

**UNIVERSITY OF COLORADO  
DEPARTMENT OF INTERNAL AUDIT  
ANNUAL REPORT  
FISCAL YEAR 2015**

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**I. PURPOSE**

This document reports on the fiscal year 2015 contributions of the Department of Internal Audit in its service to the University of Colorado (university). The report has two parts. The first is a functional description of the results of Internal Audit's work to provide the Board of Regents Audit Committee (RAC) and senior management a summary of the audit coverage achieved during the year, the significance of the risks identified during the year, the year-end status of significant risks identified, the context of these risks in relation to other university risks, and management's progress in resolving outstanding Internal Audit comments. The second part of the report is administrative in nature describing Internal Audit's performance as compared to the goals and objectives outlined in the fiscal year 2015 audit plan.

**II. FUNCTIONAL REPORT**

**A. Coverage across the Institution**

Internal Audit's schedule of planned activity seeks to achieve coverage across the university in areas that have university-wide and campus-wide impact. Such coverage is balanced with audits and other projects in areas smaller in scale and impact, such as organizational unit audits, typically called departmental audits. In addition, Internal Audit seeks to accomplish its mission by providing educational presentations to various groups within the university community.

Internal Audit was successful in completing a balance of activity in fiscal year 2015 in terms of coverage across the university. University-wide coverage was attained through audits of expense reimbursement for fundraising employees. Broad coverage was also attained through continued university-wide committee participation and consultation in such areas as compliance program development, Administrative Policy Statement (APS)/Policy development, development of fiscal procedures, the student information system replacement and information security.

Campus-wide and system administration coverage was obtained through audits of export control at the University of Colorado Boulder, the University of Colorado Denver | Anschutz Medical Campus (CU-Denver | Anschutz), the University of Colorado Colorado Springs (UCCS) and at system administration as well as audits of IT systems lifecycle management at UCCS and system administration. Campus support was provided through multiple reviews of ePayment processing compliance at specific university vendor locations. In addition, four unit-level audits were completed as well as one consulting project.

Internal Audit prepared six separate educational presentations on topics ranging from the importance of our internal control environment to audits and risks, to protecting yourself from identity theft. These presentations were delivered on multiple occasions and most were provided to every campus. In total, Internal Audit made 22 presentations during the past fiscal year. In addition, the Associate Vice President provided department updates to the Board and to executive groups on campus.

Internal Audit also investigated 11 potential incidents of fiscal misconduct during the past fiscal year (see “Investigation Activity” on page 3).

## **B. Risk Identification and Remediation**

### Risk Ratings

One of Internal Audit’s responsibilities under its professional standards is to report to senior management and the RAC significant risk exposures and control issues, governance issues, and other matters needed or requested by the board and senior management. Risks identified during the year’s audit-related activity were conveyed to various levels of management, depending upon perceived significance. A risk rating is assigned to each identified audit issued in order to convey an understanding as to the relative significance of the issue to the campus and university as a whole. Each issue is assessed a rating of high, moderate or low, using criteria agreed upon between Internal Audit and senior management. The impact of any given risk is assessed based on a number of factors, including the following:

- potential to adversely impede university objectives
- life and safety of people
- significance of resources at risk
- financial impact
- requirement for external reporting
- potential to significantly divert energies to address
- potential for litigation
- potential for continued public scrutiny or loss of public perception

Risks of higher significance were conveyed to senior management during the audit process and in formal audit reports, and reported to the RAC in its meetings. Risks of lesser significance were conveyed to the appropriate level of management during the audit process, either through formal audit reports, informal written memoranda, or verbally.

Risks carry the potential for negative outcomes, and the potential impact of each negative outcome on the university varies in magnitude. Negative events may be significant at an organizational unit level, but to a much lesser degree at a campus or university level. The likelihood and impact of risks should have a bearing on the prioritization of remediation efforts, taken in context with other institutional risk remediation efforts that may already be underway. Risks that have both a high likelihood of occurring and a high impact for the university as a whole naturally warrant the highest priority, given limited resources.

No issues representing high risk to the university were identified during fiscal year 2015 audit activities.

### **C. Progress in Resolving Outstanding Internal Audit Comments**

With respect to addressing audit comments overall, the campuses have made significant progress in responding to and remediating the risks identified.

#### Context of Risks Identified

Internal Audit's activity is one of several mechanisms in place within the university to identify risk management, control and governance issues. The annual audit planning risk assessment often identifies areas where university management is actively working to address conditions that present risk to the university. Typically, audits are not conducted in areas where management is actively working to alter its processes to remediate risk. Thus, while Internal Audit may identify issues that are significant to the university through its audit work, these will not include risks that management has already identified and is working to resolve, and findings of significant risks may or may not be the most significant risks facing the university.

#### Investigation Activity

Internal Audit received 14 concerns reported through the university CU EthicsLine in fiscal year 2015, a decrease from the 17 reports in the previous year. Eight reports of suspected fiscal misconduct were also received through other means for a total of 22 concerns reported. Internal Audit received phone calls and/or emails from campus and department management.

Following initial evaluation, Internal Audit opened six investigations from CU EthicsLine reports and four investigations from other means. The department actively worked on 11 investigations during the year, seven of which were completed by the end of the fiscal year.

For four of the concerns reported, Internal Audit did not initiate an investigation, but rather worked with the campuses to resolve the issues raised.

## **III. ADMINISTRATIVE REPORT**

### **A. Fiscal Year 2015 Operational Goals and Objectives**

Internal Audit's fiscal year 2015 audit plan identified five overall objectives:

- continue to cultivate relationships and understanding; focus on value and risk
- provide RAC support
- deliver audit, investigation, and consultation services
- provide counsel to the Board of Regents, management and other constituents
- enhance audit resources; increase specific expertise

The department's degree of success in each of these areas is covered below.

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

Internal Audit had considerable communications with various members of executive and senior management at the system and campus level during fiscal year 2015 to help better understand management's objectives, goals and risk tolerance, and integrate its efforts with management's strategic plans. These communications occur through annual planning meetings with executive management, through the conduct of entrance and exit conferences for each audit, and maintaining a high level of management communication throughout each project. Internal Audit worked to provide services focused on value and risk. The campuses have continued to request increased consultation and advisory services from Internal Audit. Internal Audit has been responsive to management requests for assistance in a manner consistent with the department's mission and professional responsibility.

Internal Audit is re-assessing its approach to internal quality assessment. The use of post-audit surveys has provided limited feedback due to a very low response rate. In fiscal year 2016, Internal Audit will work with the Institute of Internal Auditors and peer institutions to identify alternate methods for obtaining feedback in order to develop a system for internal quality assessment that meets the standards of the profession.

### 2. Provide RAC Support

The RAC met on four occasions during fiscal year 2015. Ongoing communication with the chairman of the RAC and executive management occurred to assist in committee agenda coordination and delivery to ensure the committee effectively accomplishes the activities set forth in its work plan. Internal Audit assisted in reviewing the committee's work plan to ensure it is consistent with best practices in the public higher education environment. Internal Audit worked with the RAC and management as the need arose to further delineate the roles and responsibilities of the RAC, management and the audit function. The chair of the RAC issued a letter to the Board of Regents in December 2015 to communicate successful accomplishment of the committee's work plan.

### 3. Deliver Audit, Investigation, and Consultation Services

#### *Summary of 2015 Audit Schedule Accomplishment*

By fiscal year end, the department completed audits or was in the reporting stage of completing 23 of the 30 projects identified on the fiscal year 2015 audit plan, representing 77% of the plan. The completion rate is above last year's 75% and the 58% completed in fiscal year 2013.

Internal Audit also provided several formal and numerous informal advisories to various members and levels of management during the year, on such topics as policy development, controls to mitigate loss potentials, and improving process quality.

#### 4. Provide Advisory Services to the Board of Regents, Management, and Other Constituents

Internal Audit provided consultation to the university community in various ways during the year. Significant effort was devoted to participation in the groups responsible for implementing the university's student information system. Internal Audit provided relevant feedback in the project management process evaluation and helped ensure key controls are in place. Internal Audit also participated in the President's Task Force on Efficiency and administered CU EthicsLine, the university's reporting hotline. Otherwise, Internal Audit provided ad hoc feedback and advice throughout the year to the university community as the opportunity arose.

#### 5. Enhance Audit Resources; Increase Specific Expertise

##### *a. Organization and Processes*

An extensive external evaluation of Internal Audit, also known as a quality assurance review (QAR), was conducted in 2009 by Internal Audit directors from three institutions of higher education. The review covered the timeframe of 2007 to April 2009. The objective of the QAR was to provide reasonable assurance that Internal Audit complied with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing and Code of Ethics (Standards)*. The results of this evaluation indicated that Internal Audit's activities generally conformed to the *Standards* in all material aspects during the period reviewed except for the standard covering frequency of the external quality assessment.

Ongoing assessment and refinement of the departmental policy manuals, procedures and related processes continued to assist the department in efficiently delivering the highest quality of services in alignment with the university's missions and objectives. Emphasis continued to be placed on a team approach to auditing, such that all audit managers, as well as the audit seniors, served as resources to one another in accomplishing their work.

##### *b. Staffing*

As of June 30, 2015, Internal Audit had 15 authorized positions:

##### Positions:

- 1 Associate Vice President
- 1 Director of Audit Services
- 1 Director of IT Audit Services
- 4 Audit Managers
- 1 Investigations Audit Manager
- 1 Compliance Audit Manager
- 1 IT Audit Manager
- 2 Audit Seniors
- 1 IT Audit Senior
- 1 IT Audit Specialist
- 1 Professional Assistant

Internal Audit has remained fully staffed for fiscal year 2015.

Note that an additional audit manager position was approved by the Board of Regents for fiscal year 2016. A search for that new position is currently underway.

**Education:**

All audit professionals hold four-year degrees in business administration, accounting, or computer science. In addition, seven hold advanced degrees.

**Certifications:**

Total certifications held:

- 7 Certified Internal Auditors
- 3 Certified Information Systems Auditors
- 1 Certified Compliance and Ethics Professional
- 4 Certified Fraud Examiners
- 1 Certified Information Security Manager
- 1 Certified Information Systems Security Professional
- 5 Certified Public Accountants

Efforts by the department's audit professionals to improve their abilities and obtain new certifications have continued to receive strong support due to permanent increase to the department's training budget. All auditors holding professional certifications gained continuing professional education sufficient to increase their knowledge and maintain their certifications.

**B. FY15 Financial Resources**

Internal Audit is funded from system administration's allocation charges to the campuses. The following table represents fiscal year budget comparative information:

|                    | Fiscal Year<br>2015<br><u>Budget</u> | Fiscal Year<br>2016<br><u>Budget</u> |
|--------------------|--------------------------------------|--------------------------------------|
| Salaries           | \$1,404,464                          | \$1,649,158 *                        |
| Operating expenses | 113,464                              | 113,464                              |
| Total Expenses     | <u>\$1,517,928</u>                   | <u>\$1,762,622</u>                   |

\* Includes a 10% across the board market rate adjustment and a 3% merit pool for fiscal year 2016 plus the addition of an Audit Manager position.