

**UNIVERSITY OF COLORADO
DEPARTMENT OF INTERNAL AUDIT
ANNUAL REPORT
FISCAL YEAR 2017**

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I. PURPOSE

This document reports on the fiscal year 2017 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 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 2017 audit plan.

II. FUNCTIONAL REPORT

A. Coverage Across the Institution

Internal Audit's schedule of planned activity seeks to provide audit, assurance, and advisory services across the institution in areas that have university-wide and campus-wide impact. This coverage is balanced with audits and other projects in areas smaller in scale and impact, such as organizational unit audits, typically school or department level audits. In addition, Internal Audit seeks to accomplish its mission by providing educational presentations to various organizations or functional groups within the university community.

Internal Audit was successful in completing a balance of activity in fiscal year 2017 in terms of coverage across the university. University-wide coverage was attained through completing audits of tenure related process compliance. Broad coverage was also attained through continued university-wide committee participation and consultation in such areas as compliance program and fiscal procedure development, the CU Student Integrated Systems, and information security.

Campus-wide and system administration coverage was obtained through audits of Health Insurance Portability and Accountability Act (HIPAA) Business Associate practices and a financial audit of the Self Insurance and Risk Management Trust at the University of Colorado Denver | Anschutz Medical Campus. Privileged Access Management was reviewed for the CU Marketplace enterprise application for system administration. Several grant audits (compliance reviews of specific grants) were conducted at the University of Colorado Colorado Springs.

Campus support was provided through multiple reviews of ePayment processing compliance at specific university merchant locations and campus compliance inventory assessments on multiple campuses. In addition, unit-level audits were completed as well as two consulting projects.

Internal Audit prepared six separate educational presentations on topics ranging from university audits and risks to identifying fraudulent transactions. Internal Audit provided the presentations on multiple occasions and at several locations. In addition, the associate vice president provided department updates to the Board of Regents and to executive groups at system administration and on campus.

Internal Audit also investigated 17 potential incidents of fiscal misconduct during the past fiscal year (see “Investigation Activity” on page 3).

B. Risk Identification and Remediation

Risk Assessment and 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 of Regents and senior management. Risks identified during the year’s audit-related activity were considered in developing audit priorities and risk observations were conveyed to various levels of management, depending upon perceived significance. Risk assessment is performed annually through a number of department risk assessments to support development of the audit plan priorities. Audit projects were evaluated for specific risks as part of the audit planning process.

Risk ratings are communicated regarding audit outcomes in order to convey an understanding as to the relative significance of the audit findings to the unit, campus, or the university as a whole. A qualitative rating of high, moderate or low is expressed, 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
- integrity of data resources
- financial impact
- requirement for external reporting or adherence to compliance standards
- potential to significantly divert energies to address
- potential for litigation
- potential for continued public scrutiny, or damage to the university’s reputation
- likelihood or pervasiveness of the risk condition
- potential for service or technology interruption

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.

Two reports were completed identifying high-risk issues during fiscal year 2017 audit activities.

C. Progress in Resolving Outstanding Internal Audit Comments

With respect to addressing audit comments overall, the campuses have been diligent 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, control, and governance issues. Internal Audit's risk assessment and audit planning activities often identify 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 remediate risk. Thus, while Internal Audit may identify issues that are significant to the university through its audit work, these will not typically 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 fiscal misconduct concerns reported through the university CU EthicsLine in fiscal year 2017, an increase from the eight reports in the previous year. Twelve 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.

Following initial evaluation, Internal Audit opened two new investigations from CU EthicsLine reports and 12 investigations from other means. The department actively worked on 17 investigations during the year, seven of which were completed by the end of the fiscal year.

Two reported concerns were referred to the campuses to be addressed by management.

III. ADMINISTRATIVE REPORT

A. Fiscal Year 2017 Operational Goals and Objectives

Internal Audit's fiscal year 2017 audit plan identified five overall objectives:

- continue to cultivate relationships and understanding
- 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. Continuous Cultivation of Relationships and Understanding

Internal Audit had considerable communications with various members of executive and senior management at the system administration and campus level during fiscal year 2017 to help better understand management's objectives, goals and risk tolerance, and integrate its efforts with management's strategic plans. These communications occur through planning meetings with executive management, through the conduct of entrance and exit conferences for each audit, and ensuring continuous communication throughout each project with key individuals. Internal Audit staff attend several standing managerial and governance committees as ex officio members at system administration and on the campuses, maintaining presence and contact with management and obtaining insight into objectives. The Board of Regents and the campuses have continued to request assurance, consultation and advisory services from Internal Audit and the department has continued to be responsive to these requests.

2. Provide RAC Support

The RAC met on four occasions during fiscal year 2017. 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 leading practices in the public higher education environment.

3. Deliver Audit, Investigation, and Consultation Services

Summary of 2017 Audit Schedule Accomplishment

By fiscal year end, the department completed audits, or was in the reporting stage of completing 31 of the 40 projects identified on the fiscal year 2017 audit plan, representing 77.5% of the plan. The completion rate is roughly equal to fiscal year 2016 and 2015's 77% and above the 75% and 58% completed in fiscal years 2014 and 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, internal control recommendations, governance recommendations, and improving process quality.

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

Internal Audit provided consultation services to the university community in various ways during the year. Internal Audit participated in the review of Regent Laws and Policies and administered CU EthicsLine, the university's reporting hotline. Internal Audit delivered four advisory projects as consultations supporting business development at the University of Colorado South Denver, allowable direct costs on federal awards at University of Colorado Colorado Springs, and two advisories on developing technology risk issues at system administration and the University of Colorado Boulder. Otherwise, Internal Audit provided ad hoc feedback and advice throughout the year to the university community as opportunities arose and according to engagement results.

5. Enhance Audit Resources; Increase Specific Expertise

a. Organization and Processes

Professional standards require a periodic evaluation of the internal audit function, also known as a quality assurance review (QAR). The objective of the QAR is to provide reasonable assurance that Internal Audit complies 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 indicate whether or not Internal Audit's activities generally conformed to the *Standards* in all material aspects during the period reviewed. The last QAR was conducted in 2009, covering the timeframe of 2007 to April 2009.

During the March 2017 RAC meeting, Internal Audit committed to accomplishing a QAR during the summer of 2017. In preparation for the QAR, Internal Audit preformed an assessment and refinement of the departmental policy manuals, procedures and related processes, which 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 auditors served as resources to one another in accomplishing their work.

b. Staffing

As of June 30, 2017, Internal Audit had 16 authorized positions.

Positions:

- 1 Associate Vice President
- 1 Director of Internal Audit Services
- 1 Director of IT Audit Services
- 7 Audit Managers
- 1 Investigations Senior Audit Manager
- 1 Compliance Audit Manager

- 1 Senior IT Audit Manager
- 1 IT Audit Manager
- 1 IT Audit Specialist
- 1 Professional Assistant

Internal Audit was fully staffed for fiscal year 2017 and has been since fiscal year 2014.

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:

- 8 Certified Internal Auditors
- 5 Certified Fraud Examiners
- 5 Certified Public Accountants
- 3 Certified Information Systems Auditors
- 1 Certified Information Security Manager
- 2 Certified Compliance and Ethics Professional
- 1 Certified Information Systems Security Professional
- 1 Certified in Risk and Information Systems Control

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 audit staff gained continuing professional education sufficient to increase their knowledge and maintain their certifications.

B. Fiscal Year 2017 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 2017 <u>Budget</u>	Fiscal Year 2018 <u>Budget</u>
Salaries	\$1,719,782	\$1,762,499
Operating Expenses	<u>159,464</u>	<u>159,464</u>
Total	<u>\$1,879,246</u>	<u>1,921,963</u>