

UNIVERSITY OF COLORADO
DEPARTMENT OF INTERNAL AUDIT
2015 AUDIT PLAN
As of June 6, 2014

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I. Purpose

The University of Colorado's Department of Internal Audit (Internal Audit) plan for fiscal year 2015 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, consulting and educational 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 – this has traditionally included 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.

Beginning in fiscal year 2015, Internal Audit will be adding a third component to its efforts.

Assessments - gather, analyze, and independently evaluate whether compliance programs and initiatives are accomplishing university objectives sufficient to meet the associated requirements.

- 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.

Compliance Assessment – issued during or at the conclusion of a compliance review; addressed to the campus chancellor; used to report issues related to gaps in compliance programs or identified opportunities for implementing best practices; includes management's response and action plan when gaps are identified.

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

Annual Planning

Internal Audit maintains an ongoing planning process during the 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 began utilizing a quarterly approach to planning its audit and consulting activities that uses information gathered throughout the year through such 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 assesses risks and compiles 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 the university's audit universe reveals the existence of a dynamic 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 flagship higher education institution, the university is subject to the rigorous scrutiny of interested media, legislators, and the public at large. Striving for continued 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 most 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 finances specific activities and drives 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 fiscal year 2014, Internal Audit received approval to re-organize the department and add a full time equivalent position in fiscal year 2015, for a total of 15 authorized positions as of July 2015. Internal Audit will begin fiscal year 2015 with the executive director, one operations audit director, one IT audit director, five audit managers, one IT audit manager, two audit seniors, one IT audit senior, an IT audit specialist, one professional assistant and the newly created compliance audit manager position.

Internal Audit Quality Assurance Review Recommendations

The Quality Assurance Review (QAR) 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. To comply with the standards, Internal Audit would need to schedule a QAR for the coming fiscal year. However, due to the significant changes made in the structure and practices of the department, Internal Audit will be asking for a two year deferral. This would allow for the review to cover fiscal year 2015 and fiscal year 2016, years where departmental changes will be included in Internal Audit policies, procedures and work product.

IV. Fiscal Year 2015 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 planning meetings with executive management, through periodic informational meetings with key executive management personnel, the conduct of entrance and exit conferences during audits, maintaining a high level of management communication throughout each project and by providing educational presentations to various campus and system audiences. Internal Audit will work to provide services focused on value and risk. 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 chair 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

Allocation of Effort

The following table forecasts the allocation of hours for each Internal Audit activity for the period July 1, 2014 through June 30, 2015. 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.

	Operational Hours Forecast	FY15 FTE Forecast	IT Hours Forecast	FY15 FTE Forecast	Total Hours Forecast	FY15 FTE Forecast
	<u>Standard Hours</u>	<u>Standard Percentage</u>	<u>Standard Hours</u>	<u>Standard Percentage</u>	<u>Standard Hours</u>	<u>Standard Percentage</u>
Total Effort Available	18,720	9.00	7,280	3.50	26,000	12.50
Direct Effort:						
Examination & Evaluation Activity:						
Scheduled Audits, Follow-ups, and Mgmt Audit Requests	8,200	43.8%	4,506	61.9%	12,706	48.9%
Counsel and Constituent Relations	<u>0</u>	<u>0.0%</u>	<u>0</u>	<u>0.0%</u>	0	<u>0.0%</u>
	8,200	43.8%	4,506	61.9%	12,706	48.9%
Compliance	1,352	7.2%			1,352	5.2%
Investigations	2,080	11.1%	140	1.9%	2,220	8.5%
Education Activities	<u>480</u>	<u>2.6%</u>	<u>64</u>	<u>0.9%</u>	<u>544</u>	<u>2.1%</u>
Subtotal, Direct Effort	12,112	64.7%	4,710	64.7%	16,822	64.7%
Indirect Effort:						
Planning and Administration	2,490	13.3%	968	13.3%	3,458	13.3%
Prof. Dev., Environ Awareness & Networking	<u>936</u>	<u>5.0%</u>	<u>364</u>	<u>5.0%</u>	<u>1,300</u>	<u>5.0%</u>
Subtotal, Indirect Effort	3,426	18.3%	1,332	18.3%	4,758	18.3%
Compensated Absences	<u>3,182</u>	<u>17.0%</u>	<u>1,238</u>	<u>17.0%</u>	<u>4,420</u>	<u>17.0%</u>
Total Allocation of Effort	<u>18,720</u>	<u>100.0%</u>	<u>7,280</u>	<u>100.0%</u>	<u>26,000</u>	<u>100.0%</u>

Initial fiscal year 2015 Audit Schedule

In developing the initial fiscal year 2015 audit schedule, several factors were considered, including, but not necessarily in order of importance:

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

The audit schedule identifies audits and advisory services projected to be in process as of the end of fiscal year 2014, as well as the audits proposed to commence and be completed in the first half of fiscal year 2015.

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 18, 2014 audit committee meeting indicates otherwise, Internal Audit will adopt the audit schedule in directing its efforts in fiscal year 2015. 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 university 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 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. Fiscal Year 2015 Financial Resources

Internal Audit’s anticipated fiscal year 2015 budget is as follows, with comparison to the fiscal year 2014 budget:

<u>Type of Expense</u>	<u>2014 Budget</u>	<u>2015 Budget Request</u>	<u>Percent Change</u>
Professional Salaries	\$1,165,167	\$1,398,781 (1)	20.05%
Student Worker	10,300	10,300 (2)	0.00%
Benefits	*	*	
Salary Savings Rollover	168,223	79,200 (3)	n/a
Operating Expenses	<u>73,464</u>	<u>113,464</u> (4)	<u>54.45%</u>
Total	<u>\$1,417,154</u>	<u>\$1,601,745</u>	

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

1. Difference consists of market and merit increases and the new position approved for July 2015.
2. Internal Audit will be arranging to hire a student worker in fiscal year 2015
3. The 2015 budget request is an estimate made as of June 4, 2014
4. The difference is an approved increase of \$40,000 for fiscal year 2015

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Appendix A – Initial 2015 Audit Schedule

Fiscal Year 2014 Work in Progress as of June 30, 2014, to be Completed in Fiscal Year 2015:

<u>Campus</u>	<u>Type</u>	<u>Area of Focus - Objective</u>
AMC	Compliance	IT HIPAA Policy Management
AMC	Consulting	IT Research Computing - Data Governance
AMC	Performance	Extended Studies - CU Succeed
AMC	Consulting	IT Risk Assessment
CU-Boulder	Compliance	Export Controls
CU Denver	Consulting	College of Nursing - HRSA
SYS	Performance	Advancement - Expense Reimbursement Review
SYS	Performance	Advancement - Internal Control Review
U-Wide	Compliance	Ethics Related Programs

Work Proposed to Commence in Fiscal Year 2015:

<u>Campus</u>	<u>Type</u>	<u>Area of Focus - Objective</u>
AMC	Compliance	Export Controls
AMC	Compliance	Ethics Related Programs
AMC	Education	Internal Controls
AMC	Education	Advancement: Expense Reimbursement and Ethics
CU-Boulder	Compliance	Ethics Related Programs
CU Denver	Compliance	Ethics Related Programs
SYS	Compliance	Export Controls
SYS	Performance	IT Supportability
UCCS	Compliance	Export Controls
UCCS	Education	Advancement: Expense Reimbursement and Ethics

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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 3rd quarter of fiscal year 2015, or may be commenced earlier if timing of planned audit activity needs to be deferred or other changes in conditions warrant.

<u>Campus</u>	<u>Type</u>	<u>Area of Focus - Objective</u>
AMC	Integrated	Skaggs School of Pharmacy and Pharmaceutical Sciences
CU-Boulder	Performance	Virtual Systems Assurance
UCCS	Performance	IT Supportability
U-Wide	Performance	Internal Control Assessment
U-Wide	Compliance	Compliance Inventory