**UNIVERSITY OF COLORADO**
**DEPARTMENT OF INTERNAL AUDIT**
**ANNUAL REPORT**
**FISCAL YEAR 2013**


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### I. PURPOSE

This document reports on the fiscal year 2013 contributions of the Department of Internal Audit in its service to the University of Colorado (CU).  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 FY 2013 audit plan.

### II. FUNCTIONAL REPORT

**A. Coverage across the Institution**

Internal Audit's schedule of planned activity seeks to achieve broad coverage across the university. Broad coverage is typically achieved in areas that have university-wide and campus-wide impact. These audits are characterized as core process or key function/activity audits.  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 2013 in terms of coverage across the university.   University-wide coverage was attained through four audits, one of executive management expenses and three 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, development and implementation of InfoEd and information security.

Campus-wide coverage was obtained through an audit of cost transfers and journal entry descriptions at the University of Colorado Denver (CU Denver) campus.  Campus support was also provided to the University of Colorado Colorado Springs (UCCS) through a review of governance over campus information technology of the campus Institutional Review Board.  In addition, eight unit-level audits were completed as well as a financial audit for System Administration.

Internal Audit investigated potential fiscal misconduct during the past year at the university.  Two investigations were concluded at CU-Boulder and two concluded at CU Denver.

**B. Risk Identification and Remediation**

<u>Risk Ratings</u>

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 FY13 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.

<u>Context of Risks Identified</u>

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 six concerns reported through CU EthicsLine in fiscal year 2013, a decrease from the 11 reports in the previous year.  Reports of suspected fiscal misconduct were also received through other means.  Following initial evaluation, Internal Audit opened three investigations on the reports received.  The department actively worked on nine investigations during the year, concluding work on four.

## III. ADMINISTRATIVE REPORT

### A. FY13 Operational Goals and Objectives

Internal Audit's 2013 audit plan identified five overall objectives for fiscal year 2013:

- 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 2013 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 and the Internal Audit advisory committee, 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, which was measured by responses in post-audit surveys sent to management.  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 FY14, 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 2013.  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 2012 to communicate successful accomplishment of the committee's work plan.

3. Deliver Audit, Investigation, and Consultation Services

*Summary of 2013 Audit Schedule Accomplishment*

By fiscal year end, the department completed audits or was in the reporting stage of completing 14 of the 24 projects identified on the FY13 audit plan, representing 58% of the plan.  The completion rate is significantly above last year's 37%.  Additionally, two audits from the FY13 plan were in the reporting stage in August 2013. An audit not on the FY13 plan was also completed.  The higher completion rate can partially be attributed to the completion of several large audits that were in process at the end of FY12.  The table in Appendix A lists each audit and any significant consultative activity that was worked in FY13, and the status of each activity at year end.

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.

The two audits in process at June 30, 2013 were incorporated in the 2014 audit schedule.  In addition, all projects on the 2013 audit schedule that were deferred were considered in the development of the 2014 audit schedule.

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.

<u>5.  Enhance Audit Resources; Increase Specific Expertise</u>

*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, 2013, Internal Audit had 14 authorized positions:

    Positions:
        1 Director
        1 Senior Audit Manager
        1 Senior IT Audit Manager
        1 IT Audit Manager
        4 Audit Managers
        1 Audit Senior
        1 Professional Assistant

        2 vacant Audit Senior positions
        1 vacant IT Audit Manager
        1 vacant IT Audit position

Recruiting efforts filled the two vacant Audit Senior positions and an internal promotion had filled the vacant IT audit position; however, the IT Audit Manager and the professional assistant positions remained open at year end. (Note that a professional assistant was hired in August and is scheduled to start on September 9, 2013)

    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:

        5 Certified Internal Auditors

        2 Certified Information Systems Auditors

        1 Information Systems Security Professional

        3 Certified Fraud Examiners

        5 Certified Public Accountants

Efforts by the department's audit professionals to improve their abilities continued to receive limited support due to budget constraints.  FY13 salary savings (see page 7) will be utilized in FY14 to improve the quality of training for the staff. However, this is a temporary solution as the financial resources will only be available during FY14.  Local area and in-house training, webinars, and self-study will continue to be utilized to obtain cost effective professional development.  All auditors holding professional certifications gained continuing professional education sufficient to increase their knowledge and maintain their certifications.

## B. FY13 Financial Resources

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

|  | 2011 Budget | 2012 Budget | 2013 Budget | 2013 Actual | Salary Savings |
|---|---|---|---|---|---|
| Salaries | $988,819 | $1,076,433 | $1,156,426 | $934,981 |  |
| Operating expenses | 55,169 | 55,124 | 55,335 | 108,556 |  |
| Total Expenses | $1,043,988 | $1,131,557 | $1,211,761 | $1,043,537 | $168,224 |

Compensation expenditures were below budget due to positions being vacant for part or all of the fiscal year.  General operating expenses increased from the previous year as salary savings were applied to administrative department equipment and training needs.   The remaining salary savings ($168,224) will be provided to Internal Audit as a one-time temporary budget item to be used for training and for contracting with outside IT audit resources.

# UNIVERSITY OF COLORADO
## DEPARTMENT OF INTERNAL AUDIT
## 2013 AUDIT PLAN
## As of June 30, 2013

### Appendix A - Audit Activity Planned, Worked and Completed

| Campus | Type | Scope/Focus | On 2013 Plan? | Status at 6/30/13 |
|---|---|---|---|---|
| UCB | IT | IT Governance - Housing and Dining | Yes | Completed |
| UCD | IT | Decentralized IT - Organizational Unit or Departmental ITGCs and InfoSec | Yes | Completed |
| AMC | Compliance | Cost Transfers and Journal Entry Descriptions - Federally Sponsored Programs | Yes | Completed |
| AMC | Performance | Colorado Clinical Translational Sciences Institute (CCTSI) | Yes | Reporting |
| SYS | Compliance | Expense Reimbursement System | Yes | In Process |
| SYS | Compliance | Legal Counsel Assistance I | Yes | Completed |
| UCB | Compliance | Cost Transfers and Journal Entry Descriptions - Federally Sponsored Programs | Yes | Deferred |
| UCB | Compliance | Housing Construction | Yes | Deferred |
| UCCS | Compliance | IRB - Processes and Procedures | Yes | Reporting |
| UCD | Performance | Extended Studies - ATEL | Yes | Reporting |
| SYS | IT | Concur Application Review | Yes | Reporting |
| SYS | IT | CU Marketplace Application Review | Yes | Deferred |
| UCCS | IT | Central IT - Governance and Operations | Yes | Reporting |
| AMC | Performance | Risk and Trust | Yes | Reporting |
| AMC | Compliance | Sub-recipient monitoring | Yes | Reporting |
| AMC | Compliance | Tenure processes | Yes | Deferred |
| SYS | Financial | Contract Review | No | Completed |
| SYS | Compliance | Concur - Travel Processes | Yes | In Process |
| SYS | Compliance | Review of executive management expenses | Yes | Completed |
| UCB | Compliance | Sub-recipient monitoring | Yes | Deferred |
| UCB | Performance | Athletics | Yes | Reporting |
| UCB | Compliance | Export Controls | Yes | Deferred |
| UCB | Compliance | Legal Counsel Assistance II | Yes | Deferred |
| UCCS | Performance | College of Engineering - College Level Audit | Yes | Reporting |
| UCD | Performance | College of Engineering and Applied Sciences | Yes | Deferred |