Internal Audit and Advisory Services

Annual Report
For the Year Ended June 30, 2015
Including Audit Plan
For the Year Beginning January 1, 2015

For Presentation to the University of Nebraska Board of Regents Audit, Risk and Compliance Committee
August 2015
President Hank M. Bounds throws out the ceremonial first pitch at the April 21, 2015 Husker Baseball game vs. K St.

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President Bounds and
The University of Nebraska Board of Regents Audit, Risk and Compliance (Audit) Committee

On behalf of Internal Audit and Advisory Services, I am pleased to present the Annual Report for the Fiscal Year Ended June 30, 2015.

The mission of Internal Audit and Advisory Services is to provide an independent, objective, assurance and consulting activity designed to add value and improve the University’s operations. Internal Audit and Advisory Services assists the Board of Regents, the Audit Committee, and the President by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes. While this Annual Report describes the scope and results of our activities, metrics, accomplishments and other measures of our performance, selected highlights include:

- completion of three reports: Accounting Fees 2014, Disaster Recovery Follow-up and a memo on HIPAA compliance at UNCA
- review of 53 reports prepared by the campus internal audit functions and summarized them for the Audit Committee
- accomplishing the annual risk assessment interviews, coordinated the campus risk assessments and continued the standardization of the University-wide risk assessment
- arranging for the first Quality Assessment Review (QAR) for UNCA’s Internal Audit and Advisory Services in June/July of 2015, the results of which are expected to be available near the August 6, 2015 Audit Committee meeting.

The IIA Standards suggest I make several disclosures to you, which are included later in this report, however you should note that:

- Each individual audit was risk driven;
- There is transparency in all reports issued; and
- My audits are not yet being conducted in accordance with the IIA International Standards for the Professional Practice of Internal Audit.

This Annual Report is intended to demonstrate our accountability to you, indicating the internal audit function is operating as it was intended.

Sincerely,

Michael Justus
Director of Internal Audit and Advisory Services
Summary of the Prior Year

This past year, Internal Audit and Advisory Services continued to further define the internal audit function. We completed our fourth year with an Audit Plan, the current version of which was approved by you at the September 2014 Audit Committee meeting.

Internal Audit and Advisory Services currently consists of one person (about 0.9 FTE), the Director of Internal Audit and Advisory Services (Director). The Director has one non-internal audit job duty related to coordination of Legislative Fiscal Notes (See Internal Audit and Advisory Services staff resumes later in this Report), but that duty does not include decision making and does not impact independence.

As with all University departments, resources are limited and must be applied thoughtfully to ensure the maximum contribution and benefit possible toward achieving the University's vision and objectives.

The following are summaries of how Internal Audit and Advisory Services utilized audit resources during FY 2014-2015.

<table>
<thead>
<tr>
<th></th>
<th>Budgeted Hours</th>
<th>Actual Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Based Work</td>
<td>70</td>
<td>60</td>
</tr>
<tr>
<td>Follow-up Audits</td>
<td>40</td>
<td>30</td>
</tr>
<tr>
<td>Fraud/Investigative Work</td>
<td>50</td>
<td>67</td>
</tr>
<tr>
<td>Management Requests</td>
<td>16</td>
<td>35</td>
</tr>
<tr>
<td>Other Internal Audit*</td>
<td>874</td>
<td>977</td>
</tr>
<tr>
<td>Administrative</td>
<td>554</td>
<td>613</td>
</tr>
<tr>
<td>Non-internal Audit</td>
<td>476</td>
<td>480</td>
</tr>
</tbody>
</table>

* Coordination with other campus internal audit departments and preparation for audit committee meetings.
The following narrative summarizes the major projects:

**Disaster Recovery Follow-up** - we performed work related to the Computing Services Network Disaster Recovery Plans in coordination with UNL Internal Audit. The UNCA plan, while in place, continues to need additional work and depth in order to be useful.

**HIPAA Oversight** - based on a report issued by the UNL internal audit function, we made suggestions regarding the oversight of HIPAA responsibilities at UNCA.

**Accounting Fees** - we performed a review of all accounting fees charged to the University and did a search for fees paid to accounting firms which may not have been recorded in the appropriate general ledger account. Changes were suggested to the campuses to more accurately report these charges and to assure appropriate actions are processed through the Audit Committee.

Other Projects consisted of investigations of potential fraud or fiscal misconduct, development of the risk assessment process, research on various subjects and correspondence with campus internal audit directors and the University's various external auditors.

**Mandatory Disclosures (based on the IIA standards)**

1. The internal audit activity's purpose, authority and responsibility, as defined in the Charter (see page 13) continues to be adequate to enable the activity to accomplish its objectives. The Charter was updated during the fiscal year.

2. We do not believe there are any issues regarding organizational independence at UNCA.

3. The CAE met with the Audit Committee in Executive Session once during Fiscal Year 2015.

4. The Standards require the disclosure of any known weaknesses in the internal audit organization’s proficiency. Three years ago we identified a single known weakness, the lack of an IT auditor on staff. We have outsourced an audit to an external firm and coordinated with the UNL campus (who does have an IT auditor) on another audit to alleviate some of this weakness, but it still exists. In addition, it is difficult to accomplish both the tasks of coordinating the campus internal audit functions, and auditing the operations of the system, with a single individual.
Risk Assessment Process

Internal Audit and Advisory Services assisted management in conducting a risk assessment of the University in April, May and June of this year. The risk assessment process allows management to focus on key issues, enhances decision making, allows for a more effective use of University resources, and presents information to develop an internal audit plan.

The Audit Committee agreed to use COSO (Committee of Sponsoring Organizations of the Treadway Commission) as the framework for the discussion regarding risk assessment. The COSO standard has not been adopted as the internal control framework itself. We performed the assessment by interviewing selected individuals in administration and members of the Audit Committee.

We used COSO’s risk definition: “The possibility that an event will occur and adversely affect the achievement of objectives.” We also emphasized the various COSO categories of risk: compliance, financial reporting, strategic and operations. Several open-ended questions were asked of each interviewee who centered on objectives, key risks and initiatives, and compliance and controls. The questions not only related to the system-wide level, but also the particular area which the interviewee managed. We also reviewed the risks the interviewee had identified during the previous year’s interview.

The risks identified in the interviews were then placed on a “heat map” during the interview. The risk was charted on a map based on the likelihood of the risk occurring and the impact the risk would have on the University.
Internal Audit and Advisory Services then analyzed and divided the risk information into two different categories, Information Technology and Executive Management.

We also assisted management by preparing a system level risk assessment using the work we had prepared and the final risk assessments done by each of the campuses. Finally, this overall assessment was shared with the President who modified the results to be consistent with his assessment. The final Audit Plan is based on the President's risk assessment.
## Current Year Top 5 Risks

<table>
<thead>
<tr>
<th>Rank</th>
<th>Identified Risk</th>
<th>Risk Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>Risk of an IT Breach</strong></td>
<td>The risk that the University’s information technology system will be breached and there will be a loss of information.</td>
</tr>
<tr>
<td>2</td>
<td><strong>Tone at the Top/Governance Issues</strong></td>
<td>The risk includes not setting a proper tone at the top for the expectations of management or the Board and that the established governance structures are inadequate or not working appropriately.</td>
</tr>
<tr>
<td>3</td>
<td><strong>Increasing Compliance Requirements</strong></td>
<td>The risk that the University does not have adequate processes in place to identify new compliance issues, that those issues are not mitigated properly, not reported on or not complied with.</td>
</tr>
<tr>
<td>4</td>
<td><strong>Hiring Effective Personnel for UNL Leadership</strong></td>
<td>The risk includes an incorrect or ineffective hiring first and foremost at the Chancellor level, but includes a number of positions that are expected to turnover in the near future.</td>
</tr>
<tr>
<td>5</td>
<td><strong>Lack of Enrollment Growth</strong></td>
<td>The University has a goal to reach a significantly higher number of students. Failure to reach those goals will impact our ability to grow programs and make improvements. It may also impact our image if we are unable to meet goals we set.</td>
</tr>
</tbody>
</table>
**Summary of the Upcoming Year – Audit Plan**

We look forward to fiscal year 2015-16 and the impact we can make on the University. Our audit plan, developed through the risk assessment process, is detailed below.

<table>
<thead>
<tr>
<th><strong>Risk Based Work</strong></th>
<th><strong>Additional Details</strong></th>
<th><strong>Planned Hours</strong></th>
<th><strong>Timeline</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Administration Funding Review</td>
<td>Review of the funds included within the UNCA structure</td>
<td>82</td>
<td>Q3 2015</td>
</tr>
<tr>
<td>Annual Risk Assessment</td>
<td>Interview staff and create the U-wide risk assessment using information provided by each campus</td>
<td>130</td>
<td>Q2 2016</td>
</tr>
<tr>
<td>Campus Monitoring</td>
<td>Communicating with campus Internal Audit Directors regarding various issues and reviewing Audit Reports for the Audit Committee</td>
<td>210</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Audit Committee Meeting Prep, Participation and Follow-up</td>
<td>Create meeting agenda, collect and provide information, be knowledgeable about the issues and follow-up (including minutes) as necessary</td>
<td>340</td>
<td>Ongoing</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th><strong>Follow-up from Prior Year</strong></th>
<th><strong>Additional Details</strong></th>
<th><strong>Planned Hours</strong></th>
<th><strong>Timeline</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Continuity Management</td>
<td>Review findings from 2014 report and evaluate management’s progress.</td>
<td>32</td>
<td>Q4 2015</td>
</tr>
<tr>
<td>Disaster Recovery</td>
<td>Review findings from 2014 report and 2015 follow-up and evaluate the CSN progress.</td>
<td>24</td>
<td>Q1 or Q2 2016</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Management/Other Requests</strong></th>
<th><strong>Additional Details</strong></th>
<th><strong>Planned Hours</strong></th>
<th><strong>Timeline</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>As requested</td>
<td>Provide input at management’s discretion on current issues or other concerns.</td>
<td>16</td>
<td>As requested</td>
</tr>
<tr>
<td>Policy and Procedures Manual</td>
<td>Create/update policy and procedures manual to comply with the <em>International Standard for the Professional Practice of International Auditing</em> and respond to the QAR completed in June 2015.</td>
<td>100</td>
<td>Ongoing</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th><strong>APA Requests/Fraud Issues</strong></th>
<th><strong>Additional Details</strong></th>
<th><strong>Planned Hours</strong></th>
<th><strong>Timeline</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>As requested</td>
<td>Evaluate allegations of waste, fraud or misuse of University resources.</td>
<td>50</td>
<td>As requested</td>
</tr>
</tbody>
</table>
Of the remaining 1090 planned hours, 564 hours are administrative (vacation, sick, holiday, miscellaneous and training), 180 hours are related to my coordination of Legislative Fiscal Notes, 100 hours are for work with the IT Security Council and 40 for work on Conflict of Interest in conjunction with the General Counsel’s Office.
EDUCATION:

McPherson College  McPherson, Kansas
Bachelor of Arts, May, 1982
Major: Business Administration
Emphasis: Accounting
GPA 3.49

LICENSURE:
Certified Public Accountant, November 1982. (Passed CPA exam in first sitting)

BUSINESS EXPERIENCE:

UNIVERSITY OF NEBRASKA-ADMINISTRATION, Lincoln, Nebraska
Assistant Vice President and Director of Internal Audit and Advisory Services, from September 2005

- Responsible for establishing the centralized internal audit function for the University

UNIVERSITY OF NEBRASKA-ADMINISTRATION, Lincoln, Nebraska
Assistant Vice President and Director of Finance, September 2000 to August 2005

- Responsible for coordinating with the four campuses of the University of Nebraska system in the areas of purchasing, risk management and functional areas of the accounting and HR system
- Participate as a member of the Council of Business Officers and the Senior Management Team in decision making
- Worked primarily with the Systems accounting software, SAP
- Implemented a long-term plan for continued implementation of SAP (including creation of a governance structure and obtaining a budget and negotiating new contracts)

STATE OF NEBRASKA, Lincoln, Nebraska
Director of State Accounting, December 1999 to August 2000

- Responsible for all aspects of the State’s Accounting Division including budgeting and rate setting
- Establish a strategic plan
- Develop accounting and payroll computer systems
- Create accounting policy for the State
- Communicate with the media and government officials

STATE OF NEBRASKA, Lincoln, Nebraska
Nebraska Information System Project Manager, June 1999 to December 1999
(While this was a short-term project, it was critical to the long-term State plan.)
• Selected by the DAS Director to determine if the State should replace its homegrown accounting system with a vendor owned ERP system
• Determined during the Initial Critical Design Review phase that moving to an ERP system was the correct path for the State
• Compared the State's requirements to various products
• Interviewed many State employees
• Convinced the Legislature and Governor of the need for the software and to obtain the funding of approximately $32 million.

STATE OF NEBRASKA, Lincoln, Nebraska
Deputy State Auditor, State of Nebraska, January 1991 to June 1999

• Appointed position which served at the pleasure of the elected State Auditor
• Responsible for all office operations including hiring and managing staff (both professional and clerical)
• Develop and administer the budget
• Approve audit reports
• Direct the review of filings by political subdivisions
• Scheduling of staff
• Coordinate with other State departments and elected officials

KPMG PEAT MARWICK, Lincoln, Nebraska
Assistant Auditor to Manager, April 1984 to January 1991

• Responsible for multiple auditing engagements and staff and timely completion of work
• Coordinate with clients (everything from answering questions to billings and collections) and other managers
• Keep the partners apprised of developments
• Acquire new business

PROFESSIONAL AFFILIATIONS AND OUTSIDE ACTIVITY:

• Member of the American Institute of Certified Public Accountants
• Member of the Nebraska Society of Certified Public Accounts (NSCPA)
• Serve on the NSCPA State and Local Governments Committee
• Member of the Association of College and University Auditors
• Member of the Institute of Internal Auditors
• Serve on the Faith Lutheran Church Council as Strategic Planner
• Chairperson for the City of Lincoln’s Audit Advisory Board
Internal Audit Charter

Mission/Scope of Work

The mission of the internal audit activity is to provide independent, objective assurance and consulting services designed to add value and improve the University's operations. It helps the University accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The scope of work of the internal audit activity is to determine whether the University's network of risk management, control and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial and operating information is accurate, reliable, and timely.
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in the University's control process.
- Significant legislative or regulatory issues impacting the University are recognized and addressed appropriately.

Opportunities for improving management control, profitability, and the University's image may be identified during audits. They will be communicated to the appropriate level of management.

Accountability

The chief audit executive, in the discharge of his/her duties, shall be accountable to management, the President and the audit committee to:

- Provide annually an assessment on the adequacy and effectiveness of the University's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.
- Report significant issues related to the processes for controlling the activities of the University and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
- Periodically provide information on the status and results of the annual audit plan and the sufficiency of activity resources.
- Coordinate with other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit) to conduct
risk assessments and develop or recommend monitoring activities to evaluate the adequacy and effectiveness of internal controls.

- Summarize reports and issues identified to him or her by each campus.

Each campus director, in the discharge of his/her duties, shall be accountable to their campus Chancellor and provide information, on request for the chief audit executive, to be presented at the Audit Committee including:

- Provide annually an assessment on the adequacy and effectiveness of the campus processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.
- Report significant issues related to the processes for controlling the activities of the campus and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
- Periodically provide information on the status and results of the annual audit plan and the sufficiency of activity resources.
- Coordinate with other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit) to conduct risk assessments and develop or recommend monitoring activities to evaluate the adequacy and effectiveness of internal controls.
- Supply all work products issued to the chief audit executive, including an annual report.

**Independence**

To provide for the independence of the internal auditing activity, administration’s personnel report to the chief audit executive, who reports functionally to the audit committee and administratively to the President in a manner outlined in the above section on Accountability. The chief audit executive will include as part of the annual report to the audit committee a section on internal audit personnel.

The campus directors will report to their campus Chancellor and provide information to the chief audit executive as outlined in the above section on Accountability.

**Responsibility**

The chief audit executive and staff of the central internal audit activity have responsibility to:

- Develop a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the audit committee for review and approval as well as periodic updates.
- Implement the annual audit plan, as approved, including as appropriate, any special tasks or projects requested by management and the audit committee.
- Maintain a professional administration audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
Each campus director and staff of the internal audit activity has responsibility to:

- Develop a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the Chancellor for review and approval as well as periodic updates. The Plan shall be presented to the audit committee annually.
- Implement the annual audit plan, as approved, including as appropriate, any special tasks or projects requested by management and the audit committee.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- Issue periodic reports to the chief audit executive and management summarizing results of audit activities.
- Keep the chief audit executive informed of emerging trends and significant issues, as it relates to their campus.
- Provide a list of significant measurement goals and results to the chief audit executive.
- Assist in the investigation of significant suspected fraudulent activities within their campus and notify management and the chief audit executive of the results.
- Consider the scope of work of the University-selected external auditors for the purpose of providing optimal audit coverage to the University at a reasonable overall cost.

Authority

The chief audit executive and staff of the internal audit activity are authorized to:

- Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- Issue periodic reports to the audit committee and management summarizing results of audit activities.
- Keep the audit committee informed of emerging trends and successful practices in internal auditing.
- Provide a list of significant measurement goals and results to the audit committee.
- Assist in the investigation of significant suspected fraudulent activities within the University, which is not accomplished by the campus internal audit functions, and notify management and the audit committee of the results.
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the University at a reasonable overall cost.
- Summarize information from the campuses on each item of responsibility below and provide it to the audit committee.
• Have unrestricted access to all functions, records, property and personnel (University Technology Development Corporation and its entities and NSRI Classified Task Orders and related activity are not in the scope/audit universe).
• Have full and free access to the audit committee (for campus directors and staff this should be accomplished through the chief audit executive).
• Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
• Obtain the necessary assistance of personnel in units of the University where they perform audits, as well as other specialized services from within or outside the University.

The chief audit executive and staff of the internal audit activity are not authorized to:

• Perform any operational duties for the University or its affiliates.
• Initiate or approve accounting transactions external to the internal auditing activity.
• Direct the activities of any University employee not employed by the internal auditing activity, except to the extent such employees have been appropriately assigned to auditing teams or otherwise assist the internal auditors.

**Standards of Audit Practice**

The internal audit activity will meet or exceed the *International Standards for the Professional Practice of Internal Auditing*, mandatory guidance including the Definition of Internal Auditing and *"Code of Ethics" of The Institute of Internal Auditors*.

**Management’s Responsibilities**

Management is responsible for ensuring that systems of internal control are in place, good business practices are implemented and followed in all areas, compliance is maintained, fraud risks are identified and mitigated, and effective governance is established. This provides assurance that financial information and other management information are reliable, that University resources are used efficiently and effectively and that the potential for fraud is minimized.

Management provides a written response to report recommendations issued within time frames requested by internal audit. Management is responsible to address issues identified by implementing recommendations or agreed-upon corrective action plans.

**Access to the Audit Committee**

Each campus director and staff of the internal audit activity has the ability to:
Access the Audit Committee by requesting they be added to the next Audit Committee agenda.

**Working Papers and Reports**

Each campus director and staff of the internal audit activity has the responsibility for maintaining records as follows:

All internal audit reports, once accepted by the Audit Committee, shall be maintained in accordance with University Records Retention policies. Working papers and other audit files maintained by the CAE and campus Directors are privileged and confidential and may be withheld in response to a public records request. The information contained in working papers and audit files prepared pursuant to a specific audit is not subject to disclosure except to a county attorney, the Nebraska Attorney General or University General Counsel in connection with an investigation made or action taken in the course of the attorney's official duties, the Nebraska Auditor of Public Accounts or to the Legislative Performance Audit Committee in the course of the committee's official duties. University units being audited and the federal agencies that have made grants to them shall also have access to the relevant working papers and audit files. For purposes of this subsection, working papers means those documents containing evidence to support the auditor's findings, opinions, conclusions, and judgments and includes the collection of evidence prepared or obtained by the auditor during the audit. The University may make the working papers available for purposes of a quality assurance review as required by internal auditing standards.

Approved by Audit Committee on October 27, 2011 and last amended January 29, 2015