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July 20, 2015

Chancellor Kristensen and  
The University of Nebraska Board of Regents Audit, Risk and Compliance Committee:

I am pleased to present the Annual Report of the Office of Internal Audit for the year ended June 30, 2015. The purpose of this report is to demonstrate my accountability to the Chancellor and the Audit, Risk and Compliance Committee that the internal audit function is operating as intended. This report also details the use of audit resources, provides performance metrics and confirms my adherence to professional standards and the University of Nebraska Internal Audit Charter.

Internal Audit functions largely to serve the organization as a whole by providing objective and relevant assurance services, and by contributing to the effectiveness and efficiency of governance, risk management and control processes. Ultimately, the goal of Internal Audit is to protect the University from unmitigated risk and to help it thrive.

I appreciate your continued support in my effort to add value and deliver quality, professional services to meet the University’s needs. Given Internal Audit’s unique perspective and broad view of the institution, I feel that I am well-positioned to advise on operating issues I discover as well as serve as a strategic partner.

Upon your approval of this report, Internal Audit will proceed with the 2015-2016 Audit Plan, which has been included on page 12.

Sincerely,

Kayla James, CPA, CIA  
Internal Auditor
The Institute of Internal Auditors, Standard 1100 - *Independence and Objectivity*, states “The internal audit activity must be independent, and internal auditors must be objective in performing their work”.

The Internal Auditor has reporting and administrative responsibility directly to the Chancellor, and functional responsibility to the Board of Regents Audit, Risk and Compliance Committee through the Director of Internal Audit and Advisory Services.

Internal Auditor credentials are included on page 13.
Summary of the Prior Year

The year began with risk based audit activities progressing as outlined in the Audit Plan, which was approved by the Audit, Risk and Compliance Committee in September 2014. The Plan included 2 new risk based engagements, the continuation of one risk-based engagement of the prior year, and 8 follow-up audits.

Four unplanned audit engagements were requested during the year. These engagements included 2 management requested reviews which required immediate fieldwork, and 2 reviews that were identified by Internal Audit. Eleven audit reports were issued during the year and are summarized as follows:

Audit Reports Issued during 2014-2015:

Tuition Waivers and Remissions – Issued October 27, 2014
This risk-based audit was performed at the request of the Vice Chancellor for Business and Finance in response to her concern that the tuition waiver and remissions budget was consistently exceeded and that awards may be excessive. Testing was performed to determine whether these awards were controlled, the controls were functioning, and to determine whether eligibility requirements were met. Internal control weaknesses were identified and recommendations were given for improvements.

Hoback Equipment Inventory – Issued January 22, 2015
Upon the announcement of a faculty member’s resignation, management requested that prior to the faculty member’s departure, an inventory be conducted of property and equipment purchased with grant and other University funds to ensure that the property remained in the custody of the department and was properly accounted for. Management felt that reinforcement of UNK policies and procedures over property and equipment, as well as the presence of Internal Audit performing an inventory and requiring accountability over the equipment, would discourage the faculty member from inappropriately removing UNK property from campus. Ninety significant pieces of property and equipment were selected for tracing to the individual item. Forty six items with a value of $34,661 could not be located. Stronger internal controls over property and equipment were recommended to safeguard university assets.

Youth Activity Safety Policy – Issued January 22, 2015
The UNK Youth Activity Safety Policy was reviewed as a part of the audit procedures of the Music and Performing Arts Theft engagement during 2013-2014. During that review it was evident that the existing policy should be updated to include elements that were not present in the original policy. It was recommended that the omitted elements be included in the policy.

McCreery Concert Ticket Reconciliation – Issued February 23, 2015
In the interest of internal control and accountability, Internal Audit initiated a reconciliation of ticket sales following a significant concert organized by a student organization and held on campus. The objectives of the review were to determine whether there were internal controls in place over the collection of concert ticket revenues and to determine whether the revenues were collected and deposited appropriately in accordance with Business and Finance Policies and
Procedures. Revenue from ticket sales ultimately could not be reconciled due to a lack of source documents. Internal control weaknesses were identified and recommendations were given for improvements.

**Review of Hotels.com Expenses – Issued June 23, 2015**

This engagement was performed upon management request and was focused on management oversight and internal control procedures for this type of transaction. The objective of the review was to evaluate internal controls over this direct billing process and to determine their effectiveness. Controls tested included a verification that lodging expenses paid directly by the University were authorized and had a legitimate business purpose; examining lodging expenses for reasonableness; and to verify that the traveler did not also claim reimbursement for lodging expenses paid directly by the University. Preventive and detective internal controls were recommended to safeguard university assets.

**Follow-Up Reports Issued during 2014-2015:**

- Review of Mandatory Student Fees – Issued December 2, 2014
- Athletic Camps Review of Cash Receipts – Issued December 3, 2014
- Athletic Camps Theft of Cash – Issued December 3, 2014
- Blue/Gold Golf Scramble – Issued December 3, 2014
- StarRez Software Application – Issued March 17, 2015
Prior Year Audit Plan (Budget vs. Actual)

The following summarizes the activities and use of audit resources available during 2014-2015:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Budgeted Hours</th>
<th>Actual Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Based Work</td>
<td>620</td>
<td>461</td>
</tr>
<tr>
<td>Follow-Up Audits</td>
<td>190</td>
<td>76</td>
</tr>
<tr>
<td>Fraud / Investigative</td>
<td>200</td>
<td>47</td>
</tr>
<tr>
<td>Management Requests</td>
<td>220</td>
<td>311</td>
</tr>
<tr>
<td>Other Internal Audit</td>
<td>100</td>
<td>233</td>
</tr>
<tr>
<td>Non-Auditing Activities</td>
<td>190</td>
<td>353</td>
</tr>
<tr>
<td>Leave, Professional Development and Administrative</td>
<td>560</td>
<td>599</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2080</strong></td>
<td><strong>2080</strong></td>
</tr>
</tbody>
</table>

Other Internal Audit – Consulting, APA Requests, continuous auditing tasks, updating website and procedure manual, QAR time, etc.

Non-Auditing Activities – Outside organization activity, campus Audit Director meetings, campus committee meetings, campus outreach, etc.

Administrative – Email and general office administration, timesheet tracking, evaluation, etc.
International Standards for the Professional Practice of Internal Auditing

The International Professional Practices Framework (IPPF) is the conceptual framework that organizes authoritative guidance promulgated by The Institute of Internal Auditors (IIA). A trustworthy, global, guidance-setting body, the IIA provides internal audit professionals worldwide with authoritative guidance organized in the IPPF as mandatory guidance and strongly recommended guidance.

One component of the IPPF mandatory guidance is the IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)*. Conformance with the Standards is essential in meeting the responsibilities of internal auditors and the internal audit activity. The *Standards* are principles-focused, mandatory requirements.

Considering the requirements of the *Standards*, I make the following **mandatory disclosures:**

1000-Purpose, Authority and Responsibility
I have reviewed the internal audit charter, and have determined that the internal audit activity's purpose, authority and responsibility, as previously defined and approved by the Audit, Risk and Compliance Committee on October 27, 2011, remains adequate to enable the activity to accomplish its objectives. Finding no necessary modifications, I have authorized the Director of Internal Audit and Advisory Services to present the charter without modification to the Audit, Risk and Compliance Committee for consideration on my behalf.

1110-Organizational Independence
I confirm that I achieve organizational independence within the established structure by reporting functionally to the Board of Regents Audit, Risk and Compliance Committee and administratively to the Chancellor.

1111-Direct Interaction with the Board
I communicate and interact directly with the Audit, Risk and Compliance Committee of the Board of Regents annually with the presentation of the campus Internal Audit Plan. The committee has chosen for other communications from the Internal Auditor to be coordinated by the Director of Internal Audit and Advisory Services. I believe I have free access to the committee if I consider it necessary.

1120-Individual Objectivity
I maintain an impartial, unbiased attitude in performing audit work, and I am not aware of any potential conflicts of interest that would impair my ability to perform duties and responsibilities objectively.

1130-Impairment to Independence or Objectivity
The independence and/or objectivity of the Internal Auditor have not been impaired either in fact or appearance. If such impairment were to exist, details of the impairment would be disclosed to the appropriate parties.
1210-Proficiency
I possess the knowledge skills, and other competencies needed to perform individual responsibilities. I hold a current Certified Public Accountant (CPA) certificate in good standing with the Nebraska Board of Public Accountancy, and hold an Active Permit to Practice Accounting in the State of Nebraska by the Board of Public Accountancy. I have also earned the designation of Certified Internal Auditor (CIA) from the Institute of Internal Auditors.

1220-Due Professional Care
I apply the care and skill expected of a reasonably prudent and competent individual.

1230-Continuing Professional Development
I continue to enhance the knowledge, skills, and other competencies through continuing professional development. This is accomplished by attending appropriate training offered by professional organizations such as the Association of College and University Auditors (ACUA), the Institute of Internal Auditors (IIA) and the Nebraska Society of CPA's. These hours of continuing education not only enhance my knowledge and skills, but also satisfy the continuing professional education requirements of my CPA license and CIA certification.

1300-Quality Assurance and Improvement Program
The University of Nebraska Kearney is not yet in compliance with this standard which states that Internal Audit must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. This review is currently in progress.

1321-Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”
The University of Nebraska Kearney will not state that the internal audit activity conforms with the International Standards for the Professional Practice of Internal Auditing, until we have completed a Quality Assessment Review. This review is currently in progress.

1322-Disclosure of Nonconformance
There have been no known instances of nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the Standards which impact the overall scope or operation of the internal audit activity.

2020 Communication and Approval
I have communicated the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the Audit, Risk and Compliance Committee for review and approval. This communication included the impact of resource limitations.

2030 Resource Management
I have ensured that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan. However, additional staffing would enable the expansion of audit activities. Internal Audit resources do not include a campus Information Technology auditor. If needed, these services could be obtained from an external service provider.

2050-Coordination
I have shared information and coordinated activities with other campus audit units to ensure proper coverage and minimize duplication of efforts. If external providers of assurance and consulting services were utilized, I would share information and coordinate activities in the same manner.
2060-Reporting to Senior Management and the Board
I report to senior management quarterly on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Quarterly reporting of same is communicated to the Audit, Risk and Compliance Committee through the Director of Internal Audit and Advisory Services.

2430-Use of “Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing”
Internal audit will not report that engagements are “conducted in conformance with the International Standards for the Professional Practice of Internal Auditing”, until the completion of the Quality Assessment Review, which is currently in progress.
Risk Assessment Process

The University of Nebraska at Kearney has concluded its annual campus wide risk assessment. This high level risk assessment was coordinated by Internal Audit but is the responsibility of Management. The risk assessment is updated annually and serves two purposes. It is used as a basis for creating a risk-based internal audit plan and also to assist management in identifying and managing existing and emerging risks facing the University.

The four campus directors and the Director of Internal Audit and Advisory Services have agreed to use the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Enterprise Risk Management – Integrated Framework as the framework for discussions regarding risk assessment.

COSO’s definition of risk is: “The possibility that an event will occur and adversely affect the achievement of objectives.” COSO was used as a guide in the analysis and evaluation of risks related to operations, financial reporting and compliance.

The risk assessment process begins with Internal Audit conducting interviews with the Directors of selected units and administration. During the interview an initial determination is made of each unit’s operating objectives, followed by a systematic identification of those things that could prevent each objective from being achieved and/or the identification of potential opportunities.

Once the unit’s risks are identified, their likelihood and impact are assessed.

The impact of a risk is defined by the outcome and consequences should an event occur. The impact of risk events were quantified to assist in determining the level of financial significance for each risk. Impact thresholds were calculated using the most recent Final Materiality Workpaper of the Auditor of Public Accounts.

All campus risks identified during the interviews were placed on one heat map using a scale of high, medium, or low as to their impact to the organization and their likelihood of occurrence. This comprehensive heat map was analyzed by the Chancellor, the Senior Advisor to the Chancellor and the Internal Auditor to identify the institution’s top risks. The results of the institutional risk assessment are included in this report on page 11.

UNK impact thresholds for 2014-2015:
- **Low** - $300,000 and below (Actual $229,825)
- **Medium** – any amount between Low and High
- **High** - $1,000,000 and above (Actual $919,299)

The scale for determining the likelihood that an event will occur are defined as:
- **High** – happens frequently, occurs often, and is common or predictable.
- **Medium** – happens occasionally, sometimes occurs, or is unpredictable.
- **Low** – seldom happens, infrequent, rare, or has not happened before.
UNK Identified Risks and Heat Map for 2015-2016

<table>
<thead>
<tr>
<th>Institutional Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regulatory Compliance</td>
</tr>
<tr>
<td>2 Athletics</td>
</tr>
<tr>
<td>3 Enrollment</td>
</tr>
<tr>
<td>4 Cybersecurity</td>
</tr>
<tr>
<td>5 Development of University Village</td>
</tr>
<tr>
<td>6 International Education</td>
</tr>
</tbody>
</table>

Likelihood
- Low - Unlikely; Will seldom happen
- Medium - Likely; Will happen occasionally
- High - Very likely; Will happen often

Impact
- Low - $300,000 and below
- Medium - between Low and High
- High - $900,000 and above
## Current Year Risk Assessment Results

**University of Nebraska at Kearney**  
*Prioritized Risk Exposures 2015-2016*

<table>
<thead>
<tr>
<th>Risk</th>
<th>Risk Description</th>
<th>Likelihood</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory Compliance</td>
<td>The substantial amount of regulatory requirements coupled with heightened scrutiny over compliance has significantly increased the University's risk in this area. The financial impact to the University includes increasing costs for ensuring compliance as well as fines and penalties for instances of non-compliance.</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Athletics</td>
<td>Athletics is a highly fluctuating cost area with high visibility. Current leadership is in the second year of mobilizing a new vision for the Athletic department which has included a number of coaching and staffing changes and the implementation of needed upgrades to facilities. The risk is balancing athletic competitiveness with available institutional resources.</td>
<td>Med-High</td>
<td>Med</td>
</tr>
<tr>
<td>Enrollment</td>
<td>Achieving an enrollment target that generates sufficient tuition and fee revenue to fund institutional services and needs without compromising campus metrics or academic integrity.</td>
<td>Med-High</td>
<td>Med</td>
</tr>
<tr>
<td>Cybersecurity</td>
<td>Rapid changes in technology continue to introduce new security threats to our core IT operations. Preventative security measures are being implemented as cost savings and available funds allow, but it is difficult to keep pace with the changes to a constantly changing threat landscape.</td>
<td>Med</td>
<td>High</td>
</tr>
<tr>
<td>Development of University Village</td>
<td>This type of project is a new venture for UNK that will influence future auxiliary operations. During 2015-2016 this mixed use community will be establishing infrastructure and utilities and moving into the development stage. The objective of development is to attract and facilitate private sector companies to locate on the property. The risks are that we may select the wrong developer and/or be undercapitalized.</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>International Education</td>
<td>International Education is currently operating under new leadership, providing an ideal time to review operations. Risks of this program include ensuring the safety and welfare of not only international students that are on our campus, but also students that we are sending abroad for study. Another risk is the sustainability of the practice of tuition discounting to more international students in order to increase our enrollment.</td>
<td>Low</td>
<td>Med</td>
</tr>
</tbody>
</table>

**Likelihood**  
Low - Unlikely; Will seldom happen  
Medium - Likely; Will happen occasionally  
High - Very likely, Will happen often  

**Impact**  
Low - $300,000 and below  
Medium - between Low and High  
High - $900,000 and above
# Current Year Audit Plan

## University of Nebraska at Kearney

### FY 2015-2016 Audit Plan

<table>
<thead>
<tr>
<th>Risk Assessment</th>
<th>Budgeted Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Assessment, Audit Plan and Annual Report</td>
<td>120</td>
</tr>
</tbody>
</table>

### Risk Based Engagements

<table>
<thead>
<tr>
<th>Description</th>
<th>Budgeted Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review of Internal Controls Over Campus Construction Payments (In Progress-Carried Forward from 2014-2015)</td>
<td>220</td>
</tr>
<tr>
<td>Review of International Education Operations</td>
<td>200</td>
</tr>
</tbody>
</table>

### Follow-Up Prior Year Audits

<table>
<thead>
<tr>
<th>Description</th>
<th>Budgeted Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review of Mandatory Student Fees</td>
<td></td>
</tr>
<tr>
<td>Business Continuity Management Plan</td>
<td></td>
</tr>
<tr>
<td>Athletics Equipment Room</td>
<td></td>
</tr>
<tr>
<td>Travel Compare Airfare Expenses to SAP TRIP</td>
<td></td>
</tr>
<tr>
<td>Marketing and Creative Services Equipment Inventory</td>
<td></td>
</tr>
<tr>
<td>Tuition Waivers and Remissions</td>
<td>260</td>
</tr>
<tr>
<td>Music and Performing Arts Theft</td>
<td></td>
</tr>
<tr>
<td>Hoback Equipment Inventory</td>
<td></td>
</tr>
<tr>
<td>Youth Activity Safety Policy</td>
<td></td>
</tr>
<tr>
<td>McCreery Concert Ticket Reconciliation</td>
<td></td>
</tr>
</tbody>
</table>

### Fraud/Investigative

<table>
<thead>
<tr>
<th>Description</th>
<th>Budgeted Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unscheduled Investigative Hours</td>
<td>100</td>
</tr>
</tbody>
</table>

### Management Requests / Other

<table>
<thead>
<tr>
<th>Description</th>
<th>Budgeted Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unscheduled Requests and Special Projects</td>
<td>308</td>
</tr>
<tr>
<td>Quality Assessment Review 2015-2016</td>
<td>40</td>
</tr>
<tr>
<td>Campus Committee Meetings and Internal Audit and Advisory Service Meetings</td>
<td>122</td>
</tr>
<tr>
<td>NU IT Leadership Program</td>
<td>150</td>
</tr>
</tbody>
</table>

**Total Budgeted Hours Available 2015-2016**

1520
EDUCATION AND LICENSURE:

University of Nebraska at Kearney
  ➢ Bachelor of Science Degree in Business Administration
    Double Emphases – Accounting and Business Management

Certified Public Accountant
  ➢ State of Nebraska – License #5484 Issued October 1993

Active Permit to Practice as a Certified Public Accountant
  ➢ State of Nebraska Board of Public Accountancy – Permit #36723
    Issued June 2013

Certified Internal Auditor
  ➢ Institute of Internal Auditors – Certificate #114244 Issued January 2013

PROFESSIONAL PROFILE:

Internal Auditor - University of Nebraska at Kearney
July 2010 to Present:

  ➢ Coordinate annual campus risk assessment for the purpose of developing a risk
    based audit plan and to assist management in identification and mitigation of
    emerging risks.
  ➢ Develop and implement annual Audit Plan which addresses the audit priorities of
    the institution while also serving as a work plan for Internal Audit activities.
  ➢ Plan and perform risk based audits, follow-up audits, investigative audits,
    unscheduled management requests and special projects as needed per the Audit
    Plan.
  ➢ Assist management in measuring and evaluating the effectiveness and efficiency
    of fiscal operations and internal controls, primarily through the performance of
    internal audits and operations analysis.
  ➢ Assess various activities to identify potential operational, financial or compliance
    risks or potential fraud which may warrant audit attention.
➢ Prepare detailed audit work papers by researching, compiling and analyzing data to be presented in final audit reports. Ensure work papers support the audit findings and that audit objectives were met.

➢ Effectively communicate the results of audit activities to the auditee, senior administration, UN Director of Internal Audit and Advisory Services and the Audit Committee of the Board of Regents. Monitor the implementation status and appraise the adequacy of follow-up actions taken on audit findings and recommendations.

➢ Respond to formal audit requests originating from the Fraud Waste and Abuse hotline of the State of Nebraska Auditor of Public Accounts.

➢ Exercise discretion and professional judgment with potentially sensitive and confidential issues while maintaining independence and objectivity.

➢ Consult and advise faculty, administration and staff on operational and administrative issues that may arise and assist in the development of university policies and procedures.

**Accountant/Grant Manager – University of Nebraska at Kearney – Finance Office**

*June 1995 to June 2010:*

➢ Preparation of Annual Financial Statements and related workpapers

➢ Management of external grants, including budgeting, billing, financial reporting and compliance monitoring

➢ Perform monthly audits of University Procurement Card transactions for compliance with State of Nebraska Accounting policies and procedures

➢ Compilation of University Athletic Department Revenues and Expenses for reporting to the NCAA, U.S. Department of Education and Athletic Conference

➢ Calculation and negotiation of Indirect Cost Rate with Federal Cognizant Agency

➢ Preparation of Unrelated Business Income Tax and related work papers

➢ Special Project Manager for external surveys and reporting

➢ Preparation of quarterly grant reports to the University of Nebraska Board of Regents

➢ Development and maintenance of Grant Management policies and procedures webpage

➢ Establish and maintain relationships with various departments as a source for financial queries

➢ UNK representative for University wide Project Systems team on the Administrative Systems Project

➢ Perform Grants Management training sessions to Principal Investigators

➢ Navigation Trainer of new employees for financial system software
Auditor-In Charge – State of Nebraska Auditor of Public Accounts – Lincoln, Nebraska
October 1991 to June 1995:

➤ Planned and performed financial and compliance audits of state and county governments, federal programs and grants
➤ Obtained and documented an understanding of business processes, State of Nebraska Statutes and Federal regulations to ensure compliance
➤ Performed risk assessments to determine the level of control testing required
➤ Prepared work papers that supported audit findings and audit objectives
➤ Prepared financial statements and audit reports subsequent to audit
➤ Acted as Auditor-In Charge of county court audits, federal audits and year-end cash counts, including the supervision of other auditors assigned to audit
➤ Assisted in preparation of State of Nebraska Comprehensive Annual Financial Statement (CAFR) and Federal Single Audit
➤ Assisted in Special Audits & Evaluation Unit Investigations
➤ Conducted Continuing Professional Education training sessions with APA staff

PROFESSIONAL AFFILIATIONS AND COMMUNITY INVOLVEMENT:

Member of Institute of Internal Auditors (IIA) Aksarben Chapter
Member of Association of College and University Auditors (ACUA)
Board Member KHS Takedown Club
Board Member Haven’s Chapel Ball Association