MEMORANDUM

TO: Board of Regents
THRU: Patrick K. Gamble, President
FROM: Ashok Roy, Vice President for Finance & Administration/CFO
C.C.: Chair Jacobson, Regent O’Neill
DATE: May 13, 2014
SUBJECT: Common Issues & Risks for Audit Committee Focus

The attached presentation is in response to a request from Regent Powers from the April meeting.

With the approval of the Chair of the Audit Committee and Chair of the Board, I am sending the presentation out ahead-of-time so that is does not take away from the next Board meeting.
Common Issues & Risks
For Audit Committee Focus

Presentation to: Audit Committee

June 6, 2014

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Vice President for Finance & Administration/ CFO
"The Audit Committee serves as the institution’s first line of defense when considering financial reporting, internal control, compliance, and risk management."

-AGB Effective Committee Series
1) Financial Statements, Adequacy of Internal Controls, Compliance, and Strategic Risks

1.1. Challenges/ vulnerabilities (could be possible game changers)

Revenue Trends (5 years)

- What steps are we taking to address declining enrollment, GF revenue?
- Grants... will we see growth? Where?
- Endowment/ Gifts... will we see growth?
Costs Trends (5 years)

- What are expenditures per 100 headcount of students?
- What is the cost associated with raising $1?
- What is the number of staff FTEs per 100 headcount of students?
- What are facilities expenditures per 2,000 gross square feet?
- What are the research expenditures per researcher FTE?
1.2. New accounting standards:
- What are the new GASB requirements for FY14 and how will they impact the university?

1.3. Compliance:
- Is the university in compliance with federal and state laws and regulations (including FERPA, PCI, Red Flag, OSHA, Form 990T tax returns, A-133, NCAA, financial statements audits, granting agency audits)?

1.4. Component units:
- Which of the university’s component units (Nanook Innovation Corporation, Seawolf Holdings) have had significant activity?
1.5. Enterprise risk management

- What risks are acceptable and how do they align with *Shaping Alaska's Future*?
- What is our risk tolerance? How much financial risk is the university willing to take? What risks are we clearly unwilling to take?
- Do we have a true understanding of whether our risks reflect the real operating environment?
- Have we clearly identified management’s decision making responsibilities with regard to risk?
- Do we look out for conflicts of interest?
• What risks are posed by adapting to new business models driven by changes in say, student loan programs/ federal funding/ grants/ clinical trials/ accreditation, etc.?

• When was our Business Continuity/ Disaster Recovery Plan last updated?
2) Education Trust of Alaska and the University Pension Funds

- Are the trusts in compliance with the Internal Revenue Code and regulatory requirements?
- Are the investments managed in a prudent manner?
- Is the University correctly assessing its potential liabilities?
3) Land Grant & Inflation Proofing Funds

- Are the investments managed in a prudent manner?
- Can the investment portfolio return support continued spending in a persistent down market environment?
- Is the spending rate set at an appropriate level?
4) **Operating Funds**

- Are the investments managed in a prudent manner?
- What is the level of appropriate risk in the portfolio?
- Is there adequate liquidity?
5) Cyber-Security (potential impact on university finances, reputation, are huge): Cyber-attacks are no longer a matter of if, but when

- What is our cyber risk?
- Where do the greatest cyber threats and risks to the university’s highest value assets come from?
- How are human capital and financial capital aligned to confront the greatest threats we face?
- Do we use a cyber-security scoreboard for principal risk areas/incidents/trending, etc.?
- Are there clear institutional protocols protecting the confidentiality of personally identifiable information?
- Are there proprietary rights for information created, received and maintained (email, course related material, institutionally owned software, etc.) by faculty/staff/students located on-premises or in the cloud?
- Is there a clean delineation of intellectual property rights or ownership?
6) **External Auditor**

- How does the university’s financial health compare to last year?
- Is the audit opinion “unqualified?”
- Were any internal-control issues?
- How comfortable are you with management’s accounting estimates?
- Is there any evidence of fraud?
- Any issues with management that the committee should be aware of?
7) **Internal Audits**

- Provide trends
- Is the cycle-time to get reports out reasonable?
- Do you track major findings and closure rates?
- How does your team search for fraud?
8) **Title IX: Sexual Misconduct**

55 higher education institutions are currently under review by the U.S. Department of Education Office of Civil Rights. AGB in conjunction with the National Association of College & University Attorneys has asked Board members to satisfy themselves that University administrators are addressing the issue in a way that protects students, faculty, staff, and the University.