Report on Internal Audit Activities

Regents Committee on Compliance and Audit

March 15, 2011
Quarterly Internal Audit Activity Update

- Internal Audit Services – July 1– December 31, 2010
  - 58 Audit Reports
  - 15 Advisory Reports
  - 38 Investigation Reports
- Audit Plan Completion: 22%
- Areas of Focus of Audit Services:
  - Fraud Management*
  - Cashiering
  - Conflict of Interest/Commitment*
- External Audit Activity

* Systemwide audit
MANAGEMENT CORRECTIVE ACTIONS (MCAS) UPDATE
Management Corrective Action Process

Management

Management begins taking corrective actions in accordance with MCA
Management communicates MCA status updates to Internal Audit
Management communicates closure of MCA to Internal Audit

Internal Audit

Audit report issued to client with management corrective actions (MCAs) with due dates
Internal Audit enters MCA information into tracking system
Internal Audit communicates status of MCAs to management and governance committees
Internal Audit validates closure of MCA
Internal Audit closes MCA in tracking system

3/1/2011
Management Corrective Actions (MCAs) Update

- Management Corrective Actions (MCA) Status – through 2/11/11
  - Beginning MCA Number – 1,591 (open at start of FY 2010-11)
  - MCAs added – 797
  - MCAs closed – 1,112
  - Current open inventory of MCAs – 1,276
  - Current high risk past due MCAs – 39
  - Current medium/low risk past due MCAs – 507

- Themes in Observations:
  - IT Governance & Security
  - Cash Controls
  - Safety

- Management is properly attending to audit findings and has provided reasonable rationale for changes to corrective actions and/or revised completion dates on corrective actions

3/1/2011
ANNUAL RISK ASSESSMENT AND AUDIT PLAN DEVELOPMENT
The diagram below illustrates the timing of activities performed as part of the annual audit risk assessment and audit plan development process.
Audit Risk Assessment Methodology

- **Data gathering and analysis**
  - Interviews with management and staff
  - Surveys
  - Campus risk assessments
  - Substantive financial analytical review
  - Data/trend analysis (complaints, inquiries, incidents, external reviews)
  - Global research (emerging issues in higher education, information technology, research, etc.)

- **Coordinate with Compliance risk assessment process**

- **Complete risk assessment model**
  - Score universe of processes, functions and units using predictive factors
There are five factors used to assign relative risk scores to the audit universe as part of the annual audit risk assessment process.

<table>
<thead>
<tr>
<th>Quality and Stability of Control Environment</th>
<th>Business Exposure</th>
<th>Public and Political Sensitivity</th>
<th>Compliance Requirements</th>
<th>Information Technology and Management Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Adequacy and stability of existing control structure</td>
<td>• Potential losses associated with activities as indicated by revenues and expenditures</td>
<td>• Likelihood of event occurring which would erode public confidence in the University</td>
<td>• All internal and external policy, procedure, regulatory, and statutory matters affecting the operations of the organization or any of its sub-units</td>
<td>• Accuracy, availability, and integrity of information provided either via manual or automated systems</td>
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<tr>
<td>• Expertise of management</td>
<td>• Dollar amount flowing through a system or committed to an activity or project</td>
<td>• Probability of:</td>
<td>• Information technology factors including:</td>
<td>• Information technology and management reporting</td>
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<tr>
<td>• Historical problems</td>
<td>• Dollar amount and relative liquidity of assets safeguarded</td>
<td>• Adverse publicity</td>
<td>• System's age</td>
<td>• Accuracy, availability, and integrity of information provided either via manual or automated systems</td>
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<tr>
<td>• Changes in management personnel or structure</td>
<td>• Dollar amount of cash receipts, receivables, inventory, and plant and property safeguarded</td>
<td>• Reduced support</td>
<td>• Processing stability, security, and complexity</td>
<td>• Information technology and management reporting</td>
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<td>• Interval since last audit review</td>
<td></td>
<td>• Tarnished reputation</td>
<td>• Complexity and clarity of internal/external requirements</td>
<td>• Campus wide impact due to a temporary or major loss of service of IT system, application or entity</td>
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<td>• Conditions found during recent reviews</td>
<td></td>
<td>• Erosion of the legitimacy of the University’s mission</td>
<td>• Risk associated with non-compliance:</td>
<td>• Accuracy, availability, and integrity of information provided either via manual or automated systems</td>
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<tr>
<td>• Adherence to budget</td>
<td></td>
<td>• Depletion of goodwill</td>
<td>• Monetary loss due to improper business practices</td>
<td>• Information technology factors including:</td>
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<tr>
<td>• Complexity of operations and technology</td>
<td></td>
<td>• Miscommunication of traditional values</td>
<td>• Levy of fines or litigation</td>
<td>• System's age</td>
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<tr>
<td>• Potential for fraudulent activity</td>
<td></td>
<td>• Amount of interest that Regents or Office of the President expresses in particular unit or function</td>
<td>• Loss of funding sources</td>
<td>• Processing stability, security, and complexity</td>
</tr>
<tr>
<td>• Overall effectiveness and efficiency of operations</td>
<td></td>
<td></td>
<td>• Disallowed costs from funding agencies</td>
<td>• Campus wide impact due to a temporary or major loss of service of IT system, application or entity</td>
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