11/23/15

BOARD OF REGENTS OF THE UNIVERSITY OF WISCONSIN SYSTEM

I.5. Audit Committee   Thursday, December 10, 2015
                                               1:00 p.m. – 2:30 p.m.
                                               Gordon Dining and Event Center
                                               770 W. Dayton St., 2nd Floor
                                               Concerto Room
                                               Madison, Wisconsin

   a. Approval of the minutes of the September 10, 2015 meeting of the Audit Committee

   b. Discussion of Recently Issued Reports
       • Compliance with University of Wisconsin Payroll and Leave Accounting
         Personnel Entry, New Hires and Terminations – UW-Madison

   c. Fiscal 2016 Audit Plan Progress

   d. Discussion of Committee of Sponsoring Organizations of the Treadway Commission
       (COSO) Internal Control Model for Accountability – The Three Lines of Defense

   e. Report of the Chief Audit Executive
       • Hotline
       • Staff Update

UW SYSTEM ADMINISTRATION
OFFICE OF INTERNAL AUDIT
ISSUED REPORTS

BACKGROUND

One of the responsibilities of the Audit Committee, as outlined in the committee charter, is to take appropriate actions to strengthen the University of Wisconsin System's compliance, internal controls, and ethics.

REQUESTED ACTION

No action requested. Item for information and discussion only.

DISCUSSION

Below is a summary of reports issued since the last meeting:

- Payroll and Leave Accounting Personnel
  Entry, New Hires and Terminations   UW-Madison

- Limited Term Employment Requirements   UW-Colleges
                                                UW-Extension
                                                UW-Whitewater

- Confucius Institute Audit   UW-Platteville

- Physical Security and Access   UW-Extension

Representatives from UW-Madison will be present to discuss the Payroll and Leave Accounting Personnel Entry, New Hires and Terminations Report.

RELATED BOARD OF REGENTS POLICIES

NA

UW SYSTEM ADMINISTRATION
OFFICE OF INTERNAL AUDIT
FISCAL 2016 AUDIT PLAN PROGRESS

BACKGROUND

One of the responsibilities of the Audit Committee, as outlined in the committee charter, is to review and approve the annual internal audit plan and receive interim progress reports at least quarterly.

REQUESTED ACTION

No action requested. Item for information and discussion only.

DISCUSSION

The following chart includes a list of audits that were approved as part of the Fiscal 2016 Audit Plan. A brief status update is provided on the progress of each audit.

RELATED BOARD OF REGENTS POLICIES

NA

	Title and Audit Type	Objectives	Status
1	Code of Ethics, Conduct, and Governance (Operational)	•Review of ethics policies •Education and training •Conflicts of interest •Best practices in higher education and comparison of policies	Not started
2	Reserves and Reporting (Financial)	•Accuracy of reserves classifications and restrictions •Evaluation of source data for calculating the restrictions •Test a sample of the obligations •Material dollar amounts	Planning complete
3	Purchasing Cards (Continuous Monitoring)	•Risk-based identification of purchasing card expenditures that may not be allowable using automated techniques •Determination and evaluation of whether systematically-identified expenses are allowable •Ensure consistent testing methodology for institution data submitted to UW System Administration	Planned and being executed
4	Travel and Expense Reimbursement (Continuous Monitoring)	•Risk-based identification of travel expenditures that may not be allowable using automated techniques •Determination and evaluation of whether systematically-identified expenses are allowable	Not started
5	Cash Handling (Financial)	•Review internal controls over the process •Test a sample of transactions for compliance •Recommend possible closure of accounts •Two-year effort to complete projects	Planned and fieldwork in progress
6	Payroll (Continuous Monitoring)	•Systematic identification of conditions or trends that warrant further review or investigation related to unclassified and classified employees. Examples of items to be systematically identified include overload payments, termination payments, and supplemental pay and pay adjustments. •Retired and rehired annuitants	Not started
7	Auxiliary Services (Operational)	•Review of reporting structure at institutions •Review of policies and activities •Review of conflict of interest policies and compliance	Planned and fieldwork in progress
8	Emergency Preparedness (Operational)	•Review policies in place for different scenarios •Interview staff responsible for the emergency plan •Audit the emergency plans	Not started
9	System Security and Access (Information Technology)	•Uniform information technology framework and standards across the System •Review structure, governance, implementation, etc. •Review information technology security framework	Not started
10	Data Integrity, Definition, Governance, and Ownership – Top Three Systems/Applications (Information Technology)	•Document the users of the data and those with ownership •Review provisioning, de-provisioning, and administrator, application, and operating system access •Review current standard definitions	Not started
11	International Education (IE) (Operational)	•Review policies in place over the IE Department business practices •Test a sample of students in the program •Review international programs (travel arrangements, health insurance) •Two-year effort to complete the process	Planned and fieldwork in progress
12	NCAA Athletics Division I and II Audits	•Agreed upon procedures audits (Green Bay, Milwaukee, Parkside) •Review departments for compliance with NCAA regulations •Audit financial statements	Planned and fieldwork in progress

UW SYSTEM ADMINISTRATION
OFFICE OF INTERNAL AUDIT
THE THREE LINES OF DEFENSE

BACKGROUND

One of the responsibilities of the Audit Committee, as outlined in the committee charter, is to review and analyze reports on the adequacy of the system of internal controls, including the recording and processing of financial information and the approval of transactions. The Three Lines of Defense Model (Model) clarifies the roles and duties within the organization to further enhance the understanding of risk management. This model is derived from the publication "Leveraging COSO Across the Three Lines of Defense" (Publication). It is applicable to all types of organizations.

REQUESTED ACTION

No action requested. Item for information and discussion only.

DISCUSSION

The Model's underlying premise is that, under the oversight and direction of senior management and the board of directors, three separate lines of defense are necessary for effective management of risk and control. The responsibilities for each of the lines are:

1. Own and manage risk and control (front line operating management).
2. Monitor risk and control in support of management (risk, control and compliance functions put in place by management).
3. Provide independent assurance to the board and senior management concerning the effectiveness of management of risk and control (internal audit).

Each of the three lines plays a distinct role within the organization's wider governance framework. According to the Publication, when each performs its assigned role effectively, it is more likely the organization will be successful in achieving its overall objectives. The Model brings clarity to specific roles and responsibilities. Finally, when an organization has properly structured the three lines, and they operate effectively, there should be no gaps in coverage and no unnecessary duplication of effort.
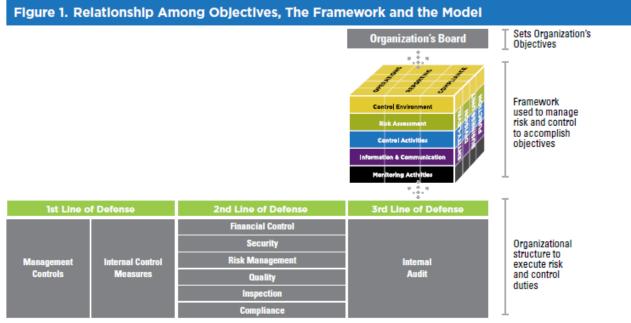
RELATED BOARD OF REGENTS POLICIES

NA

Leveraging COSO Across the Three Lines of Defense

The Three Lines of Defense Model

Figure 1. Relationship Among Objectives, The Framework and the Model

Figure 2. Three Lines of Defense Model
The Three Lines of Defense in Effective Risk Management and Control, The Institute of Internal Auditors, January 2013