate level of assurance that university objectives are achieved.

#### Degree of Change and Resource Limitations in the University Environment

The university is in a perpetual state of change. Competition is increasing and constituent expectations are more demanding. These changing external influences require continual monitoring to assess their impact, ensure continued compliance with relevant requirements and recognize opportunities to increase the university's value.

A constant challenge facing the university is the ever-increasing reliance on information technology in accomplishing university objectives. Information technology breaches are common in the higher education arena due to the distributed and open architecture of information systems. The complexity, rate of change and rapidly deploying forms of disruption and interference associated with information technology resources bring complex needs for university-wide coordination and integration to avoid redundancy and excessive costs.

#### Internal Audit Resource Base

In FY13, Internal Audit received approval to add a full time equivalent position, for a total of 14 authorized positions. Internal Audit will begin fiscal year 2014 with the director, one senior audit manager, one senior IT audit manager, five audit managers, two IT audit managers, two audit seniors, an IT audit specialist and a professional assistant.

#### Internal Audit Quality Assurance Review Recommendations

The Quality Assurance Review of the Internal Auditing function completed in April 2009 found that Internal Audit generally conforms to The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*, with one exception related to the timely performance of the external quality assessment. Its report identified several commendable practices and made recommendations which included utilizing additional performance metrics and computer tools. In FY14, Internal Audit will be preparing for its next Quality Assurance Review set for the second half of FY15.

#### **IV. FY14 Operational Objectives and Goals**

The following objectives and goals for Internal Audit have been established to guide the department in its effort to provide meaningful and responsive internal auditing services to the university in support of its objectives.

##### Continue to Cultivate Relationships and Understanding; Focus on Value and Risk

Communications with various members of executive and senior management at the system and campus level will continue to help Internal Audit better understand management's objectives, goals and risk tolerance, and integrate its efforts with management's strategic plans. These communications will occur through annual planning meetings with executive management, through periodic informational meetings with key executive management personnel, the conduct of entrance and exit conferences audits, and maintaining a high level of management communication throughout each project. Internal Audit will work to provide services focused on value and risk. Communications, value and risk will be measured by responses in post-project surveys sent to management. Finally, Internal Audit will continue to be responsive to management requests for assistance in a manner consistent with Internal Audit's mission and professional responsibility.

##### Regent Audit Committee Support

Ongoing communication with the chairman of the audit committee and executive management will occur to assist in committee agenda coordination and delivery to ensure the committee effectively accomplishes the activities set forth in its work plan. Internal Audit will assist in revising the committee's work plan to ensure it is consistent with best practices in the public higher education environment. Internal Audit will work with the committee and management as the need arises to further delineate the roles and responsibilities of the audit committee, management and the audit function. The accomplishment of these objectives will be assessed in the audit committee's annual self review of its work plan.

##### Delivery of Audit, Investigation, and Advisory Services

###### *Productivity Metrics*

Internal Audit will continue to work on determining appropriate mechanisms, including performance metrics, to improve the timeliness of the delivery of its projects, as suggested in its Quality Assessment Review report. In 2013, Internal Audit continued the implementation of electronic workpapers for the office. This change is designed to assist in the timeliness of audit delivery and increase productivity.

###### *Allocation of Effort*

The following table forecasts the allocation of hours for each Internal Audit activity for the period July 1, 2012 through June 30, 2013. The overall allocation between direct and indirect effort is based on the expectations for each position. These percentages have proven to be generally consistent with historical experience. The allocation of actual effort incurred for any given fiscal year, as compared to

that forecast for the year, will be shown in Internal Audit's Annual Report for the year, to be issued after the end of the fiscal year and presented to the audit committee in the fall.

	FY14 Hours Forecast	FY14 FTE Forecast
Total Effort Available	23,920	11.50
Direct Effort:		
Scheduled Audits and Mgmt Requests	12,780	53.4%
Investigations	2,129	8.9%
Education Activities	260	<u>1.1%</u>
Subtotal, Direct Effort	15,169	63.4%
Indirect Effort:		
Planning and Administration	3,010	12.6%
Prof. Dev. & Networking		<u>9.5%</u>
	<u>2,272</u>	
Subtotal, Indirect Effort	5,282	22.1%
Compensated Absences	<u>3,468</u>	<u>14.5%</u>
Total Allocation of Effort	23,920	<u>100.0%</u>

#### *Initial 2014 Audit Schedule*

In developing the initial 2014 audit schedule, several factors were considered, including, but not necessarily in order of importance:

- \* broad public research institution objectives,
- \* university vision, goals, and objectives,
- \* management input,
- \* relative significance/risk of audit topics and as compared to the university as a whole,
- \* recent indicators of performance concerns,
- \* balance of audit activities to provide coverage across the university,
- \* significant changes in the internal and external operating environment,
- \* changes in trends in external environment risk factors,
- \* stages of development within the university,
- \* other traditionally recognized risk influences, and
- \* audit resources available.

The audit schedule identifies audits and advisory services in process as of the end of fiscal year 2013, as well as the audits proposed to commence and be completed in the first half of fiscal year 2014.

Flexibility is an inherently accepted part of the audit plan to accommodate management requests and other unanticipated priorities that may arise throughout the year. Because of these factors, time is reserved for unplanned activity. In addition, consulting opportunities for Internal Audit are included.

Unless input received during the June 13, 2013 audit committee meeting indicates otherwise, Internal Audit will adopt the audit schedule in directing its efforts in fiscal year 2014. The percentage of completion of the audit schedule will be presented in Internal Audit's annual report, to be issued after the end of the fiscal year and presented to the audit committee in the fall.

#### Counsel to the Board of Regents, Management, and Other Constituents

Internal Audit will be responsive to management requests for advisory services. It will also continue to seek opportunities to become involved in planning committees, policy and guideline development, and other university strategic efforts in order to promote internal controls, quality processes, and the alignment of resources early in the planning and implementation stages. The up-front involvement of audit expertise as processes, policies and procedures are developed provides an opportunity for proactive risk mitigation before they become operational. Earlier introduction of sound business practices will reduce rework, retraining, and constituent dissatisfaction.

Internal Audit supports proliferating university-wide best practices, as well as redirecting piecemeal and/or special purpose efforts to adopt more efficient integrated cross-departmental, campus or functional applications. Such an approach helps to assure new processes, policies, and procedures will have the desired effect before being relied upon to achieve an objective. Since the maintenance of objectivity is imperative, Internal Audit's advisory services will not include active decision-making and implementation, but rather the contribution of meaningful data and insight to those charged with making decisions and implementing them. In addition, should any significant issues be identified during the course of advisory services that warrant notification to a level of management above the level for which the services are provided, Internal Audit is obligated to inform the appropriate level of management, which may include the audit committee if of sufficient significance.

#### Enhance Audit Resources

Internal Audit continues to address the recommendations resulting from its Quality Assessment Review completed in April 2009, including enhancing its audit planning documentation, utilizing computer assisted tools to a greater degree, and has delegated to selected audit managers some of the administrative duties previously carried out by the director.

Through continued practice, professional education, and networking, Internal Audit will work to enhance its professional knowledge and skills such that they may be applied for the benefit of the university in the delivery of services. Such efforts will include a continued focus on increasing its knowledge base in information technology, construction and federal compliance. Due to budget



constraints, low cost alternatives to acquiring continuing professional education, as needed to maintain and increase expertise and required by professional certifications, will be sought.

## V. FY14 Financial Resources

Internal Audit's anticipated fiscal year 2014 budget is as follows, with comparison to the fiscal year 2012 budget:

		2014			
		Original	2014	2014	
	2013	Budget	Budget	Revised	Percent
<u>Type of Expense</u>	<u>Budget</u>	<u>Request</u>	<u>Increase</u>	<u>Budget</u>	<u>Change</u>
Professional Salaries	\$1,146,126	\$1,165,250	\$0	\$1,165,250	0.00%
Student Intern	10,300	10,300		10,300	0.00%
Benefits	*	*		*	
Salary Savings Rollover**	0	0	120,000	120,000	N/A
Operating Expenses	<u>55,335</u>	<u>55,335</u>		<u>55,335</u>	0.00%
Total	<u>\$1,211,761</u>	<u>\$1,230,885</u>	<u>\$120,000</u>	<u>\$1,350,885</u>	<u>0.00%</u>

\* Benefits are coordinated from a central pool within system administration.

\*\* Estimate as of 6/1/13.

Internal Audit requested to reinstate the salary (\$60,000) for a vacant position that was reduced in FY 2009 and the agreement was to not fill the position for a minimum of two years. This position has been approved to be filled in Fiscal Year 2013.

As of July 1, 2013, Internal Audit expects to have \$50,000 in net assets available for contingencies and unplanned one-time costs.

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**Appendix A – Initial 2013 Audit Schedule**

<b><u>Campus</u></b>	<b><u>Type</u></b>	<b><u>Area of Focus - Objective</u></b>
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**Work Anticipated to be in Reporting or Near Completion as of June 30, 2013:**

SYS	IT	Concur Application Review
UCCS	IT	Central IT - Governance and Operations
AMC	Performance	Colorado Clinical Translational Sciences Institute
AMC	Performance	Risk and Trust
AMC	Compliance	Sub-recipient monitoring
UCB	Performance	Athletics
UCCS	Performance	College of Engineering - College Level Audit
UCCS	Compliance	IRB - Processes and Procedures
UCD	Performance	Extended Studies - ATEL
SYS	Compliance	Concur - Travel Processes
SYS	Compliance	Concur - Expense Reimbursement

**Work Proposed to Commence in Fiscal Year 2013:**

AMC	IT	IT Systems Lifecycle Management
AMC	IT	Research Protective Systems - IT Governance
UCB	IT	Research Computing - Data Governance
SYS	Consult	System/Campus IT
SYS	Consult	System/Campus IT
U-wide	Consult	Enterprise Risk Management
AMC	Performance	Health and Wellness Center
UCB	Compliance	Export Controls - Campus Processes
UCB	Performance	Department Audit - MCDB
UCCS	Performance	El Pomar - EPIIC Program Review

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**Appendix B – Potential Future Audit Projects**

These are projects that were considered high on the list of potential audit activity but are deferred due to insufficient resources available to address in the first six months of the current year or management efforts are currently in place to institute changes. These are deferred to consideration in the 3<sup>rd</sup> Quarter of FY14, or may be commenced earlier if timing of planned audit activity needs to be deferred or other changes in conditions warrant.

<b><u>Campus</u></b>	<b><u>Type</u></b>	<b><u>Area of Focus - Objective</u></b>
AMC	IT	Federal Information Security Act Compliance
AMC/UCB	IT	Device Management (BYOD)
AMC/UCB	IT	Identity and Access Management
AMC/UCB	IT	HIPAA Compliance
AMC/UCB	IT	Mobile Devices and Remote Computing
U-Wide	IT	IT Systems Lifecycle Management
SYS	IT	CU Marketplace
AMC	Performance	Department Audit - Anesthesiology
AMC	Performance	Skaggs School of Pharmacy and Pharmaceutical Sciences
AMC/UCB	Compliance	Conflict of Interest Process Review
SYS	Advisory	Athletics Initiative - Tickets Process Review
SYS	Advisory	Internal Control Review - Development
UCB	Compliance	Athletics
UCB	Compliance	Cost Transfers - Federally Sponsored Programs
UCB	Performance	Facilities Management - Vendor Selection
UCB	Advisory	School of Business Process Review
UCB	Compliance	Sub-recipient monitoring
UCCS	Performance	College of Letters, Arts and Sciences
UCCS	Performance	Construction
UCD	Performance	College of Engineering