Status of the FY2018 Annual Audit Plan

FY2018 Audit Plan changes since the April 2018 Board of Curators meeting.

<table>
<thead>
<tr>
<th>Number of Audits</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal Audit Plan (includes 11 audits brought forward from the FY2017 Plan)</strong></td>
<td>75</td>
</tr>
<tr>
<td>+Additions to Plan</td>
<td>0</td>
</tr>
<tr>
<td>-Audits Reported Canceled at the April Board Meeting</td>
<td>-6</td>
</tr>
<tr>
<td>-Recommended cancellations*</td>
<td>-24</td>
</tr>
<tr>
<td>-Moved forward to the FY2019 Internal Audit Plan</td>
<td>-15</td>
</tr>
<tr>
<td><strong>Adjusted Total</strong></td>
<td>30</td>
</tr>
</tbody>
</table>

*See FY2019 Risk Assessment and Internal Audit Plan for detail

Status of remaining audits brought forward from the FY2017 Audit Plan:
- Eight audits completed
- Three audits in process

Status of remaining audits (including changes noted above) in the FY2018 Audit Plan
- Seven audits completed
- Twelve audits in process
Internal Audit and Consulting Services (IACS) has completed 15 projects from the fiscal year 2018 Plan with another 15 in progress. The Annual Audit Plan is dynamic as IACS continues adapting to emerging concerns and priorities throughout the year. The table below details the completed and in progress audits.

<table>
<thead>
<tr>
<th>Unit</th>
<th>Assurance Projects</th>
<th>Consulting Projects</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>UM System</td>
<td>5</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>MU</td>
<td>3</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>MU Health</td>
<td>7</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>UMKC</td>
<td>0</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Missouri S&amp;T</td>
<td>3</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>UMSL</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19</strong></td>
<td><strong>11</strong></td>
<td><strong>30</strong></td>
</tr>
</tbody>
</table>

### FY2018 Internal Audit Work Focuses on:

**Safeguarding Financial Assets**

A major portion of IACS’s time in FY2018 has been, and continues to be, spent on assessing the effectiveness of safeguarding financial assets.

1. **Purchasing Card Transactions.** For five months, all Internal Audit resources were dedicated to completing desk audits of purchasing card transactions across the UM System, its four campuses and MU Health. Brown, Smith Wallace was also engaged to apply data analytics to two years of transactions. This work assisted in more accurately identifying areas of concern for further review. Results for each unit are being finalized as is an assessment of the enhanced process for managing and approving purchasing card transactions.

   No major issues of inappropriate use were identified but there is opportunity to align policies and procedures with the reality of operations. These will be part of the recommendations provided to management in the final report.

2. **Fraud Investigation Follow-Up.** Three audits were added to the FY2018 Plan as a result of a fraud investigation completed by IACS. These are in progress and will provide

June 21-22, 2018

OPEN – AUD – INFO 1-2
leadership with assurance as to the effectiveness of safeguards to reduce the risk for misappropriation of assets or fraud.

These are:
   a. University Bank Accounts
   b. Student Bank Accounts
   c. Cash Operations

3. **Vendor Master File.** Management of the Vendor Master File is another safeguard against fraud when procedures designed to prevent or detect the establishment of fake vendors are implemented. This audit is currently in process.

4. **Accounts Payable Audit.** IACS is proposing an Accounts Payable Audit for the FY2019 Plan. This will complete a review of all major areas and processes related to safeguarding of University financial assets.

**Assessing HIPAA Compliance**

The University of Missouri System is a hybrid entity as defined by the Health Insurance Portability and Accountability Act (HIPAA) meaning it has some activities covered by HIPAA and others that are not. Units that engage in activities covered by HIPAA are designated as covered components.

The largest of the University’s covered components is MU Healthcare but each of the campuses as well as the System have other units that are also considered covered components. In order to provide some assurance each of these areas is complying with HIPAA, IACS began a program in FY16 to regularly evaluate some aspect of HIPAA compliance. To date those evaluations have either been in the form of an audit or a facilitated self-assessment.

A facilitated self-assessment involves the audit team working with the area to help them conduct a risk analysis (considered a threshold issue for HIPAA Security Rule compliance.) It’s done when an area knows such an analysis is needed but there are questions about how to best accomplish it. In those circumstances, it’s far more useful than an audit which would simply restate what is already known.
<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Covered Component</th>
<th>Type of Engagement</th>
<th>Description of Engagement</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>MU Healthcare</td>
<td>Audit</td>
<td>Business Associate Agreements—assess the efficiency and effectiveness of the policies, processes and controls related to establishing and maintaining these agreements.</td>
</tr>
<tr>
<td>2017</td>
<td>MU Healthcare</td>
<td>Audit</td>
<td>Security Rule gap analysis—determine if the activities typically associated with Security Rule compliance are occurring.</td>
</tr>
<tr>
<td>2017</td>
<td>UMKC Student Health and Wellness</td>
<td>Audit</td>
<td>Security Rule compliance—ensure the risk analysis activities meet the requirements of the HIPAA Security Rule</td>
</tr>
<tr>
<td>2018</td>
<td>Missouri S&amp;T Student Health Services</td>
<td>Facilitated Self-Assessment</td>
<td>Security Rule compliance—ensure the clinic has a completed risk analysis and methodology for completing future analyses.</td>
</tr>
<tr>
<td>2018</td>
<td>UM Benefits Plan</td>
<td>Facilitated Self-Assessment</td>
<td>Security Rule compliance—ensure the clinic has a completed risk analysis and methodology for completing future analyses.</td>
</tr>
<tr>
<td>2018</td>
<td>UMKC Dental School</td>
<td>Facilitated Self-Assessment</td>
<td>Security Rule compliance—ensure the clinic has a completed risk analysis and methodology for completing future analyses.</td>
</tr>
</tbody>
</table>

Operations Reviews
IACS was able to validate and/or recommended improvements to processes in the following areas:

1. College of Arts, Science and Business  
2. Parking Operations  
3. College of Human Environmental Sciences  
4. Bookstore Inventory Process  
5. School of Medicine HR Processes  
6. Department of Medicine  
7. Client Generated Construction Change Orders  
8. Encryption – Desktops, Laptops, Mobile Devices  
9. Higher Learning Commission Pre-accreditation Review
Additional Support Provided by IACS

1. The MU Finance Division has developed FaCTS (Financial Competency Training Series), an innovative approach to educating employees about fiscal responsibilities. The Internal Audit Team is privileged to be part of this training.

2. The IACS staffs and supports the Ethics and Compliance Hotline.
Audit Completion since April 2018

Listed below are the internal audit assurance reports issued since the April 2018 meeting of the Board of Curators. An executive summary of the audits is included for your information.

The Interim Chief Audit Executive will be available to answer questions. There is a time-lag between when field work is completed and when a report is issued in order to provide appropriate time for agreed upon action plans to be written. The full audit reports are available upon request from the Office of Internal Audit and Consulting Services.

<table>
<thead>
<tr>
<th>Internal Audit Assurance Reports</th>
<th>Report Risk Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Construction Change Orders, MU Health</td>
<td><img src="red" alt="1" /> <img src="orange" alt="2" /> <img src="yellow" alt="3" /> <img src="green" alt="4" /> <img src="blue" alt="5" /></td>
</tr>
<tr>
<td>May 2018</td>
<td></td>
</tr>
<tr>
<td>2. Higher Learning Commission Pre-Accreditation Review</td>
<td><img src="green" alt="1" /> <img src="blue" alt="2" /> <img src="yellow" alt="3" /> <img src="orange" alt="4" /> <img src="red" alt="5" /></td>
</tr>
</tbody>
</table>

The reports include an executive summary including our assessed level of risk, as well as a summary of issues and management's action plan. The following page contains the criteria used for the assessment of risk.

In addition, the Office of Internal Audit and Consulting Services completed one consulting project and a facilitated self-assessment:

1. Risk Assessment and Audit Plan Development
2. HIPAA Security Rule Assessment: Student Health Services, Missouri S&T
Assessment of Risk:

5 **Extreme** – Very significant impact to the Institution, campus, or unit. Significantly material in terms of financial impact, external compliance violation, adverse publicity, significant or pervasive weakness in control environment, significant inefficiencies, etc. Typically requires campus and UM System administration along with Board attention to resolve.

4 **High** – Major impact to the Institution, campus, or unit. Material in terms of financial impact, external compliance violation, adverse publicity, significant or pervasive weakness in control environment, significant inefficiencies, etc. Typically requires campus and/or UM System administration to resolve.

3 **Medium** – Moderate in terms of impact to the Institution, campus, or unit. Individual instance or an aggregate of low risk items considered moderate in terms of financial impact, compliance violation, adverse publicity, weakness in control environment, efficiency, etc. Typically requires leadership attention for the selected audit area to resolve with some input from campus and/or UM System administration.

2 **Low** – Minor in terms of impact to the Institution, campus, or unit. Relatively immaterial in terms of financial impact, no external compliance violation, little adverse publicity, minor inefficiencies, etc. Typically limited to leadership of the selected audit area to resolve.

1 **Negligible** – Incidental or no impact to the Institution, campus, or unit. Immaterial or no financial impact, no external compliance violation, no adverse publicity, minor inefficiencies, etc. Typically requires little or no action to resolve.
Audit Background
In late 2015, Internal Audit initiated an MU Health Construction Change Orders Audit, which was designed to evaluate change order controls, as well as the effectiveness of recent improvements made to reduce client-generated change orders for MU Health construction projects. Phase I of this two-part audit analyzed client-generated change orders initiated before the following construction improvements were implemented:

- Improved communication between MU Health and Campus Facilities, Planning and Development.
- Consistent construction managers and project managers.
- Increased education on MU Health construction process.
- MU Health staff no longer working in construction areas on side projects (contractor to complete all work prior to substantial completion).
- Performing cost studies to create budget-driven projects aligned with strategy.
- Incorporation of alternate projects.
- No longer requiring equipment purchases by end of fiscal year (June 30th).
- Engaging the right players at the right time.

Based on the analysis completed for the MU Health construction projects selected in Phase I, 88% of the “Client Revision” change orders would have been eliminated or drastically reduced if the above-mentioned improvements were in place during the life of the Phase I projects.

The second part of the audit evaluated whether the construction improvements had a positive effect on the client-generated change orders initiated during a subsequent large-scale project. Phase II, which began in April of 2018, analyzed client-generated change orders initiated throughout the Missouri Orthopaedic Institute’s (MOI) Addition and Renovation project, which was completed in August 2017.

Issues Summary
No issues were identified.

Management Action Plan Summary
No management action plans are necessary.

Risk Rating Rationale
The construction improvements appeared to reduce both the number and overall cost of client-generated change orders initiated during the MOI Addition and Renovation. There are no recommendations.
Audit Background
The Missouri University of Science and Technology (Missouri S&T) is accredited through the Higher Learning Commission (HLC), a process that follows a 10-year cycle. Comprehensive evaluations are conducted twice during this cycle, and include an Assurance Review, a review of Federal Compliance Requirements, a student opinion survey, and an on-site visit by a team of HLC peer reviewers. The most recent HLC review was completed in 2009, with the University issuing its response in the 2011 Missouri S&T Assessment Progress Report. A team representing the HLC will conduct its next comprehensive evaluation of Missouri S&T in October of 2018.

In preparation for the 2018 HLC review, Missouri S&T requested Internal Audit and Consulting Services provide assurance on specific accreditation components that will be part of the 2018 review: progress made to date on the development and implementation of a program to assess graduate student learning outcomes; and the data accuracy and reliability of five key indicators, four of which are federally reported.

Issues Summary
• Missouri S&T should ensure its Graduate Learning Outcomes (GLO) program has an institutional home, and designate who will be responsible and accountable for implementing the program. Additionally, the University should consider ways to promote faculty ownership of the assessment process to help demonstrate a “culture of assessment” during the Higher Learning Commission’s 2018 accreditation review.
• The University follows very specific processes, including multiple validations, when generating and reporting key data indicators to the federal government. This data will be part of the HLC accreditation review and there is no evidence the data is unreliable. However, when the federal government changes the definitions of those key data indicators, the University should adequately document how those changes are addressed within PeopleSoft and other relevant systems, including documenting all approvals given prior to making changes, to help ensure continued data reliability when collecting and reporting institutional data.
• Providing a link to student outcome data in a more prominent location, such as the Missouri S&T home page, would ensure compliance with the HLC requirement that this information be made available to the public, and would also make it easier for the public to access this information.

Management Action Plan Summary
A position of Vice Chancellor for Research and Dean of Graduate Studies has been created and is currently being filled. Once in place, that leader will be given responsibility for ensuring the continuation of the GLO program.
A service request will be entered in the Division of IT (DoIT) service management software (currently BMC Remedy) to identify and document the change request and appropriate approvals. Prior to release of the change to production, a Change Management Request will be entered and approved according to DoIT Change Management procedures.

The Missouri S&T Office of Marketing and Communications will be engaged to provide a link to student outcome data which is prominent and easy to see on the Missouri S&T home and also on the Future Students Web Page.

**Risk Rating Rationale**
Missouri S&T can demonstrate it has implemented half of the recommendations from the 2009 HLC accreditation review related to assessing graduate learning outcomes. There is also no evidence that key data indicators, which will be part of the HLC accreditation review, are based on unreliable data.