

8/10/16

BOARD OF REGENTS OF THE UNIVERSITY OF WISCONSIN SYSTEM

I.5. Audit Committee

Thursday, August 18, 2016

8:15 a.m. – 9:30 a.m.

Gordon Dining and Event Center

770 W. Dayton Street, 2<sup>nd</sup> Floor

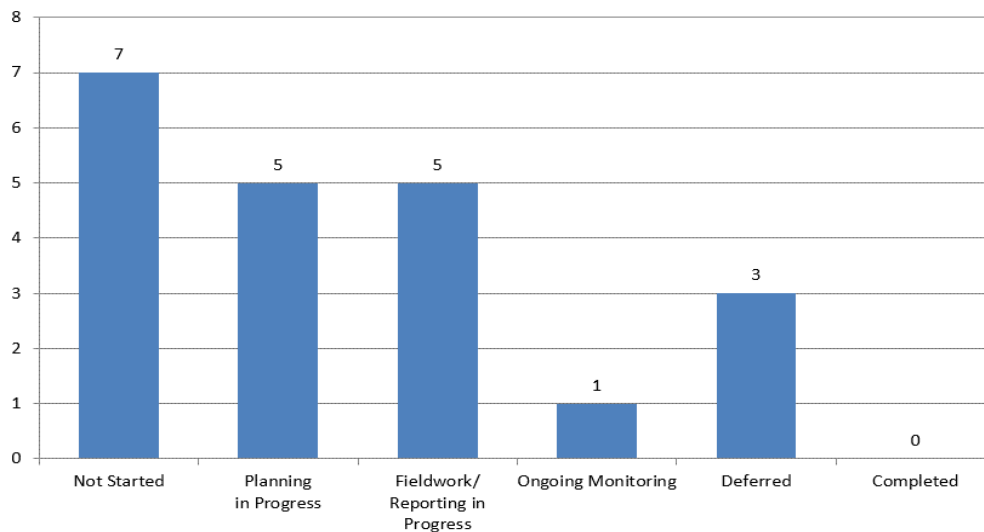
Overture Room

Madison, Wisconsin

- a. Approval of the minutes of the June 9, 2016 meeting of the Audit Committee
- b. Fiscal 2017 Audit Plan Progress
- c. Discussion of Recently Issued Reports
- d. Management Response Progress
- e. Discussion of Monitoring - *Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Model for Accountability – The Three Lines of Defense*
- f. Move into closed session, as permitted by s. 19.85(1)(f), Wis. Stats., to consider personal histories or disciplinary data of specific persons and the investigation of charges against specific persons which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of such persons.

**UW SYSTEM ADMINISTRATION  
OFFICE OF INTERNAL AUDIT  
FISCAL 2017 AUDIT PLAN PROGRESS**

	<b>Title and Audit Type</b>	<b>Status</b>
<b>1</b>	Purchasing Cards (Continuous Monitoring)	Two reports issued and monitoring is ongoing
<b>2</b>	Travel and Expense Reimbursement (Continuous Monitoring)	Not started as data is not yet available
<b>3</b>	Payroll (Continuous Monitoring)	Planning has begun
<b>4</b>	Cash Handling	Five reports issued and fieldwork and reporting are in progress
<b>5</b>	International Education (IE)	Six reports issued and fieldwork and reporting are in progress
<b>6</b>	Code of Ethics, Conduct, and Governance	Fieldwork in progress
<b>7</b>	Auxiliary Services	UW-Madison Union fieldwork and reporting in progress Parking at other institutions planned
<b>8</b>	Emergency Preparedness	Fieldwork in progress
<b>9</b>	System Security and Access (Information Technology)	Deferred
<b>10</b>	Data Integrity, Definition, Governance, and Ownership – Top Three Systems/Applications (Information Technology)	Deferred
<b>11</b>	Federal TriO Programs	Not started
<b>12</b>	Facilities	Planning has begun
<b>13</b>	Payment Card Industry Compliance	Not started
<b>14</b>	Human Resource System Segregation of Duties	Deferred after planning meeting
<b>15</b>	DoIT	Planning has begun
<b>16</b>	Research	Not started
<b>17</b>	Internal Control and Compliance Structure and Governance	Not started
<b>18</b>	Clery Audit Follow-up	Planning has begun
<b>19</b>	Fair Labor Standards Act	Not started
<b>20</b>	Tuition and Enrollment Management	Not started
<b>21</b>	NCAA Athletics Division I	Planning has begun



August 18, 2016

Agenda Item I.5.b.

**UW SYSTEM ADMINISTRATION  
OFFICE OF INTERNAL AUDIT  
FISCAL 2017 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 attached chart provides a summary of audit progress for the Fiscal 2017 Audit Plan.

**RELATED BOARD OF REGENTS POLICIES**

NA

**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**

The reports listed below have been issued since the last meeting and will be discussed by the Audit Committee:

Approved Audit Plan

- Auxiliary Services – Union Expenditures                      UW-Madison
- Cash Handling    UW Extension
- Grading Data Security    UW Colleges  
    UW-Madison
- International Education    UW-Green Bay  
    UW-Oshkosh  
    UW-River Falls

Investigations

- Upward Bound    UW-Stevens Point
- Faculty Nepotism (Hotline Case #UW1600001)                      UW-Milwaukee
- Psychology Department    UW-Milwaukee

**RELATED BOARD OF REGENTS POLICIES**

NA

**UW SYSTEM ADMINISTRATION  
OFFICE OF INTERNAL AUDIT  
MANAGEMENT RESPONSE PROGRESS**

**BACKGROUND**

One of the responsibilities of the Office of Internal Audit as outlined in the charter is to establish a follow-up process to monitor and identify whether corrective actions have been effectively implemented, or whether senior management has accepted the risk of not taking action. The Audit Committee has requested regular progress reports on this monitoring.

**REQUESTED ACTION**

No action requested. Item for information and discussion only.

**DISCUSSION**

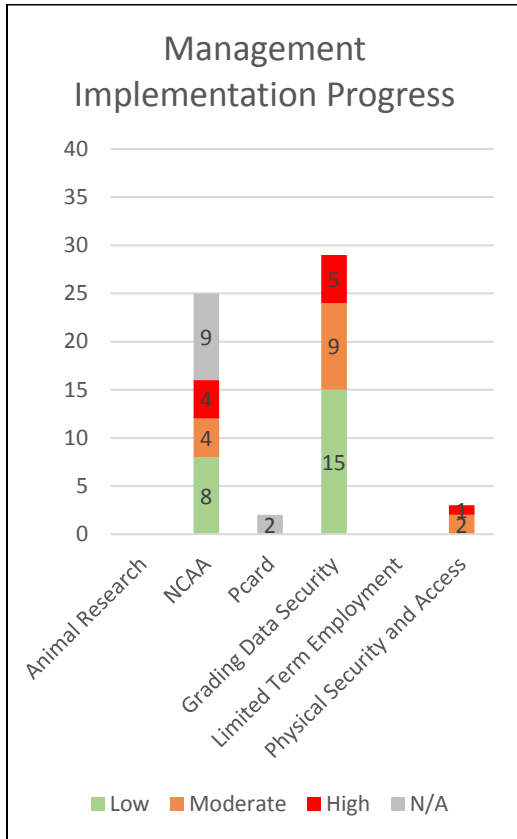
The attached chart presents audits previously issued and “open” and the progress management has made toward resolving the comments and recommendations included in the audit reports. Management’s corrective action plans were audited by the Office of Internal Audit (Audit) to determine if they were implemented. Once Audit has concluded that management has completed its response to the audit, the audit is closed.

**RELATED BOARD OF REGENTS POLICIES**

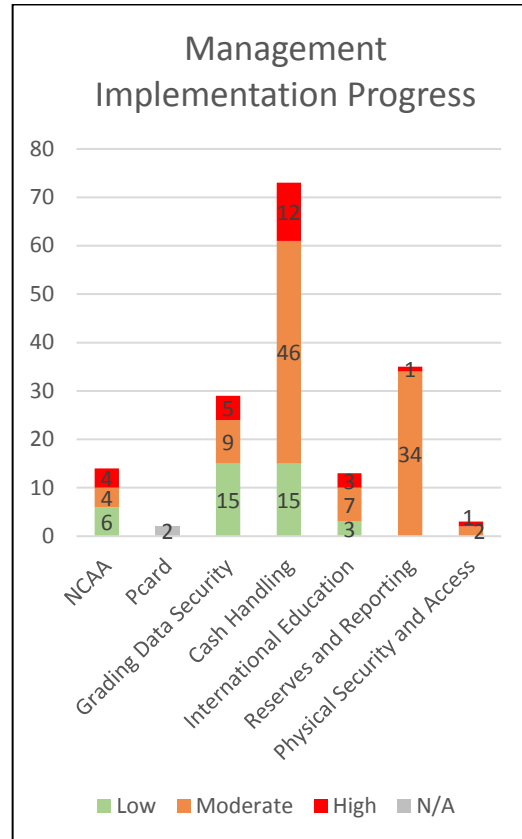
NA

**UW SYSTEM ADMINISTRATION  
OFFICE OF INTERNAL AUDIT  
MANAGEMENT RESPONSE PROGRESS**

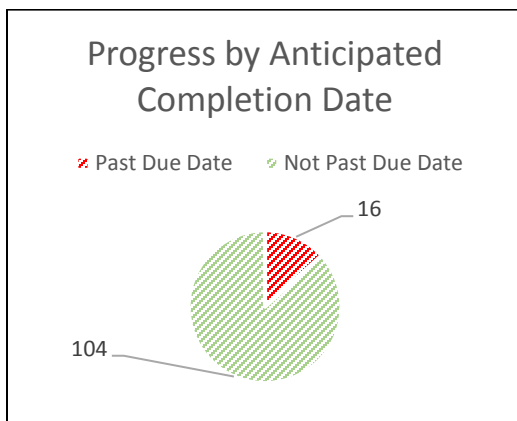
**Prior Reporting Period**



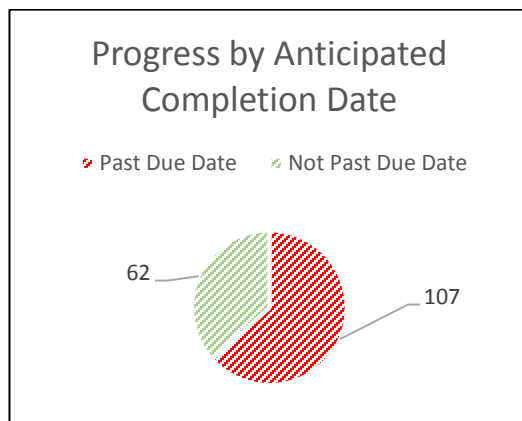
**Current Reporting Period**

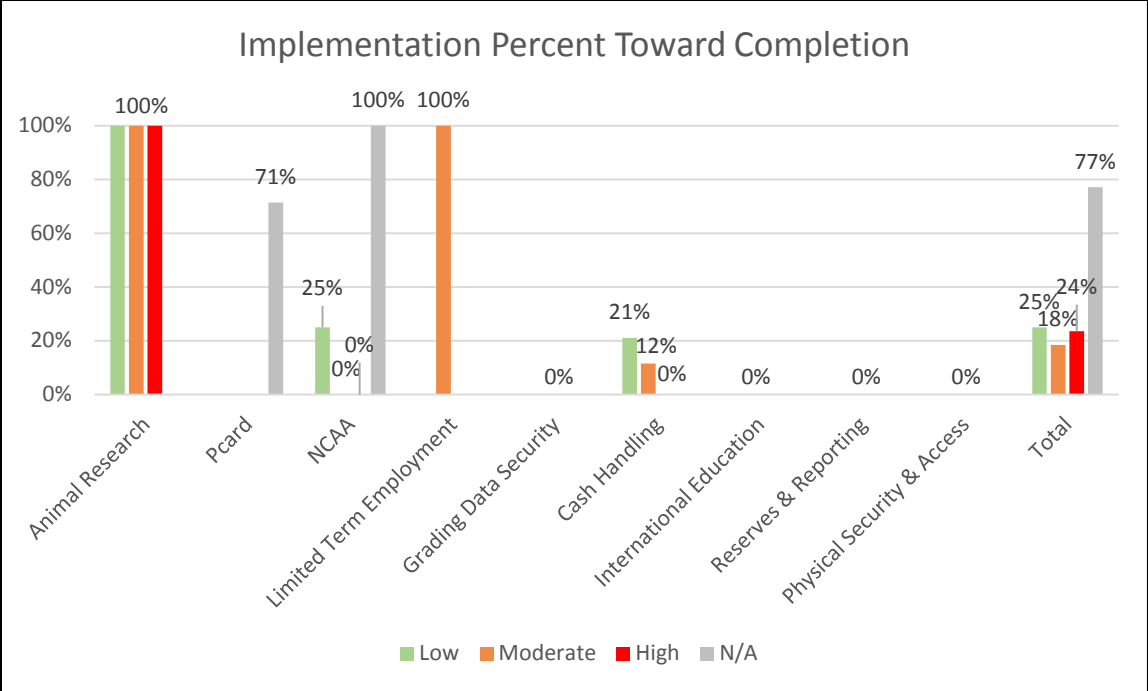


**Progress by Anticipated Completion Date**



**Progress by Anticipated Completion Date**





**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.” The Model is applicable to all types of organizations.

**REQUESTED ACTION**

No action requested. Item for information and discussion only.

**DISCUSSION**

The *Three Lines of Defense Model* is a simple and common sense approach for risk oversight and assigning responsibility for designing/managing, monitoring, and assuring.

Most units and programs within the UW System can benefit from adopting the *Model* in some form. The Office of Internal Audit has recently identified situations in which adopting the *Model* would have been useful. Such situations are illustrated by the findings of the recent internal audits of UW-Stout's Counseling Center and UW-Stevens Point's Upward Bound Program.

A number of factors contribute toward the successful implementation of the *Model*, including understanding the importance of monitoring, regardless of trust level.

The attachments provide examples of the application of the *Model*.

**RELATED BOARD OF REGENTS POLICIES**

NA



**The Three Lines of Defense Model for Risk Oversight  
Simple and Common Sense**

<b>LINE/ROLE</b>	<b>UW SYSTEM CAMPUS PROCUREMENT FUNCTION</b>	<b>UWM PANTHER BASEBALL</b>	<b>BADGER FOOTBALL</b>
<b>1. Designing and managing</b> controls	Day-to-day management and supervision of staff and controls (e.g., three-way match).	Pitcher and Catcher	Defensive line
<b>2. Monitoring</b> operations to ensure compliance and process excellence	Managers identify known and emerging best practices/issues; Conduct ongoing and/or separate evaluations and reviews of transactions and activities.	Infielders	Linebackers
<b>3. Assuring</b> the first two lines are operating consistent with expectations of primary stakeholders	Internal Audit continuous auditing of procurement cards.	Outfielders	Defensive backs
Primary stakeholders	Senior Administration at Campus and System levels, Board of Regents	Head Coach Doffek and staff, Athletic Director Braun, Athletic Board, students, student athletes	Head Coach Chryst and staff, Athletic Director Alvarez, Athletic Board, students, student athletes
External	Legislative Audit Bureau, Department of Health and Human Services	Horizon League, NCAA	Big Ten Conference, NCAA

## **The Three Lines of Defense Failure & Success**

### **Failure**

UW-Stout's Counseling Center and UW-Stevens Point's Upward Bound Program:

- Line 1: Lack of controls to reconcile cash to supporting documentation
- Line 2: Ineffective oversight by areas charged with monitoring (both inter-departmental and intra-departmental).

### **Success**

Program Revenue Balances Administration:

- Lines 1 and 2 on campuses and UW System Administration combined to provide "reasonable" (not absolute) results.
- Line 3 prioritized this work based upon a number of risk-based factors including the recommendation of the Legislative Audit Bureau.

### **Factors that influence success**

- Understanding the importance of supervision and monitoring, regardless of trust level.
- Carefully setting the highest priorities to avoid focus on "petty cash" or projects of personal interest.
- Thorough understanding of roles/responsibilities within the three lines as well as the nature of the business operation.
- Thoughtful balance of risk, cost and value when assigning resources across the three lines (especially during re-organization, down-sizing and strategic planning).