

University of Alaska

**Statewide Office of Audit
& Consulting Services**

Fiscal Year 2019 Annual Report

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Strategic Partners for Shaping Alaska's Future

Executive Summary

The Board of Regents of the University of Alaska has oversight responsibility of internal and external audit functions, and for ascertaining the existence and adequacy of accounting and internal control systems and safeguards over University assets. The mission of the Office of Audit and Consulting Services (A&CS) is to “Assist the board and management in the effective discharge of their fiduciary and administrative responsibilities by providing analysis, appraisals, counsel, information and recommendations concerning activities reviewed and by promoting effective controls for the recording and reporting of operational activities and for the custody and safeguarding of assets.”

This report contains an overview of the A&CS organization, a summarization of the internal reports issued over the past fiscal year and progress made toward completing the FY2019 and FY2020 audit plans. The information provided in this report documents how A&CS assists management in mitigating risk and identifying improvements to UA operations. Management responded to the audit report recommendations from the past year with adequate action plans or acceptance of the risk by not taking action. Action plans and acceptance of risk were communicated via final audit reports.

This report is being provided in accordance with the audit charter, which states:

- P05.03.020. Organization.
 - A. The chief audit executive shall report administratively to the chief finance officer and functionally to the chair of the Audit Committee of the board.
- P05.03.026. Audit Planning.
 - A. The chief audit executive shall independently develop the annual audit plan using a risk-based prioritization of the audit universe.
 - B. The chief audit executive shall present the audit plan to the Audit Committee for review and approval.
 - C. Significant deviation from the formally approved plan will be communicated to senior management and the Audit Committee through periodic status reports.

The A&CS charter was developed in accordance with the internal auditing standards promulgated by the International Institute of Internal Auditors (IIA):

Standard 2010 “The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization’s goals. The internal audit activity’s plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.”

Standard 2020 “The chief audit executive must communicate the internal audit activity’s plans and resource requirements, including significant interim changes, to senior management and the board for review and approval.”

Standard 2060 “The chief audit executive must report periodically to senior management and the board on the internal audit activity’s purpose, authority, responsibility, and performance relative to its plan...”

Confirmation of Organizational Independence

The Office of Audit and Consulting Services (A&CS) confirms its organizational independence to the Board of Regents Audit Committee.

- ✓ The chief audit executive (CAE) had direct and unrestricted access to senior management.
- ✓ The CAE and staff performed their work objectively – no quality compromises were made and judgment on audit matters was not subordinated to any others in the organization.
- ✓ The CAE and staff had no conflict of interest situations and did not perform operational duties or make management decisions external to A&CS.
- ✓ A&CS had no impairments to organizational independence such as scope limitations; restrictions on access to records, personnel, properties; or resource limitations.

Institute of Internal Auditors Standards for Independence:

❖ **1100 – Independence and Objectivity**

The internal audit activity must be independent, and internal auditors must be objective in performing their work.

❖ **1110 – Organizational Independence**

The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

❖ **1111 – Direct Interaction with the Board**

The chief audit executive must communicate and interact directly with the board.

❖ **1120 – Individual Objectivity**

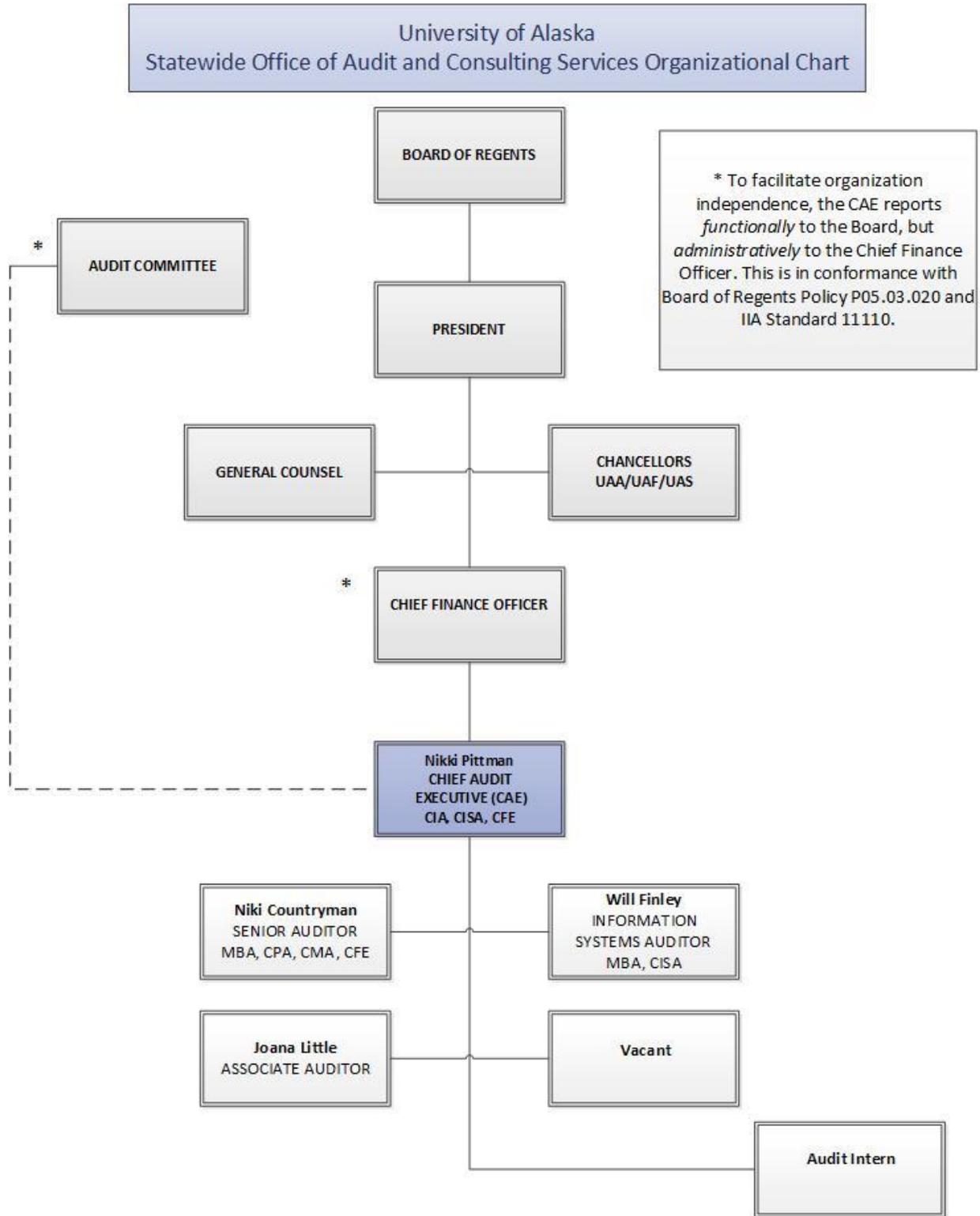
Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

❖ **1130 – Impairment to Independence or Objectivity**

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to the appropriate parties. The nature of the disclosure will depend upon the impairment.

Organizational Chart

As of August 2019



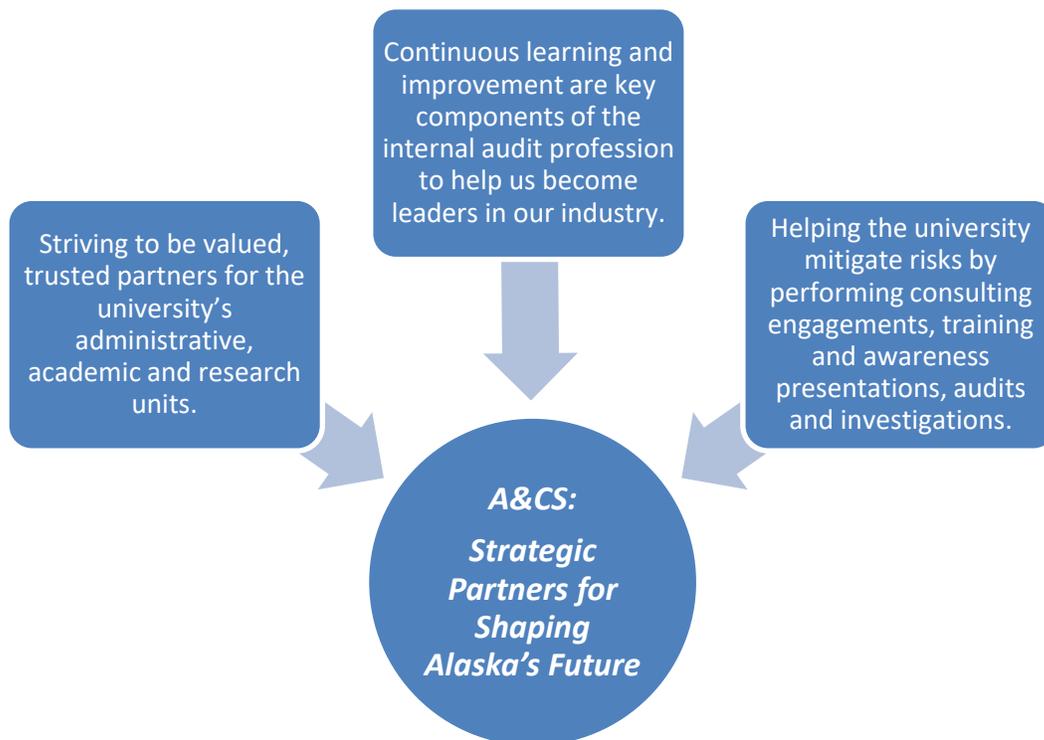
Audit Staff Profile

Five professional audit staff serve all locations within the UA system. We have had one vacancy since March 2019 which remains unfilled. There will be another vacancy beginning January 2020. A School of Management student is often hired as an audit intern to assist with projects such as follow-up auditing and development of flowcharts. We may need to incorporate the intern into more of the audit projects to remediate the current situation with vacancies.

The internal auditors have a variety of specialized subject matter expertise:

- 2 Certified Information Systems Auditors (CISA)
- 2 Masters of Business Administration (MBA)
- 1 Certified Public Accountant (CPA)
- 1 Certified Internal Auditor (CIA)
- 1 Certified Management Accountant (CMA)
- 2 Certified Fraud Examiners (CFE)

Achievement of professional certifications supports A&CS in the overall achievement of its *FY20 Annual Audit Plan*, which is consistent with the IIA Standards, the Code of Ethics, and the direction of the internal audit profession to serve as *independent yet trusted advisors* to their organizations.



Audits and Projects Completed in FY19

During the period from July 2018 to June 2019 the following engagements were completed:

<i>Institution</i>	<i>Engagement Title</i>	<i>Procedures Performed</i>	<i>Outcome</i>
UA System	Tuition and Fees	<p>Performed the following procedures to determine compliance with Regents Policy and university policies and processes for a selection of 17 service, use and administrative fees, 42 course fees, and 4 differential tuition surcharge fees:</p> <ul style="list-style-type: none"> • Interviewed administrators responsible for each fee. • Reviewed revenue and expense data for each fee to ascertain that fees were used for their intended (approved) purpose. • Reviewed the fee proposal and approval documentation. • Determined the process for campus review of fees. <p>Analyzed tuition rates in comparison with peer institutions which included WICHE and IPEDS data.</p> <p>Analyzed cost of attendance as compared to peer institutions.</p>	<p>Report Status: Preliminary report distributed; responses due 5/3/19.</p> <p>One response is outstanding.</p> <p>Final report will be compiled once all of the management responses are received.</p>
UA System	Data Centers	<p>Observed the environmental and physical controls for the selected campuses and locations:</p> <ul style="list-style-type: none"> • Kenai Peninsula College • Mat-Su College • Sitka Campus • Hillsboro Center • Kuskokwim Campus 	<p>Report Status: Final reports were distributed for each location.</p> <p>The Kuskokwim Campus draft response is pending due to significant turnover at the campus.</p>
UA System	Attorney-Client Privileged Audit (17-435)	This audit was performed under attorney-client privilege.	Report Status: Final audit report distributed.

Statewide/System	Network	<p>Reviewed network security procedures and documentation to assess the maturity of the program.</p> <p>Reviewed the results of a January 2019 vulnerability scan for eight network perimeter routers.</p>	Report Status: Preliminary report distributed; response due 5/24/19.
UA System	Attorney-Client Privileged Audit (18-426)	This audit was performed under attorney-client privilege.	Report Status: Draft report distributed; responses due 9/6/19.
UAA and UAF	Subrecipient Monitoring	Reviewed subrecipient and contractual services activity from 21 sponsored project awards for compliance with federal requirements, efficient and effective processes, and proper classification.	Report Status: Preliminary report distributed; responses due 9/6/19.
UAF	Cooperative Extension 4-H Program	<p>Reviewed financial processes at the ten extension offices, including cash handling, petty cash and change funds, deposits, journal vouchers procurement card, travel, fiscal oversight of 4-H club funds, and grant fiscal monitoring.</p> <p>Reviewed the structure of UAF and 4-H and the delineation of responsibilities, funds, and resources.</p>	Report Status: Draft report is under review.
Selected Campuses	Business Office Segregation of Duties	<p>Analyzed the business office functions for adequacy of segregation of duties:</p> <ul style="list-style-type: none"> • Kuskokwim Campus • Bristol Bay Campus • Kenai Peninsula Campus • Sitka Campus 	Report Status: Draft report on hold pending UA organizational revisions.

System	Human Resources Segregation of Duties and Best Practices	Compiled best practices for internal controls for the functional categories setup within UA Human Resources department's new organizational structure. An emphasis was placed on segregation of duties.	Report Status: Draft report distribution expected by 8/16/19.

Final Status of the FY19 Audit Plan

The following outlines the status of planned activities for fiscal year 2019. These activities were presented and approved by the Board of Regents Audit Committee in May 2018.

<i>Status of FY19 Activities</i>	
Scheduled Projects Completed	<ul style="list-style-type: none"> • FYE18 External Audit <ul style="list-style-type: none"> ○ Payroll ○ Journal Entries ○ Disbursements ○ Wires ○ Tuition and Fees ○ Procurement Card ○ Search for Unrecorded Liabilities ○ Plant, Property and Equipment • State of Alaska Executive Travel and Compensation Report for CY2018 • Network
Added Projects Completed	<ul style="list-style-type: none"> • Investigations • UAF Cooperative Extension 4-H
Projects Completed from Prior Years	<ul style="list-style-type: none"> • Attorney-Client Privileged (18-426) • Subrecipient Monitoring • Data Center – Hillsboro Site • Business Office Segregation of Duties <ul style="list-style-type: none"> ○ Kuskokwim Campus ○ Bristol Bay Campus ○ Kenai Peninsula Campus ○ Sitka Campus
Projects Deferred ¹	<ul style="list-style-type: none"> • UAF Athletics (FY20) • Revenues and Banking (FY20) • Protection of Minors (FY20)
Other Activities	<ul style="list-style-type: none"> • Follow-up Auditing • Continuous Controls Auditing • Tracked 15 external audits with some still in progress • UA Confidential Hotline - System-wide administration • Participated in: <ul style="list-style-type: none"> ○ Payment Card Industry (PCI) Work Group ○ Computer Incident Response Team (CIRT) ○ Business Council ○ GDPR Compliance

¹ Throughout the year, new risks and competing priorities arise, resulting in the need to revise the original audit plan.

	<ul style="list-style-type: none"> ○ HIPAA Compliance / Review Remediation ● Advisory: <ul style="list-style-type: none"> ○ Foundation Art Inventory ○ Mileage Reimbursement Practices ○ Subrecipient Processes Regarding Risk ○ Capital Project Tracking ○ Cash Handling ○ Organizational Culture Assessment Strategies and Inputs ○ Hotline Benchmarking ○ HR Data Request Standardization ○ Procurement Card Log Procedures ○ Grant Record Retention ○ Property Self-Assessment Procedures ○ FEMA Accounting and Documentation ○ Single Accreditation
In Progress	<ul style="list-style-type: none"> ● Change Management ● Protection of Minors ● Self-Assessment Tools <ul style="list-style-type: none"> ○ Business and Financial Controls ● Training and Onboarding Tools ● Ethics and Conflict of Interest ● Oracle Database ● HIPAA Remediation (Advisory Role)

2019 Fiscal Year Goals and Accomplishments

Audit and Consulting Services Mission Statement

The mission of the audit and consulting services department is to assist the board and management in the effective discharge of their fiduciary and administrative responsibilities by providing analysis, appraisals, counsel, information and recommendations concerning activities reviewed and by promoting effective controls for the recording and reporting of operational activities and for the custody and safeguarding of assets.

The International Institute of Internal Auditors (IIA) defines internal auditing as “...an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

To meet the department’s mission and the definition of internal auditing, the Office of Audit and Consulting Services establishes annual goals in our three *Strategic Plan* areas: Quality Assurance, Building Knowledge Depth, and Outreach and Communication.

Accomplishments achieved in fiscal year 2019 are outlined as follows:

Quality Assurance (QA)	
<i>Goal: Employ internal operational practices that comply with auditing standards, promote efficient use of limited resources, and provide consistent customer service.</i>	
<i>Accomplishments</i>	<i>Details</i>
1. Effectively identify the best use of limited audit resources to maximize broad-based coverage in key risk areas.	Used a risk-based process to identify engagements for the audit plan. The process included interviews with senior leadership, discussion with the Board of Regents and external auditors, industry analysis, and results from prior audits: internal, external and agency. The resulting audit plan was presented to the President, executive management, and the Audit Committee for their approval. A&CS completed 6 engagements and issued 3 reports, with 3 more reports in the reporting stage.
2. Maximize benefit of all external audit services.	Acted as a liaison with external auditors in relation to federal compliance and financial statement audits. This included two audits of the UAF Sikuliaq Research Vessel and two audits of federal property.
3. Make value-added recommendations that identify strengths and system improvements to better meet objectives.	Draft recommendations were discussed with and vetted by staff and leadership for reasonableness, practicality, and expected benefit to be gained / risk mitigated. This process occurs during fieldwork, exit meetings, and often during the draft report stage. Many opportunities are provided to

	collaborate with the university audit customer and ensure that recommendations will serve the intended purpose.
4. Identify and effectively respond to risks associated with fraud, waste and abuse.	<p>3 investigations completed.</p> <p>Triaged 44 hotline reports, plus 15 reports that were received through other mechanisms.</p> <p>15 instances where the potential for fraud, waste or abuse were reviewed and deemed that an investigation was not necessary, the determination is in-progress, or the situation was investigated by university police or other unit.</p>  <p>Toll Free 855-251-5719</p> <p>The chief audit executive and the senior auditor are Certified Fraud Examiners.</p> <p>Each auditor attended fraud training.</p> <p>Audit-level risk assessments include a fraud risk assessment.</p>
5. Customer Service	<p>We strived for communications that were collaborative and sought to find agreed upon solutions to risks and opportunities to enhance effectiveness and efficiencies of processes.</p> <p>We increased our flexibility on timelines to allow time for departments to adjust to decreasing budgets, decreasing personnel, and non-audit deadlines.</p> <p>We emphasized to audit customers the expectation of “no surprises” regarding meetings and tentative findings related to regularly scheduled audits.</p>
Building Knowledge Depth	
<i>Goal: Employ highly-effective personnel that possess the technical and effective communication skill sets necessary to ensure successful identification and implementation of value-added recommendations.</i>	
<i>Accomplishments</i>	<i>Details</i>

<p>6. Retention of Institutional Knowledge</p>	<p>Maintain and update controls matrix and repository of control flow charts. These documents are updated periodically and ideally after internal audits are completed.</p>
<p>7. Training</p>	<p>Each auditor received a minimum of 40 continuing professional education units (CPEs) to improve their knowledge on higher education audit topics and techniques, remain abreast of emerging higher education risks, and achieve and maintain a high level of performance. We focused on IT general controls, root cause analysis, soft skills, and fraud.</p> <p>A minimum of 40 CPE are required by governmental auditing standards. Additionally, certified auditors complied with the CPE requirements of their certifying organizations.</p> <p>All staff participated in professional organizations to remain current on industry and technical trends as well as facilitate networking opportunities to learn from our peers at other institutions.</p>
<p>8. Performance and growth</p>	<p>Annual career development planning is in progress with all audit staff.</p> <p>Performance evaluations will be completed by the end of August for audit staff.</p>
<p>9. Contributions to the profession</p>	<p>Staff member participation included:</p> <ul style="list-style-type: none"> • Systems of Higher Education Chief Audit Executive forum • Association of College and University Auditors (ACUA) Professional Education Committee Chair • Connect ACUA Forum • 2019 ACUA Audit Interactive Conference Presenter: Subrecipient Monitoring Audits • 2019 PNWHEIA Host Organization
<p>Outreach Goals</p>	
<p><i>Goal: Provide valuable resources through system-wide communication and education to assist campuses in meeting their objectives.</i></p>	
<p><i>Accomplishments</i></p>	<p><i>Details</i></p>
<p>10. System-wide communication and education</p>	<p>Provided:</p> <ul style="list-style-type: none"> • Statistics on the reports received through the UA Confidential Hotline and directly to A&CS. • Information about fraud and emerging risks occurring at other higher education institutions. • Input during UA committee meetings on CIRT, HIPAA, GDPR, and HIPAA.

	<ul style="list-style-type: none"> • Input on an ad-hoc basis and upon request as situations arose. • Resources on risk assessment processes and enterprise risk management theory.
11. Remain current on organizational strategy and risks	Attended Board of Regents and Business Council meetings to remain current on institutional changes and provide consultation on current issues and initiatives.

Quality Assurance Review

- 2016 - Received a rating of **“Generally Conforms”** from a peer review conducted by the chief audit executive from Washington State University. ***This is the highest possible rating and signifies an upgrade*** from the prior rating in 2011 of “Partially Conforms.” It highlights the improvements the department continues to make on an ongoing basis. The review is required to occur at a minimum of every 5 years.
- 2017 - The CAE participated on QAR teams for Oregon State University and Idaho State University in FY17.
- 2018 - Implementation of 2016 QAR recommendations, including the addition of a strategic plan section in the FY19 Annual Audit Plan.
- 2019 – Completion of the quality improvement self-assessment. This is scheduled to occur annually during the years between the full QAR.
- 2020 – Planning to complete the next iteration of the quality improvement self-assessment. We will also begin planning the next full QAR.
- 2021 – Planning to perform the next full QAR, which will be the departments third QAR.

Status of FY2020 Annual Audit Plan

As of August 2019

Italic Items - Have been completed or are in progress

External Financial Audit Support

Payroll

Journal Entries

Cash Disbursements

Tuition and Fees

Wires

Procurement Card

Search for Unrecorded Liabilities

Property

Audits and Projects

Audit Topic	Description	Status²
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Compliance Reviews

1. UAF - Protection of Minors	<i>Review of compliance with the protection of minors regulation at selected campuses.</i>	PL
2. Grant Expenditures	<i>Review of compliance with grants and contracts documentation. Expected to include follow-up on the prior effort reporting audit.</i>	N
3. UAF - Athletics	<i>Review of financial compliance.</i>	NS

Function and System Reviews

4. Record Retention	<i>Review of adequacy of record retention processes with an emphasis on records related to carrying out work on sponsored projects.</i>	NS
5. Revenues and Banking	<i>Review of revenue processes from collection of funds to deposit into the bank account. Includes review of mechanisms used for deposit, such as electronic banking, and use of university bank accounts.</i>	NS

² Status Legend:

I = In Progress; C = Completed; R = Reporting Stage; N = Next in Queue; NS = Not Started; PL = Planning Complete but Project is on Hold

6. Cash Receipts	<i>Cash receipts reviews, to include surprise cash counts.</i>	PL
7. IT Vendor Management	<i>Review of the processes used when contracting with vendors that handle or have access to sensitive university data and records. Controls for data privacy and security will be emphasized. (Expected to start in FY19 and be completed in FY20).</i>	PL
8. UAA - College or School	<i>Operational audit of business processes for a selected college or school; selection to be determined during engagement level audit planning.</i>	NS

Information Systems Reviews

9. IT Risk Assessment	<i>Collaborate with CITO and CIOs to determine whether a comprehensive IT risk assessment or deep dive risk assessment into specific areas will be the most beneficial for UA; perform risk assessment and provide results to leadership.</i>	NS
10. Building Entry Key Cards	<i>Review of configuration for the Banner database. Evaluate the adequacy of security for data that is maintained within the database.</i>	NS

Advisory

11. Training and Onboarding	<i>Emphasis will be on 1) the training and guidance provided to individuals who are new to leadership positions or new to UA, and 2) training for compliance functions.</i>	I
12. Self-Assessment Tools	<i>Development of questionnaires and risk assessment tools to share with campuses on controls evaluation and best practices in requested areas such as off-campus activities and compliance.</i>	I
13. Hotline Statistics and Information	<i>Reporting hotline statistics for the UA Confidential Hotline and providing analysis on themes identified from the hotline reports. Providing awareness and information on fraud and other risks that have become headline stories for other colleges and universities outside of the UA system.</i>	I

Ongoing Audits

14. Follow-up Auditing	<i>Review of prior audit recommendations to determine if the formal responses from management were implemented as stated and if they are operating as intended to mitigate the identified risks.</i>	I
15. Continuous Controls Auditing	<i>Follow-up on the results of automated monthly tests of controls. Development of new tests when time permits.</i>	I

External Audit Status Report

External Audit Reports & Activities

Completed:

1. UAF OIG Audit of Sikuliaq NSF Awards (National Science Foundation)
2. UAF NSF Sikuliaq Incurred Costs (National Science Foundation)

Work in Progress:

3. FY17 Fringe Benefit Incurred Costs (Defense Contract Audit Agency)
4. FY18 Fringe Benefit Incurred Costs (Defense Contract Audit Agency)
5. UAF Property Management System (Office of Naval Research)
6. UA Annual Financial Audit FY19 (CliftonLarsonAllen, LLP)
7. UA Uniform Guidance Audit FY19 (CliftonLarsonAllen, LLP)
8. UA Foundation FY19 (CliftonLarsonAllen, LLP)
9. Education Trust of Alaska FY19 (PriceWaterhouseCooper)