Annual Audit Report

Fiscal Year 2014-2015

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Executive Summary

Professional and Statutory Requirements

This document provides the *Fiscal Year 2015-2016 Audit Plan* (Audit Plan) as required by *International Standards for the Professional Practice of Internal Auditing (Standards)*. The *Standards* require an annual audit plan is prepared using risk assessment techniques to identity audit projects to be conducted during the year. The Audit Plan is required to be evaluated and updated annually for approval by the University of Nebraska Board of Regents Audit, Risk and Compliance Committee. Internal Audit is independent of management and provides objective assurance and consulting services designed to add value and improve operations.

Audit Plan

The Audit Plan is designed to provide coverage of key risks, given the existing staff and approved budget. The budgeted hours for investigations, special requests and consultations are estimates and may change as activity dictates throughout the year. This allows the plan to be flexible to address areas of greatest risk for UNL.

Audit Activity

Audit projects, outlined in the annual audit plan, include financial, operational and compliance elements. Follow up reports assess the progress of the recommendations and actions implemented. Investigative projects and management requests, along with other outreach activities, are also included in the annual audit plan. In addition to specific departmental reviews in the audit plan, more audit projects were focused on activities on the campus as a whole. More impactful recommendations with effective change occurred because of the campus wide approach.

Risk Assessment & Audit Planning Approach

The risk assessment process used by the Office of Internal Audit allows the department to develop an audit plan that focuses on the areas of highest risk to UNL. The Director is responsible for performing a campus-wide risk assessment that is updated annually. The Committee of Sponsoring Organizations (COSO) Internal Control-Integrated Framework has been used as a guide in the analysis and evaluation of risks related to operations, reporting, and compliance in the higher education environment. Both internal and external factors, which have an impact on the achievement of the strategic objectives for UNL, were included in the risk assessment. Interviews with upper administration include the Chancellor, Vice-Chancellors,

Business Officers, Compliance Directors, Chief Information Security Officer and the Chief Information Officer. Additionally, data analytics were used to identify anomalies in overall financial activities as represented in SAP. This information was combined into an overall audit plan designed to address critical risks to achieving UNL objectives while taking into consideration the audit resources available. The heat map identifying the critical risks and the resulting proposed Audit Plan are in the Appendix.

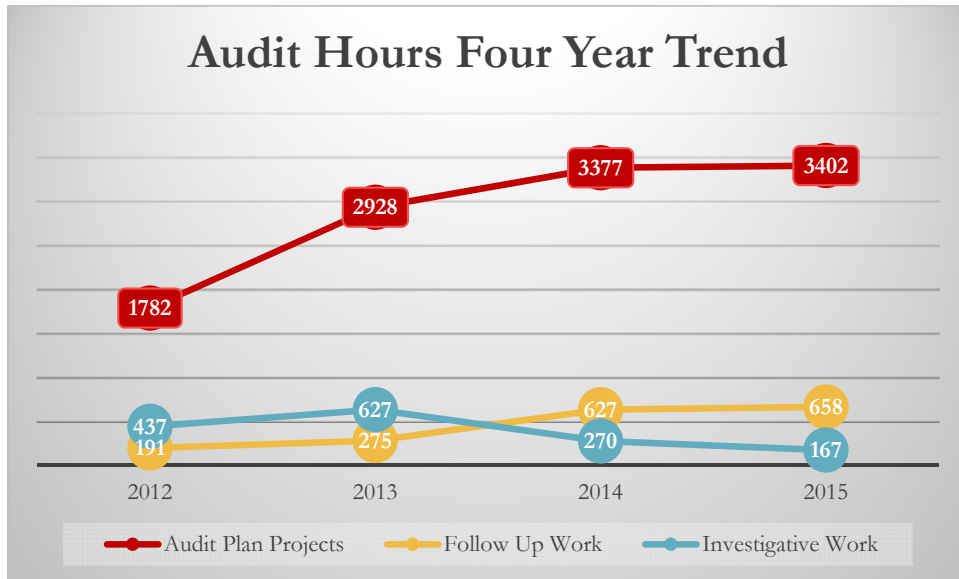# Current Audit Activity and Staff

Audit Activity

This annual report describes the activities of the Office of Internal Audit through audit projects, project follow-ups, advisory and consulting services, investigations, unplanned reviews, and other services provided during the period July 1, 2014 through June 30, 2015. A complete list of projects identified in the Fiscal Year 2014-2015 Audit Plan and the current status of the project is in the Appendix.

UNL internal audit projects focus mainly on assessing business processes, including internal controls, and information technology security processes. Compliance audits are performed in areas receiving research funding and athletics. This year audit activity has raised the level to which operational, compliance and IT security is reviewed. Several reports issued this year included campus wide activities for youth activity safety, HIPAA compliance and international travel. A report on de-provisioning for IT security access for personnel separating from UNL is currently in the draft stage. These types of campus level reviews provide for more impactful audit projects and value added outcomes for UNL.
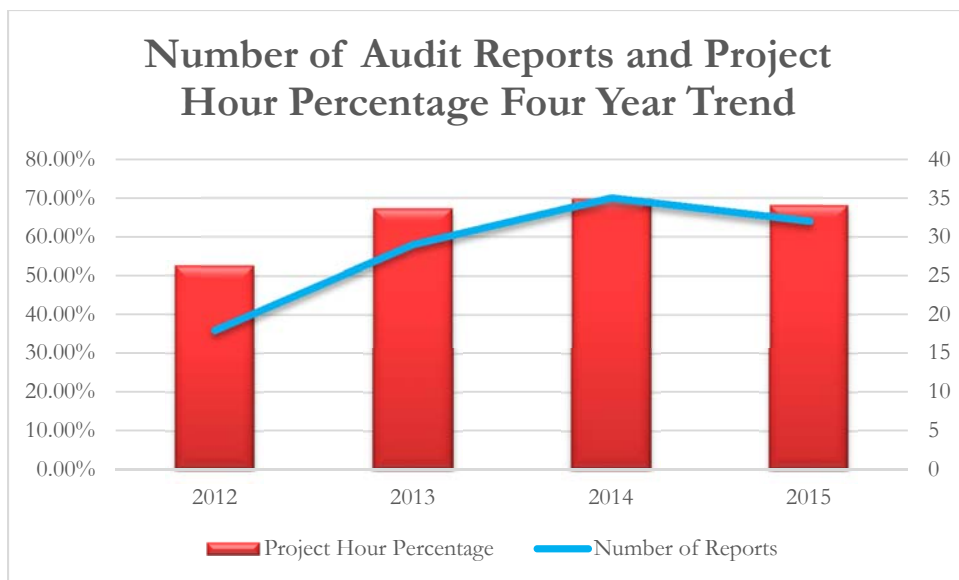
The audit staff continue to develop and strengthen instrumental relationships with administrative personnel at UNL. This is evident in the increased number of management requests for audit services. In the last five years management requests were one to two a year and in this last year this office received five management requests. Three of the requests were completed in Fiscal Year 2014-2015 and two are included on the upcoming year's audit plan. There has also been an increase in the average rating received from surveys sent to the audit client after a planned project report is finalized. The rating scale is from one to five, with five being the highest rating. The overall average of the responses last year was 4.4 and this year that average has increased to 4.6.

The hours committed towards the accomplishment of projects has increased steadily over the last four years. Along with this increase there has also been an upward trend for follow-up work. The increase in hours represents more of an audit presence throughout the campus. There has

been a decrease in the number of investigative incidents reported, and this is represented in the decreased number of hours for investigative work. The decrease in investigative incidents may be due to the increase of an audit presence on campus. The following chart presents the actual hours in these three areas over the last four years.

Audit Hours Four Year Trend

Year	Audit Plan Projects	Follow Up Work	Investigative Work
2012	1782	191	437
2013	2928	275	627
2014	3377	627	270
2015	3402	658	167

The actual percentage of hours for project work was 68% for Fiscal Year 2014-2015.The industry standard is between 70-75%. The decrease in the percentage was due to the use of accumulated leave hours by several audit staff. The decrease in reports is due to the additional hours required for a campus level approach versus a specific departmental audit.

Number of Audit Reports and Project Hour Percentage Four Year Trend

Legend: Project Hour Percentage, Number of Reports

Current Departmental Structure and Staff

Part of the mission statement for the Office of Internal Audit references the independence and objectivity of the services provided. This independence and objectivity is also required by the *Standards*. For UNL, the Director reports functionally to the Audit, Risk and Compliance Committee, through the University of Nebraska System Director of Audit and Advisory Services, and administratively to the Chancellor. This is supported in the departmental reporting structure, which is depicted in the chard below. Both the direct access to the Audit, Risk and Compliance Committee and the reporting structure establish support for the functional independence of the Office of Internal Audit.

<p style="text-align:center;color:red;">**REPORTING STRUCTURE for the OFFICE of INTERNAL AUDIT**</p>

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┌──────────────────────────┐        ┌──────────────────────────┐
│   Audit, Risk and        │        │   Harvey Perlman         │
│ Compliance Committee     │        │   Chancellor             │
│  Board of Regents        │        │                          │
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            │                                    │
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│   Mike Justus            │        │   Deb Dahlke             │
│   NU Director of         │- - - - │   CPA, CIA, CISA         │
│   Audit & Advisory       │        │   Director               │
│   Services               │        │                          │
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│  Pamela Peters   │   │  Jason Farber    │   │  Rene Mayo-Rejai │
│  CFE             │   │  CIA, CFE        │   │  CISA            │
│  Senior Auditor  │   │  Senior Auditor  │   │  IT Auditor      │
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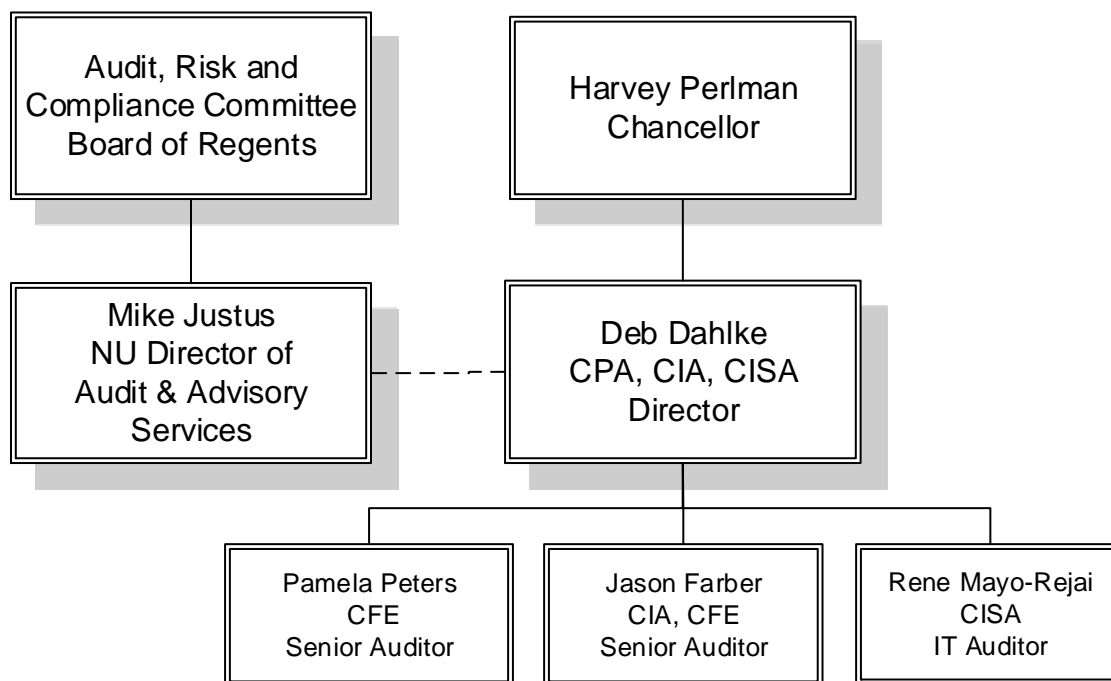
Each year the staff sign a statement to say they will abide by the Rules of Conduct as defined by the Institute of Internal Auditors' Code of Ethics. This statement also addresses disclosure of any activity or relationship that may impair or be presumed to impair their unbiased assessment.

The *Standards* encourage internal auditors "…to demonstrate their proficiency by obtaining…the Certified Internal Auditor designation…" The BIG Ten schools traditionally have 80 to 100% of their audit staff credentialed. Although UNL has the smallest number of internal auditors in the BIG Ten Conference, we are aligned with our peers in having 100% of the internal audit staff certified. These certifications include a certified public accountant (CPA), two certified internal

auditors (CIA), two certified information systems auditors (CISA) and two certified fraud examiners (CFE). The *Standards* require continued professional development and the audit plan includes designated hours to do so.

The Office of Internal Audit continues to work closely with UNL administration to identify risks and assign audit resources effectively. In this way, UNL audit resources provide value by reporting on impactful recommendations and actions for improvements.

Appendix A:
Identified Risks and Heat Map
for Fiscal Year 2015-2016
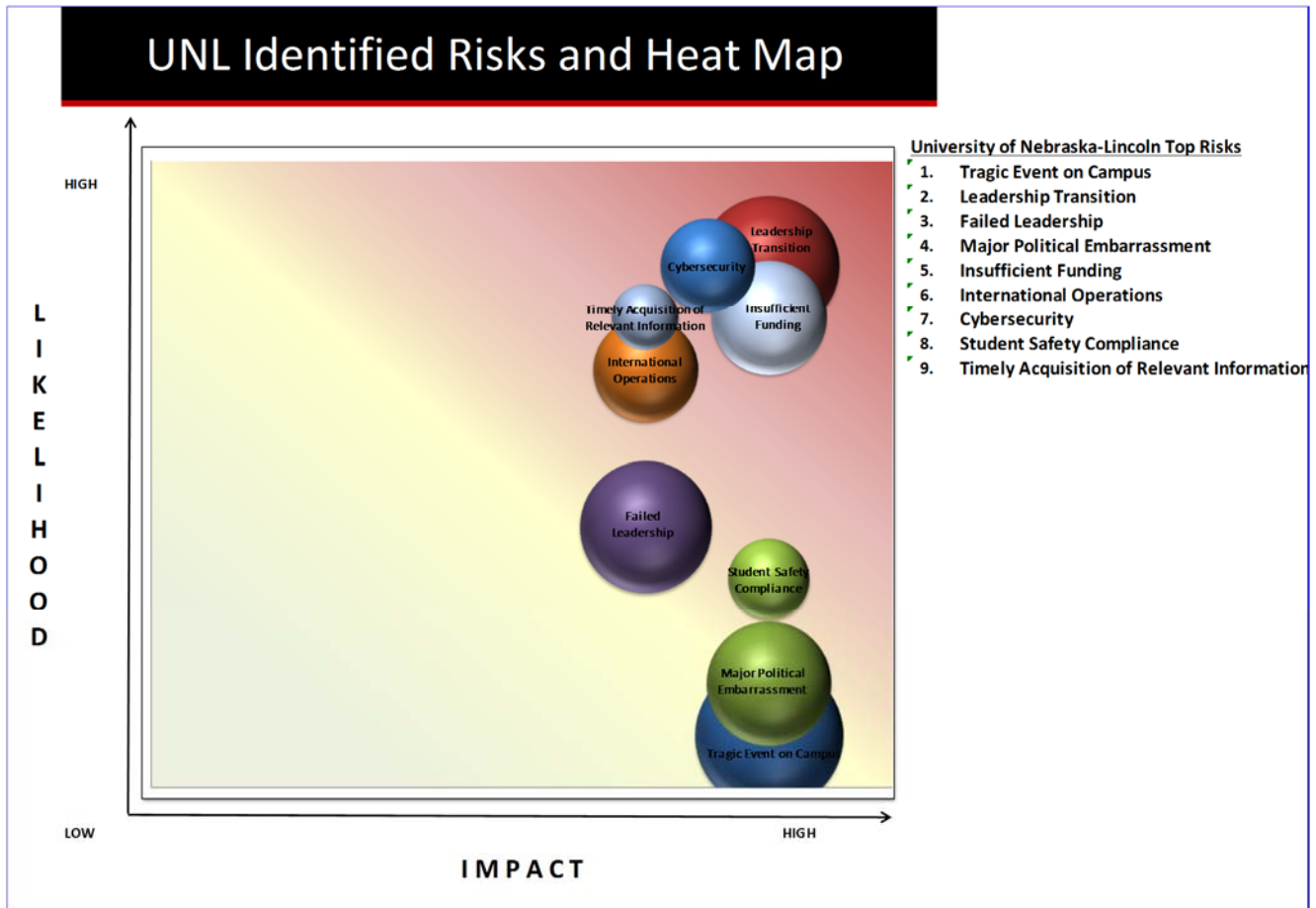
Appendix B:
Proposed Audit Plan for Fiscal Year 2015-2016

Categories	Area of Audit Engagement	Focus of Engagement	Project Hours
Projects			

FY 2015 Projects Continued in FY 2016			
In Progress			
Departmental Processes	UNL Campus	Evaluate the Quilt Center business processes and UNL Campus foundation funds for effective internal controls and compliance with UNL policies.	245
Office of Research Responsibility-COI	Research	Review conflict of interest forms filed for compliance with UNL policies, procedures and regulatory requirements.	135
IT Security-College of Law	Academic Affairs	Review servers and work stations for logical security, physical security, remote access, backups and inventory tracking.	140
Identity Management	UNL Campus	Review controls implemented for de-provisioning when an employee is transferred or separated.	10
FY 2015 Projects Carried Over to FY 2016			
Server Security	UNL Campus	Identify unsecured servers used to access or store UNL data.	200
UBIT Review	UNL Campus	Review processes and oversight for Unrelated Business Income Tax (UBIT) within the departments.	150
FY 2016 Projects and Risk Assessment			
Projects Identified in the Risk Assessment for FY 2016			
Chancellor General Accounts	Chancellor	Evaluate departmental business processes for effective internal controls and compliance with UNL policies.	200
Identity Management	IANR-CASNR	Review controls implemented for identity management for access and de-provisioning when an employee is transferred or separated.	100
Clery Act Compliance	Business & Finance	Review and verify departmental information reported to UNLPD for Clery Act reporting.	200
Student Accounts	Business & Finance	Evaluate processes within Student Accounts for compliance with UNL policies, procedures and regulatory requirements.	200
SEVIS Compliance	UNL Campus	Review the system to enter records into the Student and Exchange Visitor Information System (SEVIS) for compliance with the Student and Exchange Visitor Program (SEVP)	205
NDEQ Compliance	IANR	Examine agricultural activity subject to Nebraska Department of Environmental Quality (NDEQ) for compliance and verify remediation actions have been implemented.	150
Compliance-Athletics	Chancellor	Examine the processes used to comply with the NCAA requirements for monitoring and reporting.	100

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Proposed Audit Plan for Fiscal Year 2015-2016

Categories	Area of Audit Engagement	Focus of Engagement	Project Hours
Projects			
Lab Safety Compliance	Research	Examine departmental lab compliance reviews performed and verify remediation actions have been implemented.	200
Fishnet Report Recommendations	Information Technology Services	Examine the February 2014 Fishnet report and recommendations to verify completion of the recommended actions.	150
IT Review Nebraska Transportation Center	Research	Review servers and work stations for logical security, physical security, remote access, backups and inventory tracking.	150
FERPA Compliance for Departmental Data	UNL Campus	Review departmental IT general controls for data downloaded from NeSIS and other student information retained in the departments and subject to FERPA.	180
Service Centers	UNL Campus	Sample service center accounts not reviewed by Financial Services for effective internal controls, correct revenue classification and compliance with UNL policies.	200
Construction Contracts	Business & Finance	Oversee a third party review of selected construction contracts.	100
Undergraduate Foreign Travel	Academic Affairs	Verify safety protocols are implemented and effective for all undergraduate foreign travel.	200
Lied Business Processes Review	Academic Affairs	Evaluate departmental business processes for effective internal controls and compliance with UNL policies.	205
Conference Fees- Deferred Revenue	UNL Campus	Examine conference fees collected within departments for appropriate revenue classification.	150
Departmental HR Processes	IANR-ARDC	Evaluate departmental HR processes for effective internal controls and compliance with UNL policies.	150
Risk Assessment, Compliance and Audit Plan for FY 2016			
Risk Assessment Audit Plan Annual Report	UNL Campus	Develop Audit Plan based on priority risks identified.	275
Compliance	UNL Campus	Coordinate compliance oversight for the UNL campus.	100
Follow-Up Projects			
Follow-Up Reports	UNL Campus	Perform a follow up review on the Management Action Plans developed in the prior six months.	500
Investigative Projects			
Investigations	UNL Campus	Evaluate allegations of inappropriate or misuse of funds or other University resources.	300

Appendix B:
Proposed Audit Plan for Fiscal Year 2015-2016

Categories	Area of Audit Engagement	Focus of Engagement	Project Hours
Projects			

Management Requests			
Consultations	UNL Campus	Provide input upon request on current issues, the development of revised process changes or other concerns developed throughout the year.	100
Unplanned Reviews	UNL Campus	Perform engagements that were unforeseen at the time the audit plan was developed.	250
BQMS	IANR	Review the processes in the biotechnology research of genetically engineered organisms to assure compliance with Federal regulations.	80
NCAA Attendance Certification	Athletics	Review attendance records used to complete the NCAA Attendance Certification report.	40
Northeast Research & Extension Center IT Security	IANR	Review servers and work stations for logical security, physical security, remote access, backups and inventory tracking.	150
West Central Research & Extension Business Processes	IANR	Evaluate departmental business processes for effective internal controls and compliance with UNL policies.	150
Other Projects			
Campus Outreach	UNL Campus	Offer presentations on internal controls, fraud and risk mitigation. Promote effective business and information security practices through collaborative interactions and website information.	200
Data Analysis	UNL Campus	Develop and implement analytics to regularly review financial transactions and highlight anomalies for additional examination.	200
Administrative Hours			
Professional Development		To maintain continuing professional education for current certifications or to achieve audit related certifications.	280
Miscellaneous		Staff meetings and other administrative tasks.	775
Leave		Vacation, Sick and Holiday Leave	1264

Appendix B:

Proposed Audit Plan for Fiscal Year 2015-2016

Hour Summary

Categories	Budgeted Hours
FY 2016 Risk Assessment and Projects	
FY 2015 Projects Continued in FY 2016	880
FY 2016 Projects	2,840
Risk Assessment, Compliance and Audit Plan for FY 2017	375
Follow-Up Projects	500
Investigative Projects	300
Management Requests	770
Other Projects	400
Administrative Hours	2,319
Total Budgeted Hours (2,096 x 4 UNL Internal Audit Staff)	8,384

Appendix C:
Audit Activity for Fiscal Year 2014-2015

Audit Engagement Area	Focus of Engagement	Audit Activity with Date of Issued Report
UNL Campus & University System-Business Continuity	Collaborated with Central Administration to examine procedures developed for critical business functions continuing after a catastrophic event.	Management actions reported from Central Administration for business continuity (May 2014) commit to updating the emergency response plan. UNL also continues to update its emergency response plan, and an audit of this plan has not been scheduled due to the lower risk.
UNL Campus-Library Fees	Compared amounts collected for the library fee to the related expenditures charged to evaluate the correlation of the expenditures with the designated purpose.	Completed-November 13, 2014
Student Affairs-Campus Rec Business Processes	Reviewed the rate determination processes for fees, examine contractual agreements and examine revenue activity subject to Unrelated Business Income Tax (UBIT) for compliance.	Completed for Fees & Contracts-October 15, 2014 UBIT Carried Forward to FY2016
UNL Campus-Departmental Equipment Inventory	Reviewed controls in place to ensure equipment less than $5,000 was available for student instruction and use and research activities.	Completed-January 6, 2015
UNL Campus-Identity Management	Reviewed controls implemented for de-provisioning when an employee is transferred or separated.	In Progress-Draft Report
UNL Campus & University System-Wireless	Collaborated with Central Administration to review controls in place to ensure wireless networking is secured and operating in accordance with Federal requirements.	Risk decreased-An IT Review in the College of Law has been identified to replace this project. In Progress-Fieldwork
UNL Campus-Faculty/Student Travel	Evaluated foreign travel paid by UNL for faculty and graduate students for compliance with policies and procedures, with a focus on export controls.	Completed-January 29, 2015
Business & Finance-Construction Project Management	Reviewed processes and oversight for construction project management in Facilities, Planning and Construction.	Completed-May 6, 2015
Research-ORR COI	Reviewed conflict of interest (COI) forms filed for compliance with UNL policies, procedures and regulatory requirements.	In Progress-Fieldwork

Audit Engagement Area	Focus of Engagement	Audit Activity with Date of Issued Report
UNL Campus-Server Security	Identify unsecured servers used to access or store UNL data.	Carried Forward to FY2016
UNL Campus-Contracts/Leases	Examined contracts and leases for compliance with UNL policies, procedures and regulatory requirements.	Completed-May 6, 2015
Athletics-Compliance	Examined the processes used to comply with the NCAA requirements for monitoring and reporting.	Completed-June 30, 2015
Research-Grant Administration	Examined grant administration processes to ensure compliance with UNL policies, funding requirements, and Federal and State regulations.	Completed-June 22, 2015
IANR-PHREC IT Security	Review servers and work stations for logical security, physical security, remote access, backups and inventory tracking.	Completed-October 30, 2014
UNL Campus-Departmental Scholarships	Examined the processes within departments for awarding scholarships to students.	Completed-December 2, 2014
UNL Campus-Departmental Business Processes	Evaluated departmental business processes for effective internal controls and compliance with UNL policies.	Completed-May 28, 2015 In Progress-Fieldwork for the Quilt Center and Foundation Funds
UNL Campus-ITS SLAs	Review service level agreements (SLAs) for Information Technology Services (ITS) to departmental units for implementation in accordance with the agreement.	Not Carried Forward Due to Lower Risk
UNL Campus-Risk Assessment	Developed Audit Plan based on priority risks identified.	Completed-June 30, 2015
Follow-Up Reports	Performed a follow up review on the Management Action Plans reported in the prior year.	State Museum-August 5, 2014 Scholarship and Financial Aid-August 6, 2014 Disaster Recovery-August 25, 2014 Youth Activity Safety Policy-October 30, 2014 Center for Plant Science Innovation-October 30, 2014 Student Fees-November 13, 2014 West Central Research and Extension Center (WCREC)-November 24, 2014 CEHS Data Breach-December 18, 2014 Campus Rec-March 25, 2015

Audit Engagement Area	Focus of Engagement	Audit Activity with Date of Issued Report
Follow-Up Reports (Continued)		Agricultural Economics- April 10, 2015 BQMS-May 28, 2015 Departmental Scholarships- May 27, 2015 PHREC IT Review- June 12, 2015
Investigations	Evaluated allegations of inappropriate or misuse of funds or other University resources.	NFS Fire Shop-June 8, 2015
NCAA Attendance	Reviewed attendance records used to complete the NCAA Attendance Certification report.	Completed-February 4, 2015
IANR-BQMS	Reviewed the processes in the biotechnology research of genetically engineered organisms to assure compliance with Federal regulations.	Completed-February 5, 2015
Unplanned Reviews	Performed engagements that were unforeseen at the time the audit plan was developed.	HIPAA Compliance-Completed January 27, 2015 Confucius Institute-Completed May 11, 2015 IT Admissions/SFA-Completed June 30, 2015
Consultations	Provided input upon request on current issues, the development of revised process changes or other concerns developed throughout the year.	On-Going
Data Analysis	Developed and implement analytics to regularly review financial transactions and highlight anomalies for additional examination.	On-Going
Campus Outreach	Offered presentations on internal controls and risk mitigation and promote effective business practices through training and website information.	On-Going
Professional Development	To maintain continuing professional education for current certifications or to achieve audit related certifications.	On-Going
Administrative and Leave Hours	Staff meetings and other administrative tasks. This also includes Vacation, Sick, Holiday and other leave taken.	On-Going