

**UW System Board of Regents
Audit Committee
UW-Madison, Union South, 3rd floor
Northwoods Room
1308 W. Dayton Street, Madison, WI
February 7, 2019**

MEETING OF THE AUDIT COMMITTEE

The meeting of the Audit Committee was called to order at 10:54 a.m. by Regent Michael Grebe. Roll call was taken, and Regents Grebe, Atwell, Millner, Mueller, and Whitburn were in attendance. 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 December 6, 2018 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 December 6, 2018 Audit Committee meeting.

Regent Grebe brought up the topic of the implementation of an ERP plan and the connection between the Business & Finance Committee, and the Audit Committee. The regents discussed the challenges of having this belong to both committees and want to ensure that efforts are not being duplicated, but also that nothing falls between the cracks. Ms. Stortz stated that her team would stay on top of monitoring this, because as was mentioned, there is a fair amount of risk associated. She indicated that Vice President Cramer and Vice President Nelson will share oversight and compliance responsibility.

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. The NCAA audits for UW-Madison, UW-Parkside, UW-Milwaukee and UW-Green Bay were recently issued. As well as a letter to UWSA for the Business Operations in Auxiliaries or Student Services (BOSS) audit. The main audits in the field garnering attention right now are the Business Operations in Auxiliaries or Student Services, and Hazardous Waste. The fieldwork is nearing the completion stage, and they expect to deliver significant product on both audits when the Audit Committee meets again in April. They are currently doing robust planning on Information Technology Procurement and have done some surveys. Also, they are working on the Tax Cut and Jobs Act of 2017 audit, which they expect to have reported by April. There is a planning meeting scheduled for the DoIT System Audit as well. All in all, the office continues to make good progress. Regent Grebe asked if they are on track for completion of all audits, to which Ms. Stortz replied yes.

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

Ms. Stortz began with the four NCAA audits for UW-Madison, UW-Parkside, UW-Milwaukee and UW-Green Bay, which had overall excellent results. The UW-Madison report concerned compliance with the NCAA, and there were no findings. The other three reports concerned the annual financial reporting and had either no findings, or routine – minor findings that either have been corrected or will be corrected in the near future by the institutions. Regent Mueller asked about the reporting inconsistencies that were found, and Ms. Stortz answered that it wasn't that the information was wrong, or wrongly categorized, it was just a matter of making it comply with the NCAA reporting guidelines – that don't necessarily translate exactly.

Regent Grebe stated this is a very public forward-facing component of the UW System, and missteps here tend to shine brightly in the public eye, and he felt it was commendable that we do not find ourselves in that place, where we would not want to be. Regent Grebe asked Ms. Stortz if it is common for other Big Ten schools to ask to have their compliance with NCAA audited, to which she responded yes. She said it is fairly common among their peers, for the same risk to reputation that was previously mentioned.

Ms. Stortz then discussed the Business Operations in Auxiliaries or Student Services (BOSS) audit, and what they have found is that there was some inconsistent coding of activities in Student Services, or Business Operations, as well as varying interpretations of policy 822. She stated that they presented this to System management as soon as possible, and they agreed with the preliminary findings that some elements of policy 822 may need enhancement, or revision in the near future. Regent Whitburn asked for clarification, and Audit Director, Paul Rediske clarified that it is concerning the primary funding source. User fees were used as primary funding source, when it was supposed to have been the GPR, to fund certain activities. Regent Mueller stressed the importance because it affects the accuracy of the financial data they receive and thanked the audit team for their work in this area. Ms. Stortz added that due to the vast number of funding strings that the UW System uses, the coding becomes even more important. Regent Whitburn asked if policy 822 needs an overhaul, to which Ms. Stortz replied that yes, it could use some enhancement – and Vice President Rob Cramer voiced his agreement.

Regent Atwell then asked Ms. Stortz if her staff was adequate, and how is their morale – given the scope. She replied that she feels very good about it, and that they have just added a very senior IT auditor to the staff. Ms. Stortz stated she believes morale is good, and they are starting to now see the fruits of their labor in trying to take a more collaborative approach with management and she feels they are in good shape.

Regent Grebe reiterated that the recent change in Audit Committee meeting format should not be seen in any way as a diminished appreciation for the hard work that that team does, or the significance of their work. He stated that Ms. Stortz has a very strong and dedicated team, and it shouldn't go without saying that they appreciate them very much.

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-Green Bay since last meeting in December. UW-Milwaukee, and UW-Madison are in the field, and they continue to make good progress. She discussed the collaboration with Interim Associate Vice

President for Information Security Katherine Mayer, and what they are finding continues to be the same results. Ms. Stortz stated that trying to scale and scope this audit for UW-Madison and UW-Milwaukee has been particularly challenging, given the decentralized nature of the work, but they have good cooperation from senior management to get the audits done. Regent Mueller mentioned the new tools that were previously discussed by Ms. Mayer and asked if Ms. Stortz was working with her on some of these items. Ms. Stortz replied that yes, in fact they are – and those would be items that they will evaluate their effectiveness and implementation for inclusion in their 2020 Audit Plan.

Regent Whitburn asked if Ms. Stortz had any other items that may be on the horizon, to which she responded that there are two things: first – they are very supportive of the pre-planning for the ERP and feels that getting more systematic business processes and technology are urgently needed. The second would be getting a true, defined, and robust enterprise risk management solution and our linking with that is critically important. The committee discussed the need for ERM C-suite personnel and what our peers are currently doing. Ultimately the responsibility rests with the UW System President. Regent Atwell reaffirmed that the absence of audit findings, does not indicate necessarily the absence of risk, and Regent Grebe mentioned the three-lines of defense, which are very important for accountability. Regent Whitburn espoused the need for a risk officer, and ‘Tone-at-the-top.’ President Ray Cross came forward and discussed the need to identify which of the risks are most harmful – to reputation, financially, as well as other things. He also said that the risks indicated on the heat map should drive the audit planning. President Cross affirmed that risk management is his job, and defining priorities is really important. The committee discussed the risk assessment heat map, the role of compliance officers, and the role of the Office of Internal Audit.

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, and timely follow through on the commitments that they made to address the findings. The office remains solidly focused on closing IT security audits, which is what our newest IT auditor will be concentrating on.

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

Planning has begun for the fiscal year 2020 Audit Plan, and later this month there will be a whiteboard session with the Chief Business Officers to brainstorm ideas. In March, the Office of Internal Audit is going live with a new cloud-based audit workpaper solution, which is in alignment with controlling risks. This product will give her team better tools and will allow them to present better reporting back to the Audit Committee.

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

I.5.c.1. Enterprise Risk Management

Assistant Vice President of Administration Ruth Anderson gave an update on Enterprise Risk Management (ERM). She shared a handout of the ERM presentation and introduced two new staff members that recently joined her team, Angela Ryan and Brent Tilton. Ms. Anderson

stated that as we know, there are very high risks across the UW System, and we have lawyers, controllers, and others managing that risk, but we need to consider if we are focused on the right risks. The purpose is to identify and prioritize risk across the UW System. Her presentation discussed the ongoing process to establish an ERM program. They are now in the process of consulting with UW senior leadership for their feedback on this, and gathering survey results shortly. She explained the Risk Committee and the process they are undergoing; right now, focus is on the System level, and later on will expand to the campus level. In March, the Risk Committee will be meeting to discuss the risks that have been identified, they will rank the risks, and make a heat map of the rankings. At the end of this step, the committee will review how the process worked, and how to move to the next level of the process and will report back to the Audit Committee on the outcome. Regent Mueller stated that because the risks indicated are at such a high level, she is not sure we need a big study to identify that things like campus security are a priority. She said she was not sure how this will enable us to identify risks and address those risks to affect change. Ms. Anderson agreed that this example of a heat map is high level, but behind this will be the drivers, or causes that will enable them to ask how they should go about addressing those issues. Regent Whitburn clarified that we will figure out what is broke – a short list, and make decisions, with a timeline, so we can put some things in a “done pile.”

Regent Millner iterated that because we govern each institution, their risks feed into the System’s risks – and there are different risks for each campus. Ms. Anderson agreed that that is a legitimate concern. Regent Grebe further stated that the campus risks impact each other as well. He said the heat map allows us to think about risks in a coherent way and consider if we are addressing them adequately. There may be things in the upper righthand corner that are never in the done pile.

Ms. Stortz stated this will allow documentation to be made for who is responsible at System and institutional levels. There are a few things the Office of Internal Audit would audit, but there are things on the heat map that would not be auditable. She stated it will be hugely important to document accountability.

Regent Grebe thanked Ms. Anderson and asked if she could provide an update at the next Audit Committee meeting in April, and she agreed.

The meeting was adjourned at 11:57 a.m.

Respectfully Submitted,

Erika Laabs
Recording Secretary