

**UNIVERSITY OF COLORADO  
DEPARTMENT OF INTERNAL AUDIT  
ANNUAL REPORT  
FISCAL YEAR 2014**

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**I. PURPOSE**

This document reports on the fiscal year 2014 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 2014 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.

Internal Audit was successful in completing a balance of activity in fiscal year 2014 in terms of coverage across the university. University-wide coverage was attained through three audits, one of expense reimbursement for fundraising employees and two involving the university's Concur system. 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 coverage was obtained through audits of export controls and Information Technology (IT) data governance at the University of Colorado Boulder, audits of IT systems lifecycle management at the Anschutz Medical Campus (AMC) and audits of Health Insurance Portability and Accountability Act (HIPAA) policies and protective systems at AMC. Campus support was also provided to the University of Colorado Colorado Springs (UCCS) through a review of governance over campus IT of the campus Institutional Review Board. In addition, four unit-level audits were completed as well as four consulting projects.

Internal Audit investigated 13 potential incidents of fiscal misconduct during the past year.

## **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 issue 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 2014 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 17 concerns reported through the university CU EthicsLine in fiscal year 2014, an increase from the six reports in the previous year. Nine reports of suspected fiscal misconduct were also received through other means for a total of 26 concerns reported. Internal Audit received phone calls and/or emails from campus and department management as well as a phone call from a faculty member. Following initial evaluation, Internal Audit opened six investigations from CU EthicsLine reports and five reports from other means. The department actively worked on 13 investigations during the year.

## **III. ADMINISTRATIVE REPORT**

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

Internal Audit's fiscal year 2014 audit plan identified five overall objectives for fiscal year 2014:

- 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 2014 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 continued to be 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 2014, 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 2014. 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 2013 to communicate successful accomplishment of the committee's work plan.

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

### *Summary of 2014 Audit Schedule Accomplishment*

By fiscal year end, the department completed audits or was in the reporting stage of completing 18 of the 24 projects identified on the fiscal year 2014 audit plan, representing 75% of the plan. The completion rate is significantly above last year's 58% and the 37% completed in fiscal year 2012.

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 Counsel 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. Internal Audit's participation in university meetings with the Board of Regents and senior administrators, and in other service-related activities, served to keep Internal Audit personnel informed of university activities and its environment.

## 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, 2014, Internal Audit had 14 authorized positions:

Positions:

- 1 Executive Director
- 1 Director of Audit Services
- 1 Director of IT Audit Services
- 5 Audit Managers
- 1 IT Audit Manager
- 2 Audit Seniors
- 1 IT Audit Senior
- 1 IT Audit Specialist
- 1 Professional Assistant

Recruiting efforts during the year filled the vacant IT audit manager, IT audit senior and the professional assistant positions. As of June 30, 2014, Internal Audit was fully staffed. Note that a new audit manager position was approved by the Board of Regents. The position has been filled and the new employee started on July 21, 2014.

Education:

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

Certifications:

Total certifications held:

- 6 Certified Internal Auditors
- 3 Certified Information Systems Auditors
- 1 Certified Information Security Manager
- 1 Certified Information Systems Security Professional
- 4 Certified Fraud Examiners
- 4 Certified Public Accountants

Efforts by the department's audit professionals to improve their abilities continued to receive limited support due to budget constraints. All auditors holding professional certifications gained continuing professional education sufficient to increase their knowledge and maintain their certifications.

## B. FY14 Financial Resources

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

	2013	2014	2015	
	<u>Budget</u>	<u>Budget</u>	<u>Budget</u>	
Salaries	\$1,156,426	\$1,175,467	\$1,404,464	*
Operating expenses	55,335	73,464	113,464	**
2013 Salary Savings		168,223		
Total Expenses	<u>\$1,211,761</u>	<u>\$1,417,154</u>	<u>\$1,517,928</u>	

\* Includes a 10% across the board market rate adjustment and the addition of an Audit Manager

\*\* Includes a \$40,000 increase for training