

UW System Board of Regents
Audit Committee
Union South 2nd Floor, Fifth Quarter Studio
1308 W. Dayton Street
Madison, Wisconsin

February 8, 2018

MEETING OF THE AUDIT COMMITTEE

The meeting of the Audit Committee was called to order at 10:45 a.m. by Regent Michael Grebe. Roll call was taken and Regents Atwell, Grebe, Mueller, and Whitburn were in attendance; Regent Millner was absent.

I.5.a. Approval of the minutes of the December 7, 2017 meeting of the Audit Committee

Upon the motion of Regent Mueller and the second of Regent Whitburn, the Committee unanimously approved the minutes of the December 7, 2017 Audit Committee meeting.

I.5.b. Fiscal Year 2018 Audit Plan Progress Report

Lori Stortz, Chief Audit Executive, briefly reviewed the very good progress to date on the fiscal year 2018 audit plan. She confirmed that Internal Audit is on target to complete all the audits that are part of the 2018 plan, that have not otherwise been deferred for previously discussed reasons.

One audit that is currently in the planning process is the review of transactions between University institutions and related foundations, including adherence to newly instituted Memoranda of Understanding governing those transactions. Regent Whitburn asked Ms. Stortz about management responses to that audit and the underlying policy and Regent Grebe asked to have that topic included on the agenda for the next meeting.

I.5.c. Discussion of Recently Issued Reports

Steve Mentel reviewed five positive Bank Account Creation, Management, and Oversight audits for UW-Extension, UW-Green Bay, UW-La Crosse, UW-Parkside, and UW-Platteville. Regent Mueller was delighted with this audit, thought that the Office was taking a clever approach, and was happy with the progress being made. Mr. Mentel stated there will be additional reports presented in April.

Amanda Nehmer reviewed the Division of University Housing audit for UW-Madison. This audit identified several problematic matters and included a significant number of audit comments that were as rated as high risks. The committee engaged in an extended discussion regarding this audit, including discussion about suspicious activity and control deficiencies that were identified in the audit. Vice Chancellor Heller, who was in attendance, responded to a series of inquiries from committee members, and assured the committee that he is committed to implementing the necessary new policies and strengthening controls.

Paul Rediske shared that audit staff has now completed the Federal TRIO audit at 14 UW institutions. He reviewed the final five audits for UW Colleges, UW-Eau Claire, UW-Parkside, UW-Stout, and UW-Superior. He additionally reviewed a Best Practices Letter regarding Federal TRIO Programs. Mr. Rediske said that over 7,500 students are supported annually, and our average cost is less than the national average. The committee expressed its support again, which was seconded by Chancellor Ford, for the process of sharing best practices, which not only encourages useful communication but leads to improved results.

Mary Luebke reviewed the Human Resource System Separation of Duties audit for the UW System, which was intended to test controls and policies, not adherence with those controls and policies. This audit identified a number of potential risks related to inadequate controls and policies, and received an unsatisfactory rating. During the committee's discussion of this matter there was a recognition that specific instances of fraud or loss, to the extent they may exist, may also be identified in other ongoing audits, including the payroll continuous audits.

Mr. Mentel reviewed the Internal Control and Compliance Structure and Governance audit for the UW System. The committee reiterated their endorsement of the three lines of defense model, and reiterated their request that that model be implemented as broadly as possible across the system. Regent Whitburn spoke for the committee, stressing the need for leadership – meaning all levels of leadership - to establish the appropriate tone from the top in connection with expectations of integrity and the consequences for failing to satisfy those expectations. Rob Cramer stated that more attention needs to be paid to this matter, and Sean Nelson added that one component he would suggest focusing on is additional training.

Mr. Rediske reviewed two positive NCAA Division I procedural audits for UW-Green Bay and UW-Milwaukee. He also recognized the fine work by the accounting office at UW-Green Bay during the conduct of this audit. Regent Grebe thanked him.

Mr. Mentel reviewed the Payroll Continuous audit for the UW System. Regent Mueller asked whether actions are being taken to recover inappropriate payments. Mr. Mentel and Ms. Stortz stated that will be part of the formal follow-up process.

Ms. Nehmer reviewed the Research – Capital Equipment audit at UW-Madison, which received an excellent rating. She stated that they tested approximately \$2.2 million of capital equipment items.

Regent Grebe expressed his appreciation to the audit team for completing and delivering a large number of audits.

I.5.d. Progress on Management Responses to Audit Reports

Next, Mr. Mentel updated the committee on management progress in taking identified corrective actions to audit comments and confirmed that management at each institution was responding effectively. Regent Grebe stated this has become a consistent refrain at our meetings, which is welcomed and appreciated. Since the last Audit Committee meeting, 65 comments have been closed. While it is always disconcerting to identify deficiencies in any audit, the positive

nature of those responses suggests diligence and professionalism on the part of our audit team and management across the system.

Ms. Stortz provided the report of the Chief Audit Executive to the committee, including preliminary planning of the 2019 audit plan, which will be presented in June. The new audit plan will take into consideration the restructuring of the UW System. Ms. Stortz is working to take a holistic approach to developing this new plan.

Next, the System's new general counsel, Quinn Williams, presented the proposed new Regent policy on ethics and conflict of interest. As noted by Mr. Williams, members of the Board of Regents hold their positions as a public trust. Serving as a Regent is an honor, and with that honor comes a responsibility to conduct business with the highest level of integrity. Regents are obligated to serve in the best interests of the University of Wisconsin, with due regard for the reputation of our University. They are obligated to comply with a series of laws and regulations prohibiting them from using their public positions for personal gain. But as important as that, they are obligated, morally and ethically, to do the right thing – the right thing for the University, the right thing for its students, faculty, and staff, the right thing for taxpayers, and the right thing for the State of Wisconsin. Tone from the top matters, and the actions of the Regents matter. After discussion, the Audit Committee approved the new policy unanimously.

The committee then moved into closed session to discuss information security audit findings and responses, as permitted by s. 19.85(1)(d), Wis. Stats.

The meeting adjourned at 12:15 p.m.

Respectfully Submitted,

Erika Laabs
Recording Secretary