

**UW System Board of Regents
Audit Committee
1920 Van Hise Hall
1220 Linden Drive
Madison, WI
April 4, 2019**

MEETING OF THE AUDIT COMMITTEE

The meeting of the Audit Committee was called to order at 9:00 a.m. by Regent Michael Grebe. Roll call was taken, and Regents Grebe, Atwell, Mueller, and Whitburn were in attendance. Regent Millner was absent. Regent Grebe provided an opportunity for anyone to declare a conflict of interest: none were stated.

I.5.a. Approval of the minutes of the February 7, 2019 meeting of the Audit Committee

Upon the motion of Regent Whitburn and the second of Regent Mueller, the committee unanimously approved the minutes of the February 7, 2019 Audit Committee meeting.

Regent Grebe began the meeting with a brief discussion of the recent national college admissions scandal that has been much publicized. He stated that while we have absolutely no reason to believe that anything of that nature is happening, or has happened, at UW-Madison or any other UW institution, the committee agreed that it would be appropriate to inquire as to what protections are in place to guard against such an event ever happening here. Accordingly, we have asked Chancellor Blank to have her admissions staff address the committee in June to talk about what controls are in place at UW-Madison and engage in a discussion with the committee. Regent Whitburn encouraged anyone who is interested to read Chancellor Blank's recent blog posting which discusses this topic, addressing some of the questions we will be discussing in June.

I.5.b. Internal Audit

I.5.b.1. Fiscal Year 2019 Audit Plan Progress Report

Lori Stortz, Chief Audit Executive, briefly reviewed the progress to date on the fiscal year 2019 Audit Plan, and said they continue to make excellent progress towards completion. The Office of Internal Audit expects to complete the System Security and Access audit, the Hazardous and Universal Waste audit, and the Tax Cuts and Jobs Act of 2017 audit by the end of the fiscal year. They are busy planning the audits of DoIT, and the Institutional Relationships with Foundations. Regent Grebe asked if they remain on target for completion of all audits, and Ms. Stortz replied yes.

I.5.b.2. Summarized Results of Audits Recently Issued

Ms. Stortz began with the Chancellor's business account audit for UW-La Crosse and stated it was straightforward, with no exceptions noted. She then discussed the Hazardous and Universal

Waste audit, which is well underway. In general, they have not found major issues. The Office of Internal Audit recommends that UW System Office of Risk Management get annual inspection forms from each UW institution and more formally monitor compliance and promote best practices.

Regent Atwell inquired about the reported 140 tons of waste reported at UW-Madison, and Ms. Stortz answered that the majority of that amount is from laboratory materials and includes UW Hospital waste as well. Regent Mueller thanked Ms. Stortz and her team for auditing this important safety issue, and stated they did a good job. Regent Whitburn asked if any of the waste goes to federal disposal sites, and audit director, Paul Rediske responded saying that the contracted disposal company, Veolia takes some waste to disposal sites in Menomonee Falls and Texas, but nothing goes to federal sites, to his knowledge.

Ms. Stortz then discussed the p-card and payroll continuous audits. The results of the payroll continuous audit are consistent with prior audits. Ms. Stortz stated her concern that they are still finding instances where there is not timely approval for submission of payments and has shared this concern with UW management. Management is committed to working with the institutions to gain improvement in this area. The p-card continuous audit results continue to improve. Ms. Stortz said Management has substantial enhanced engagement at the institutions.

Regent Whitburn asked if the UW System still has too many p-cards, to which Ms. Stortz responded that there is always room for improvement, but she is comfortable with the numbers. Big adjustments have been made to get to levels that are reasonable and comfortable. Regent Grebe referenced the chart that shows the number of p-cards, and the dollar amounts charged, and Ms. Stortz stated that one of the challenges they continue to face is that their procurement platforms are not robust enough, or best in class. This makes the UW System more reliant on using p-cards. Vice President Rob Cramer agreed with this assessment. Regent Grebe stated we all feel like the number of p-cards is high, but no one knows the optimal number there should be. Ms. Stortz said the work her office has done auditing p-cards has definitely sent a message and has had a deterrent effect to employees who may consider using our cards inappropriately. Regent Mueller mentioned the one case of fraud that was found, and Ms. Stortz said that the institution is doing substantial investigating around that instance, and the employee's p-card has been turned off. They believe it was an isolated incident but continue to investigate. Regent Whitburn inquired why some purchases with p-cards are still being sent to personal residences, and Ms. Stortz replied sometimes that is due to practical expediency, but this is something that they continue to monitor, and have seen improvement. Regent Whitburn asked how we compare to peers in the Big Ten, and Ms. Stortz said they are meeting next week, and she will get information to bring back in June. Regent Mueller stated that dealing with instances of p-cards used to purchase gift cards, or shipping items to personal homes should not be an issue that they need to spend so much time with and she hopes to see improvement in the next report.

I.5.b.3. System Security and Access Audit Status and Comment Themes

Ms. Stortz reported that the Office of Internal Audit has issued the report for UW-River Falls since last meeting in February. They are holding exit conferences with UW-Madison this month, and UW-Platteville is almost ready – working with management to finalize their responses.

They expect to finish UW-Milwaukee, and UW-Parkside in May or early June. She discussed that what they are finding continues to be the same results as they found in the past.

Regent Grebe stated it seems as now we have a pretty good sense of what the areas of concerns and risks are, and asked Ms. Stortz to elaborate on what steps will follow. She responded by stating that Vice President Cramer, and Director of IT Security, Katherine Mayer are planning the next steps for the 2020 fiscal year. Ms. Stortz said they are collaborating, and that Ms. Mayer will be rolling out some top level tools for monitoring of our major systems. And there is continued and active engagement between the IT Security team and the chancellors. Ms. Stortz said she feels we are moving into the next generation of this process and focusing on what comes next. Vice President Cramer further explained some of the policies that Ms. Mayer is working on with the institutions, such as a data privacy policy, a risk management policy, endpoint security policy, protection and security monitoring, and deployment of the Cisco-suite continues. He believes the next steps will be to focus on developing risks, because our adversaries are moving very quickly, and the sophistication of threats is increasing. Mr. Cramer also stressed the importance of focusing on preventing breaches due to social engineering.

Regent Whitburn asked about instances of attacks to infiltrate student aid, and Mr. Cramer replied that there were several instances at UW-Milwaukee, but no others that he recalls. Regent Whitburn stated it might be worthwhile to reach out to other higher education systems to see what they are doing about this kind of IT attack. Vice President Cramer agreed that they will need to anticipate continued attacks to any payment processing. Ms. Mayer is working with Sr. Associate Vice President for Finance Julie Gordon to look at how to harden some of the financial processes. Regent Whitburn asked him to clarify the color system Ms. Mayer is putting in place, and Mr. Cramer replied that as threats are identified, they are categorized into one of four levels of communication protocol, ranging from white to red. Regent Whitburn shared his support for this new system. Vice President Cramer stated it is a good practice to check the rules set in your emails once a week, because attackers will target the rules and change them to gain access. Regent Grebe asked that Ms. Mayer return at some point in the near future and provide an update to the committee.

I.5.b.4. Progress on Management Responses to Audit Reports

Ms. Stortz reported on management's progress to date on resolving audit comments included in previously issued audit reports. The Office of Internal Audit continues to receive excellent cooperation from management. Regent Grebe stated he very much appreciated the cooperation between the audit team and the chancellors at the institutions.

I.5.b.5. Report of the Chief Audit Executive

The hotline continues to operate and since September 2, 2017 through March 15, 2019, there have been 52 incidents that were reported to the hotline – 50 of them have been closed (all are now closed as of today). 34 of the 52 either did not require investigation because of the nature of the report, or no corrective action was necessary. 16 did result in actions being taken by management to address the issues. Ms. Stortz said she feels this continues to be a good resource,

and they will be collaborating with the new compliance director on refreshing the hotline, and how they might use it.

Regent Atwell asked if she could categorize what the majority of these hotline cases were, and she replied that the vast majority are human resource issues. Sometimes it is personality clashes, but other times it is individuals behaving in a manner that is not acceptable. Regent Atwell asked if anything substantive came out of those 52 cases, and Ms. Stortz stated there were no major items in this period. No terminations of an employee, and no fraud, but in certain cases there were behaviors that needed to be addressed, and other things to be monitored. Nothing that rose to the level of needing to get system leaders, or chancellors involved. Regent Atwell asked about the training available for the hotline. Ms. Stortz said when the hotline was launched, they discussed with the individuals at the institutions who would be receiving the hotline cases and as we have staff turnover, she talks personally when a new case comes in for their institution to make sure they feel support and know the process. There was discussion about how many of our staff know the hotline is available to them, to which chancellors responded that they feel their staff is aware, and it is shared at new employee orientation. Regent Mueller expressed her support for this valuable tool. Ms. Stortz stated she will make sure we keep this in front of new employees, and students.

Ms. Stortz stated that they will present the 2020 Audit Plan at the upcoming Audit Committee meeting in June. They are getting good feedback from staff on topics, and she believes in general, what we will see for 2020 as we mature as a department and mature in our collaboration with management that the audits will be perhaps narrower in scope than they have been in the past. She expects her leadership team to be engaged in strategic consulting on a number of important initiatives happening across the UW System.

I.5.c. Internal Controls and Enterprise Risk Management

I.5.c.1. Enterprise Risk Management

Vice President Cramer discussed the status on Enterprise Risk Management (ERM) and said this is an area of management that continues to evolve. The risks being identified are common among higher education, many of these are already being worked on throughout offices in UWSA, and we need to work closely with the institutions and the board to mitigate risks.

Director of Risk Management Angela Ryan and Associate Vice President of Administration Ruth Anderson gave their update on ERM. A survey given to the institutions, and interviews conducted were discussed. The Risk Committee identified top risks and a plan of the next steps. Ms. Ryan's presentation discussed the ongoing process to establish an ERM program. Next Ms. Anderson further explained the risks to the UW System, and how they were categorized. Top risks like operational, strategic (competition), and cyber security were mentioned.

Regent Whitburn asked if Aon found any risks that we had been missing, to which Ms. Anderson replied yes, they added physical safety and security. Regent Atwell asked for clarification about the cost management risk, and Ms. Anderson explained there will be more detail in the final report in June. He also inquired about the transformational change item, and

Ms. Anderson replied essentially it is trying to make sure the ship turns and moves as a whole in the same direction. Regent Atwell spoke about the difference between risks and reality, for example, concerning student enrollment. Regent Mueller expressed her concern that this information outlines that we do not have enough money to adequately manage our campuses; and that just may be our new reality. The findings are in alignment with other institutions of higher education. The regents discussed and Regent Grebe stated the purpose for doing this was for resource allocation and prioritization.

Next the new Director of Compliance, Katherine Ignatowski was introduced and shared information about what she has been working on in her first couple months with UW System. She is in the process of establishing the new Office of Compliance, and she stated about 60-70% of her time so far has been spent on Title IX. Ms. Ignatowski is recruiting a Title IX compliance officer and has been touring the campuses meeting with leadership about compliance. Campuses would like more collaboration and need help in identifying compliance obligations. She plans to build a compliance matrix, starting at UW System level and branching out to each campus. Her objective is to identify gaps and any unnecessary overlap and hopes to come back to the Audit Committee in late fall with an update.

Regent Whitburn welcomed Ms. Ignatowski and stated the importance that the Audit Committee supports her, and that she should have support from all the campuses. General Counsel Quinn Williams stated that management has been very welcoming and supportive to Ms. Ignatowski. Regent Atwell said he hopes to hear an assessment from Ms. Ignatowski in the future on where we are robust in compliance, and where we are lacking. Regent Mueller expressed her support for the collaboration between Compliance, Risk, and Audit. She and Ms. Ignatowski discussed ethics, and how the new Office of Compliance will assess.

Regent Grebe thanked Ms. Stortz, Ms. Ignatowski, and Ms. Ryan for their combined effort of collaboration. He stated the venn diagram they shared with the committee was very welcome, and that this collaboration will make each of their functions better for the benefit of UW System.

The meeting was adjourned at 10:12 a.m.

Respectfully Submitted,

Erika Laabs
Recording Secretary