# Joint Audit & Compliance Committee
## Agenda

10:00 am – 10:45 am – Executive Session
10:45 am – 12:00 pm - Public Meeting

| Issue | Proposed Action | Tab |
|---|---|---|
| Executive Session to discuss:<br><br>• C.G.S. 1-200(6)(E) – A discussion of any matter which would result in the disclosure of public records or the information contained therein pertaining to preliminary drafts or notes that the public agency has determined the public's interest in withholding outweighs the public's interest in disclosure. [1-210(b)(1)]<br><br>• C.G.S. 1-200(6)(E) - A discussion of any matter which would result in the disclosure of public records or the information contained therein pertaining to strategy and negotiations with respect to pending claims regarding Recovery Audit Contractor (RAC) Audits. [1-210(b)(4)]<br><br>• C.G.S. 1-200(6)(E) - A discussion of any matter which would result in the disclosure of public records or the information contained therein pertaining to or communications privileged by the attorney-client relationship. [1-210(b)(10)]<br><br>• C.G.S. 1-200(6)(c) – Matters concerning standards, processes and codes not available to the public the disclosure of which would compromise the security of integrity of information technology systems. | Approval | None |
| Opportunity for Public Comment | | None |
| Minutes of the February 11, 2014 JACC Meeting | Approval | 1 |
| Storrs & UConn Health Significant Compliance Activities<br><br>Athletics | Update<br><br>Presentation | 2 |
| ICD-10 Transition | Update | 3 |
| Significant Audit Activities<br><br>• Status of Audit Assignments (Storrs & UConn Health)<br><br>• Audit Follow-up Activity | <br><br>Update<br><br>Update | 4 |

May 20, 2014

*Individual Responsibility, Institutional Success*

# Joint Audit & Compliance Committee
## Agenda

10:00 am – 10:45 am – Executive Session
10:45 am – 12:00 pm - Public Meeting

| Issue | Proposed Action | Tab |
|---|---|---|
| http://cga.ct.gov/apa/reports/statewide/STATEWIDE_20140328_FY2013.pdf (Pages 276-319)<br><br>Statewide Single Audit Findings and Management Responses for the JACC:<br><br>• University of Connecticut Federal Financial Aid Assistance Programs<br>• University of Connecticut Research and Development<br>• University of Connecticut Health Center Research and Development | Presentation | 5 |
| External Engagements<br><br>• McGladrey – Audit and agreed upon procedures of UConn 2000 project expenditures for Fiscal Year 2013 | Update<br><br>Approval<br>(To be sent separately) | 6 |
| Informational/Educational Items<br><br>• Article – '2014 State of the Internal Audit Profession Study', published March 2014, www.pwc.com<br><br>• Compliance Newsletter – UConn Health and Storrs<br><br>• JACC Agenda Forecast | Information Only | 7 |
| Conclusion of Full Meeting | | |
| Information Session with OACE's Interim Chief Audit & Compliance Officer and Direct Reports | | |

*The next meeting of the JACC will be held on Friday, September 12, 2014 at 10:00 am*
*Rome Commons Ballroom, Storrs*

*Individual Responsibility, Institutional Success*

**May 20, 2014**

May 20, 2014

# TAB I

# Joint Audit & Compliance Committee

## Minutes of February 11, 2014

TRUSTEES/DIRECTORS PRESENT: F. Archambault, S. Cantor, R. Carbray, D. Nayden and C. Shivery

STAFF PRESENT: N. Adams, J. Biancamano, C. Bianchi, J. Blumenthal, E. Bolt, J. Carroll, J. Carroll, W. Chase, C. Chiaputti, A. Diamond, C. Eaton, K. Fearney, K. Gafford, J. Geoghegan, B. Gore, C. Gray, R. Gray, E. Hanyckyj, A. Harnisch, H. Hildebrandt, M. Jednak, W. Kleinman, M. Larson, A. Marsh, I. Mauriello, C. Mitchell, J. McDonnell, M. Mundrane, R. Orr, B. Patel, J. Pufahl, J. Rasimas, S. Reis, R. Rubin, G. Slupecki, J. Small, J. Sullivan, L. Teal, J. Vigneault, K. Violette, E. Vitullo, N. Wallach, S. Wetstone, M. Williams and E. Zincavage

The meeting of the Joint Audit and Compliance Committee (JACC) was called to order at 10:04 a.m. by Trustee Nayden.

**ON A MOTION** made by Trustee Nayden and seconded by Director Archambault, THE JACC VOTED to go into executive session to discuss:

- C.G.S. 1-200(6)[E] – Preliminary drafts or notes that the public agency has determined the public's interest in withholding outweighs the public's interest in disclosure.
- C.G.S. 1-200(6)[E] A discussion of any matter which would result in the disclosure of public records or the information contained therein pertaining to strategy and negotiations with respect to pending claims regarding Recovery Audit Contractor (RAC) / Medicaid Audit Update [1-210(b)(4)]
- C.G.S. 1-200(6)[C] – Matters concerning standards, processes and codes not available to the public the disclosure of which would compromise the security or integrity of information technology systems.

Executive Session was attended by Joint Audit & Compliance Committee Members – F. Archambault, S. Cantor, R. Carbray, D. Nayden and C. Shivery; OACE Staff members – N. Adams, C. Chiaputti, K. Fearney, C. Gray, H. Hildebrant, A. Marsh, I. Mauriello, K. Violette, L. Vitullo, and E. Zincavage; Senior Staff – J. Blumenthal, K. Gafford, R. Gray, R. Orr, S. Reis and R. Rubin; Portions of Executive Session were also attended by – J. Carroll, W. Chase, J. Geoghegan, M. Mundrane, J. Pufahl, and J. Vigneault

The Executive Session ended at 10:45 a.m. and the JACC returned to open session at 10:47 a.m.

There were no public comments.

**TAB 1 - Minutes of Prior JACC Meeting**

**ON A MOTION** made by Trustee Nayden and seconded by Trustee Carbray, the minutes of the December 3, 2013 meeting were approved.

**TAB 2 - Storrs & UConn Health Significant Compliance Activities**

C. Chiaputti notified the committee that Athletics would not be presenting at this meeting as scheduled. This presentation will be rescheduled for May 2014 meeting.

OACE provided the JACC with the Compliance Plans for both Storrs and UConn Health. **ON A MOTION** made by Trustee Nayden and seconded by Trustee Cantor, these Compliance Plans were approved.

K. Fearney and I. Mauriello updated the committee on significant compliance activities. K. Fearney shared 2013 detailed charts for Storrs, Regional Campuses. I. Mauriello updated the committee with additional information to her written report. There were five UConn Health breaches reported to the Office for Civil Rights in 2013. She also reported compliance stats for 2013 mandatory training: 99.3% for UConn Health's 2013 HIPAA Privacy and Security and 97.1% for annual compliance training.

J. McDonnell, UConn Health Compliance Specialist, presented the committee with and overview regarding the Documentation and Coding Program.

**TAB 3 - ICD-10 Transition**

As of October 1, 2014 the ICD-9 code sets used to report medical diagnoses and inpatient procedures will be replaced by ICD-10 code sets. C. Mitchell updated the committee on the transition to ICD-10.

**TAB 4 - Significant Audit Activities**

C. Chiaputti provided the JACC with an update on the status of audit assignments (Storrs and UConn Health). OACE completed five audits, one special project and had fourteen audits ongoing during this reporting period.

The JACC accepted five audits this period as follows:

- Conflicts of Interest in Research
- Federal Grants – Travel Expenditures
- UConn Foundation – FY13
- Charge Capture Non-Next Gen Practices
- ARRA Quarterly Review – 4th Quarter Ending 12/31/13

C. Chiaputti noted that this will be the final ARRA Quarterly Review. Federal regulations have been repealed

OACE provided the JACC with Revised Audit Plans for both Storrs and UConn Health for review and approval. **ON A MOTION** made by Trustee Nayden and seconded by Director Shivery, these revised Audit Plans were approved.

# Joint Audit & Compliance Committee

## Minutes of February 11, 2014

**Auditors of Public Accounts**

Auditors of Public Accounts, J. Carroll, J. Rasimas and G. Slupecki, presented the University of Connecticut and the University of Connecticut Health Center Audited Financial Statements for the Fiscal Year Ended June 30, 2013.

**TAB 5 - External Engagements**

C. Chiaputti provided the JACC with a brief update on the status of external audit projects.

**TAB 6 – Informational / Educational Items**

The committee was provided with:

- Compliance Newsletters – UConn Health & Storrs
- JACC Agenda Forecast

There was no further business.

**ON A MOTION** made by Trustee Nayden and seconded by Director Archambault, the meeting was adjourned at 11:29 a.m.

Respectfully submitted,

***Angela Marsh***

Angela Marsh

May 20, 2014

# TAB 2

# Joint Audit & Compliance Committee

## Significant Compliance Activities

May 20, 2014

**Storrs**

- **www.records.compliance.uconn.edu -** a new website created by the Compliance Office was recently launched to provide a comprehensive tool for anyone who handles or manages University records to ensure compliance with records management and records retention requirements.

- **Compliance Training –** As of April 29th, 56% of faculty and staff have completed the Annual Compliance Training. We expect to have 100% compliance by June 1st.

- **Statement of Financial Interests –** All required filers submitted their SFIs by the May 1st deadline.

- **BOT approved policy initiative –** the Compliance Office is working with the President's Office on a comprehensive review of historical BOT approved policies to ensure consistency across campuses as well as decommissioning where appropriate .

# Joint Audit & Compliance Committee

## Significant Compliance Activities

May 20, 2014

**UConn Health**

- **Office for Civil Rights (OCR) Follow-up to Privacy Breach 2013 –** On April 3, 2014 the Privacy Officer received an investigatory request for documents related to UConn Health's report on March 8, 2013 of a privacy breach of 1,382 patient records due to inappropriate electronic access. A response was sent on April 16 including a summary of the events related to the breach and UConn Health's action plan addressing it.

- **Electronic Monitoring of Access to Patient Medical Records –** The Privacy and Security Offices purchased a technology from FairWarning, Inc. to initiate more robust access monitoring. Implementation plans are underway.

- **Research Conflict of Interest Disclosure system –** The first annual Individual CoI disclosures in the new on-line electronic system "CoISMART" have been collected and evaluated for necessary management plans. The deadline for disclosure collection was March 31, 2104. The Compliance Office is working with a small group of individuals who did not disclose within the required timeframe to assure they were properly assigned in the new system. The next group of disclosures to be launched in the electronic system are the Institutional CoI disclosures. This is planned for the summer of 2014.

- **Overpayment refunds –** Critical Care Facility and Professional level payment errors in the Emergency Department.

May 20, 2014

# TAB 3

**This article was published on the Becker's Hospital Review Website:**
http://www.beckershospitalreview.com/icd-10/5-key-icd-10-process-management-strategies-to-cope-with-the-delay.html

## 5 Key ICD-10 Process Management Strategies to Cope With the Delay

Written by Helen Adamopoulos - April 16, 2014

In the wake of President Barack Obama signing a bill last week that will delay the transition to ICD-10, healthcare leaders must reassess their plans to switch to the new coding system.
The delay of at least one year has frustrated many industry stakeholders and providers who were on track to make the switch on the original go-live date of Oct. 1, 2014. On the other hand, some hospital leaders view the extra time before the ICD-10 transition as a "blessing," says John Dugan, a partner in PwC's Health Industries practice. "This was very good news to them, getting an additional year if not longer," he says of his company's hospital clients.

Regardless of whether they view the delay in a positive or negative light, healthcare organizations must adjust their preparation efforts. Mr. Dugan identified the following five actionable steps for process management that will help providers to adjust their ICD-10 project plans.

1. **Focus on communication.** Hospital and health system leaders need to figure out their communications strategies immediately, Mr. Dugan says. They need to decide on the message they want to send to internal or external stakeholders about any postponed preparation activities or plans to move forward regardless of the delay. "I would be very focused on that, right out of the gate," he says.

2. **Assess the budgetary impact.** Providers should determine the impact the delay will have on their operating budgets not only during the current fiscal year but over the next two or three years, Mr. Dugan says. "The implications of them slowing down their initiatives for this year is something we want to make sure that our clients think about," he says.
For instance, Pamela Arora, senior vice president and CIO of Children's Medical Center Dallas, has estimated the two years' delay (the transition was also delayed in 2012) will cost her organization more thank $1 million.

3. **Use the time to upgrade the revenue cycle and improve clinical documentation.** The extra year gives hospitals and health systems the chance to revisit programs that might have gotten put on a backburner because of the fast-approaching ICD-10 deadline. "Our clients over the last two years, in light of movement toward ICD-10, have been not as focused on clinical documentation and case mix improvement," Mr. Dugan says. "Our CFOs really need to step back and say, 'Hey, I need to make sure that my case mix is driving the performance that I'm expecting. I want to take a cold, hard look at my clinical documentation programs.'"

*CONTINUED:*

4. **Review and redirect resources to tackle other projects.** Although ICD-10 preparation should still continue, hospitals should also take a look at their project portfolios over 12 to 24 months and resequence them, Mr. Dugan says. "Now, you're able to redirect some resources…to something else strategic, whether it's look at your EHR initiative, or whether it's looking at further strategizing around patient access," he says.

5. **Make sure all preparation activities continue to progress.** Despite the delay, healthcare leaders should make sure ICD-10 transition efforts are still moving forward. "Don't just put pencils down," Mr. Dugan says. "You may be able to take a pause, but make sure that updated timeline does continue to carry out activities in an efficient manner.“

Overall, Mr. Dugan says healthcare organizations that stay on track with their ICD-10 preparation efforts will give themselves a competitive advantage. "Think of the opportunity that they will have if they truly move toward coding under ICD-10, of having that wealth of baseline info available ahead of the go-live date," he says. "It would be very wise to continue to go forward."

May 20, 2014

# TAB 4

# Joint Audit & Compliance Committee

## Status of Audit Assignments

May 20, 2014

| Audit Project | Storrs or UConn Health | Planning | Fieldwork | Draft Report | Final Draft Report Issued |
|---|---|---|---|---|---|
| NCAA Division 1-A Membership Requirements (For information only) | Storrs | | | | X |
| Center for Comparative Medicine (CCM) Core Facilities (Update 7) | UConn Health | | | | X |
| Bioscience CT Initiative - Phase I Site Work/Parking Garage (Update 5) | UConn Health | | | | X |
| International Faculty / Students | UConn Health | | | | X |
| User Authentication and Administration | Storrs | | | | X |
| Asset Management (Including Controllable Property) | UConn Health | | | | X |
| Student Administration Systems (Jenzabar IT) | UConn Health | | | | X |
| Environmental Health & Safety (Lab Safety) | Storrs | | | | X |
| Diagnostic Imaging | UConn Health | | | | X |
| Overtime Payments – Public Safety | UConn Health | | | X | |
| Federal Grants – Cost Sharing | Storrs | | | X | |
| Foundation Endowed Chair Accounts | Storrs | | | X | |
| Overtime Payments – Public Safety | Storrs | | | X | |
| Library Business Process | Storrs | | | X | |
| Tuition Fees/Student Accounts Receivable/Financial Aid | UConn Health | | | X | |
| Faculty Consulting – FY13 | Storrs & UConn Health | | X | | |
| Krono's System | UConn Health | | X | | |
| Emergency Preparedness | Storrs | | X | | |

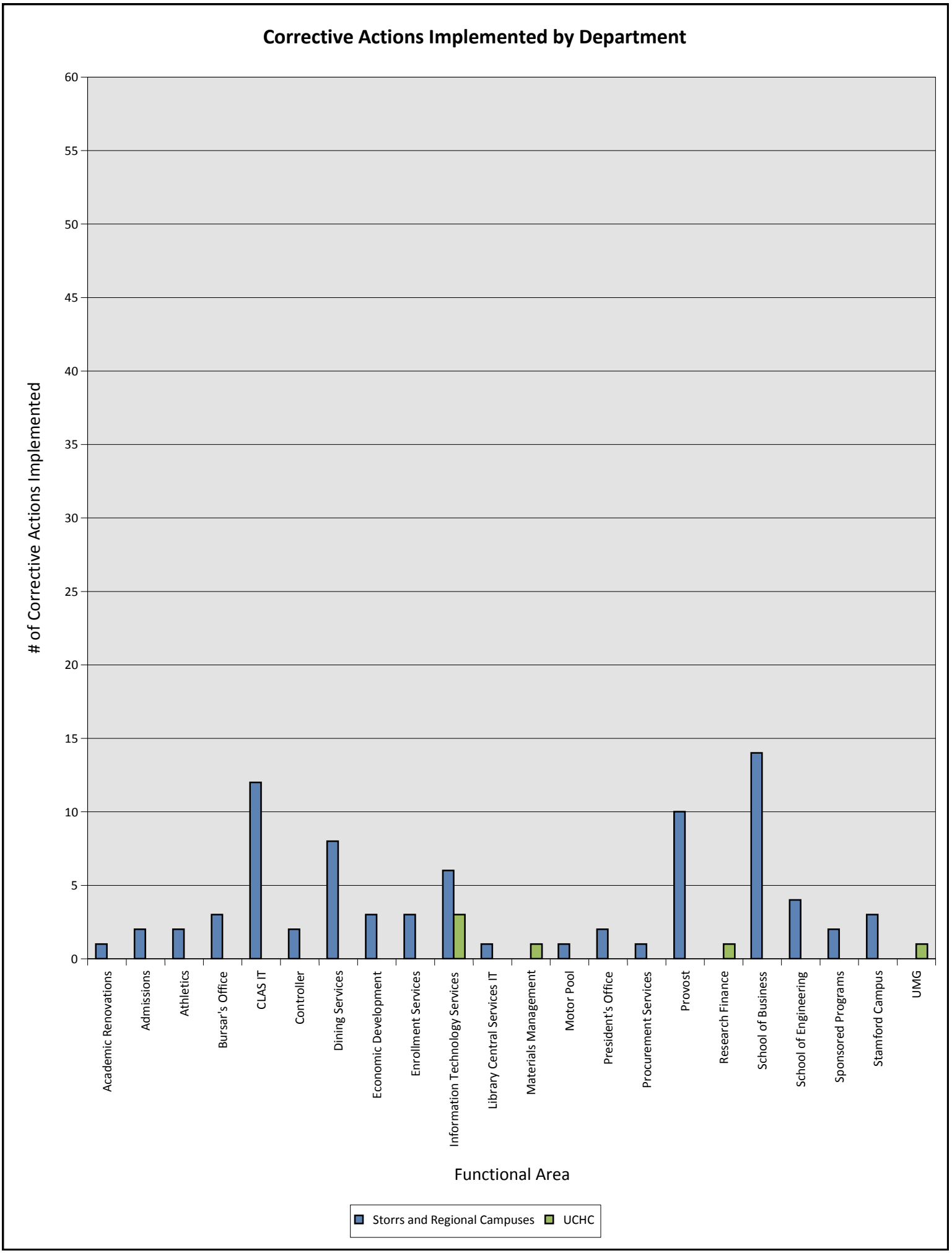
# Joint Audit & Compliance Committee

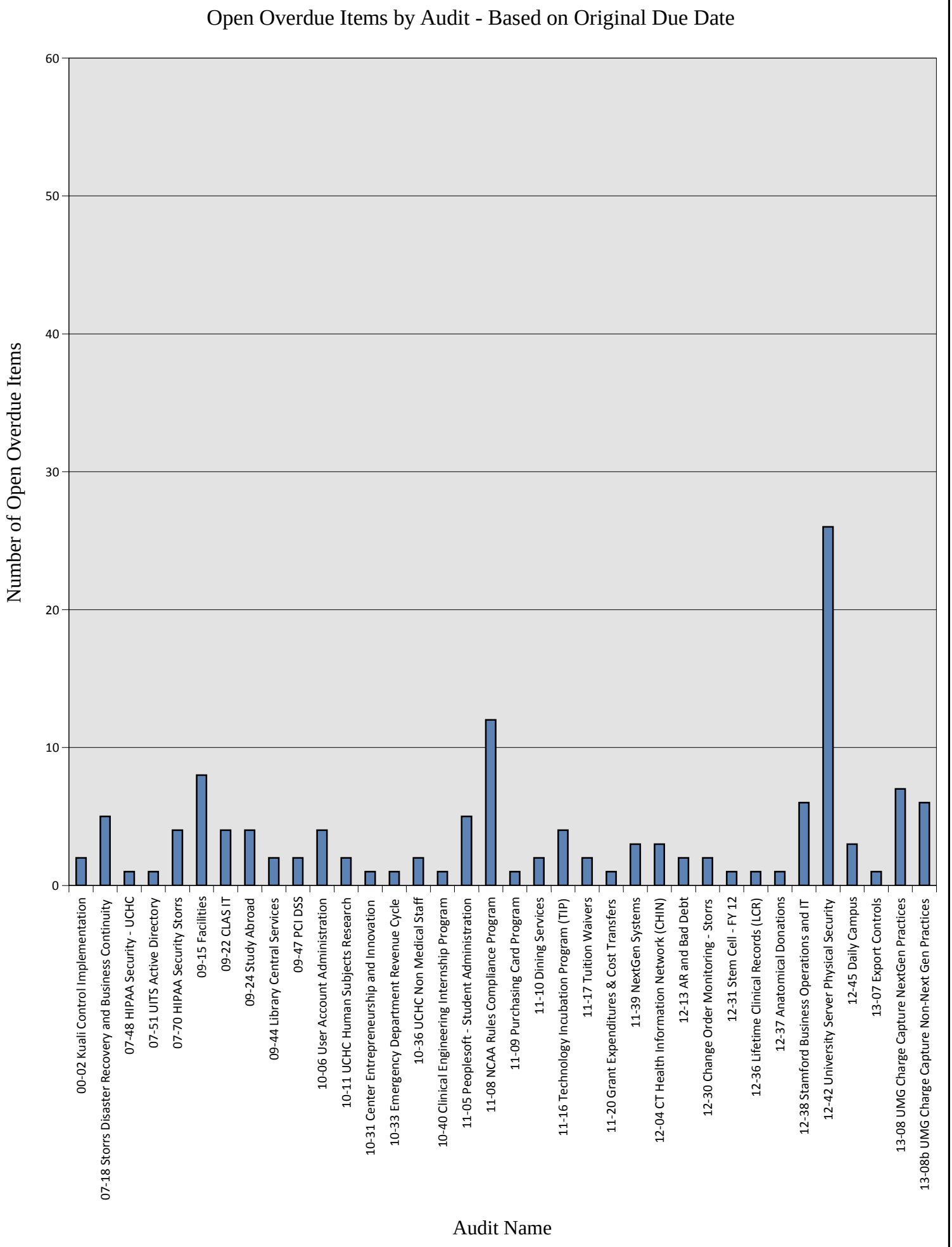
## Status of Audit Assignments

May 20, 2014

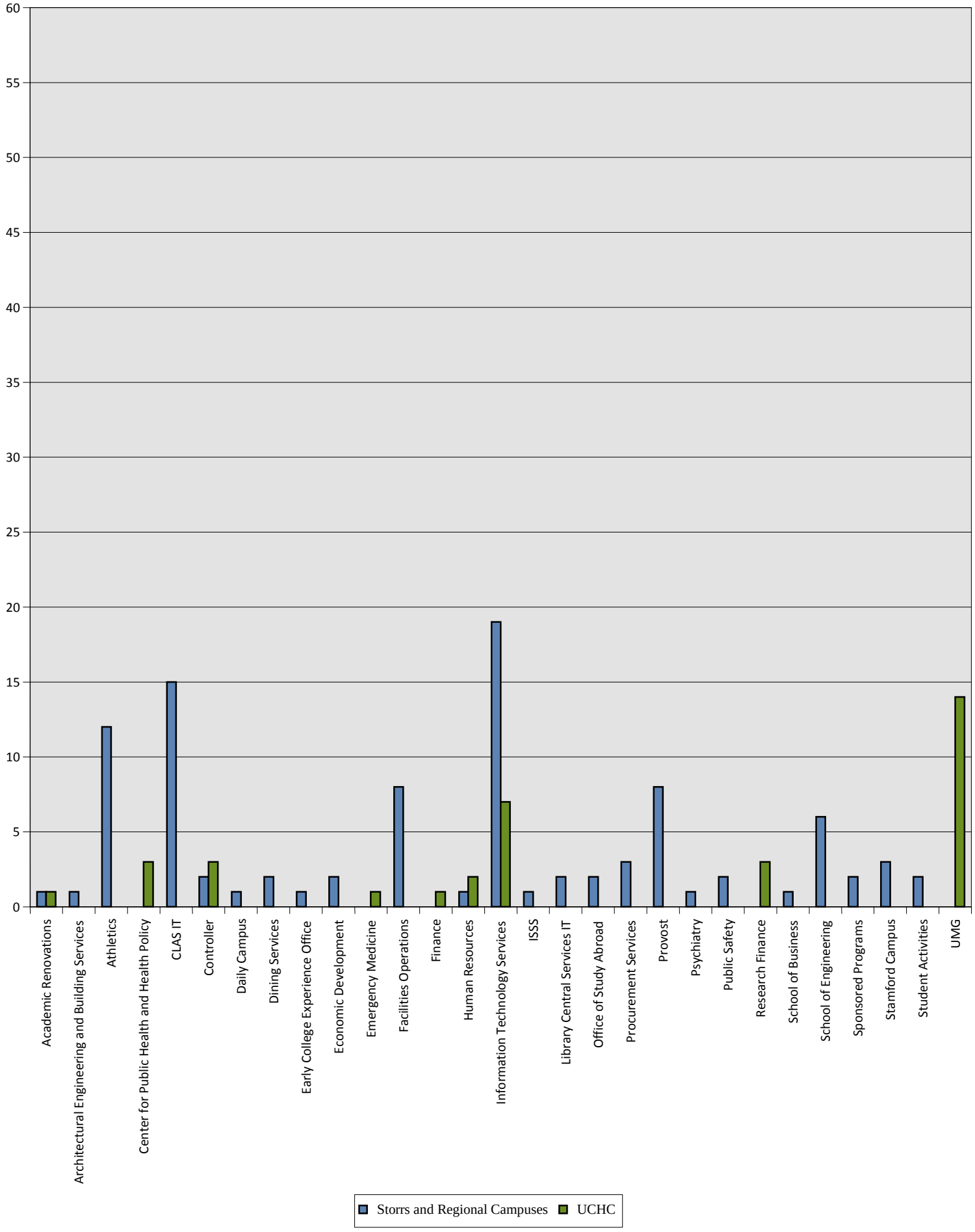
| Audit Project | Storrs or UConn Health | Planning | Fieldwork | Draft Report | Final Draft Report Issued |
|---|---|---|---|---|---|
| Meaningful Use – Eligible Professionals | UConn Health | | X | | |
| American Disability Act (ADA) Program Review | Storrs | | X | | |
| Meaningful Use – Hospital | UConn Health | | X | | |
| Medicare Enrollment – Provider Data | UConn Health | | X | | |
| Clery Act Compliance | UConn Health | | X | | |
| Bioscience CT Initiative – Phase II – New Hospital (Update 1) | UConn Health | | X | | |
| Real Estate Center, School of Business | Storrs | | X | | |
| Law School Foundation | Storrs | | X | | |
| Project Commissioning / Closeout Process Review | Storrs | X | | | |
| HIPAA Security | UConn Health | X | | | |
| Pharmacy Charge Capture (on hold) | UConn Health | | | | |
| Total Audits (28) - 1 on hold | | 02 | 11 | 06 | 09 |

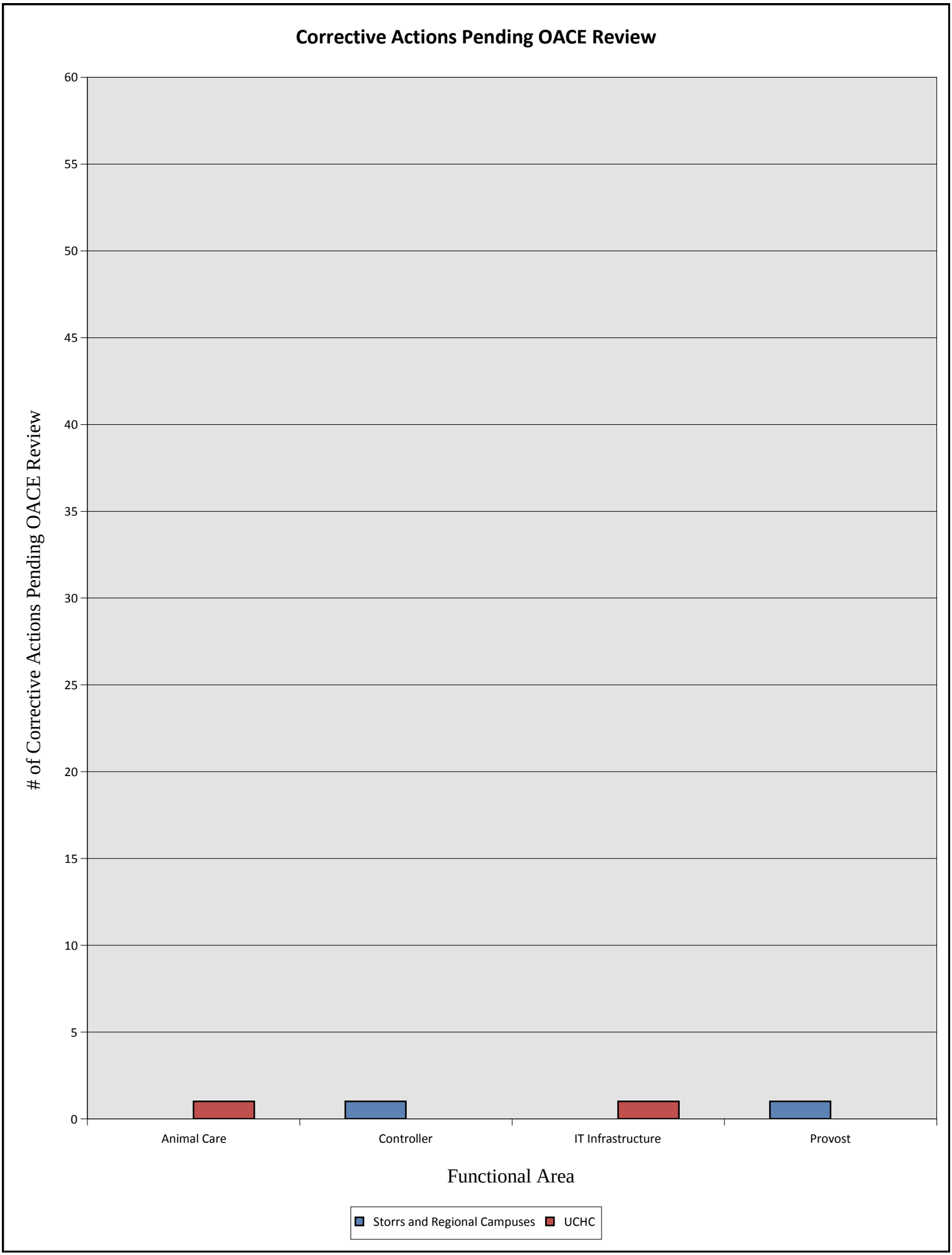
| Special Projects/Consulting/Follow-up | Storrs or UConn Health | Planning | Fieldwork | Review Pre -draft | Project Complete |
|---|---|---|---|---|---|
| Physics | Storrs | | | X | |
| Human Resources / Payroll Information Technology Systems | Storrs | | | X | |
| School of Nursing | Storrs | | X | | |
| Health Insurance | Storrs | X | | | |
| Total Special Projects/Consulting (4) | | 1 | 1 | 2 | |

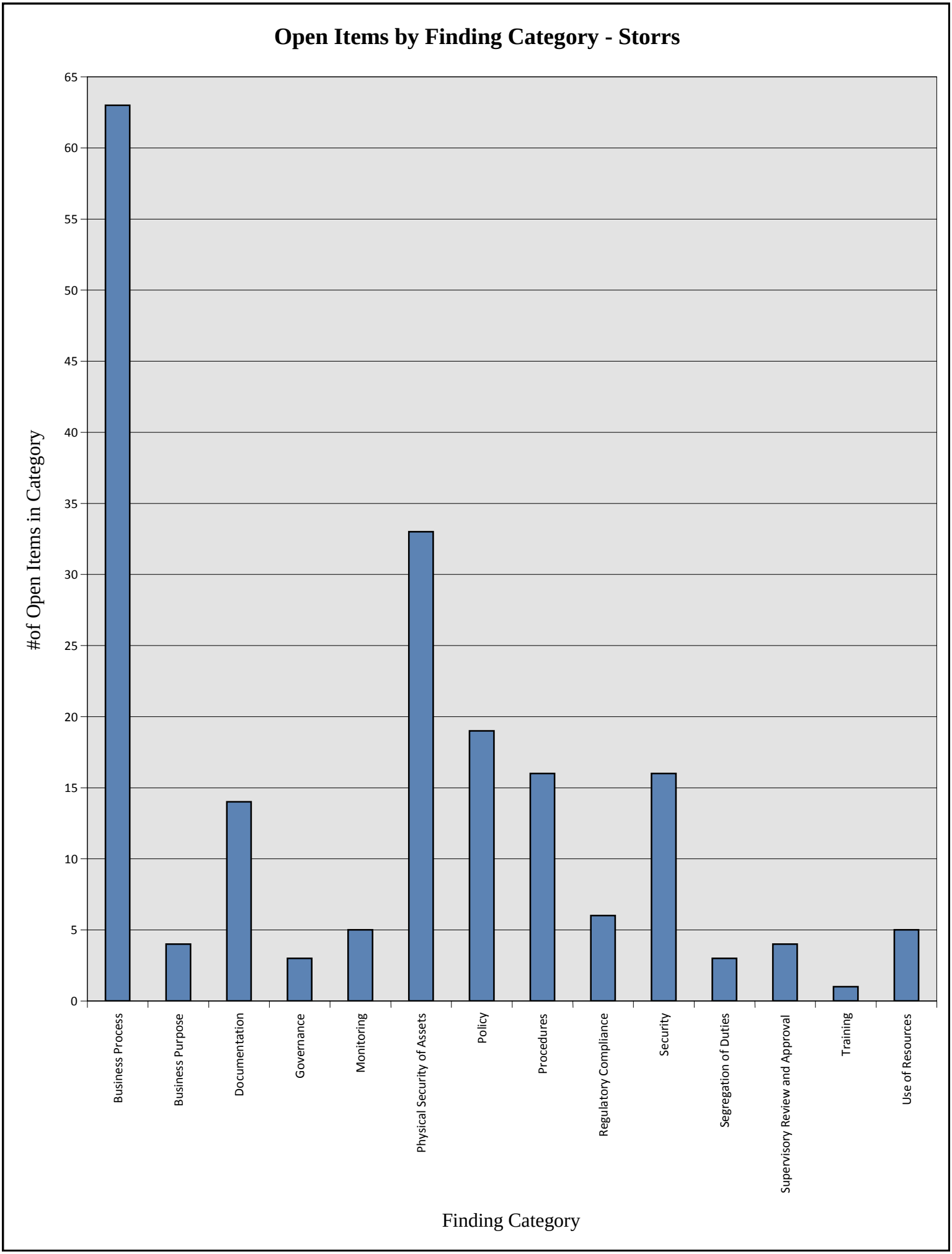

Corrective Actions Implemented by Department
# of Corrective Actions Implemented
0
5
10
15
20
25
30
35
40
45
50
55
60
Academic Renovations
Admissions
Athletics
Bursar's Office
CLAS IT
Controller
Dining Services
Economic Development
Enrollment Services
Information Technology Services
Library Central Services IT
Materials Management
Motor Pool
President's Office
Procurement Services
Provost
Research Finance
School of Business
School of Engineering
Sponsored Programs
Stamford Campus
UMG
Functional Area
Storrs and Regional Campuses
UCHC


Open Overdue Items by Audit - Based on Original Due Date
Number of Open Overdue Items
0
10
20
30
40
50
60
00-02 Kuali Control Implementation
07-18 Storrs Disaster Recovery and Business Continuity
07-48 HIPAA Security - UCHC
07-51 UITS Active Directory
07-70 HIPAA Security Storrs
09-15 Facilities
09-22 CLAS IT
09-24 Study Abroad
09-44 Library Central Services
09-47 PCI DSS
10-06 User Account Administration
10-11 UCHC Human Subjects Research
10-31 Center Entrepreneurship and Innovation
10-33 Emergency Department Revenue Cycle
10-36 UCHC Non Medical Staff
10-40 Clinical Engineering Internship Program
11-05 Peoplesoft - Student Administration
11-08 NCAA Rules Compliance Program
11-09 Purchasing Card Program
11-10 Dining Services
11-16 Technology Incubation Program (TIP)
11-17 Tuition Waivers
11-20 Grant Expenditures & Cost Transfers
11-39 NextGen Systems
12-04 CT Health Information Network (CHIN)
12-13 AR and Bad Debt
12-30 Change Order Monitoring - Storrs
12-31 Stem Cell - FY 12
12-36 Lifetime Clinical Records (LCR)
12-37 Anatomical Donations
12-38 Stamford Business Operations and IT
12-42 University Server Physical Security
12-45 Daily Campus
13-07 Export Controls
13-08 UMG Charge Capture NextGen Practices
13-08b UMG Charge Capture Non-Next Gen Practices
Audit Name

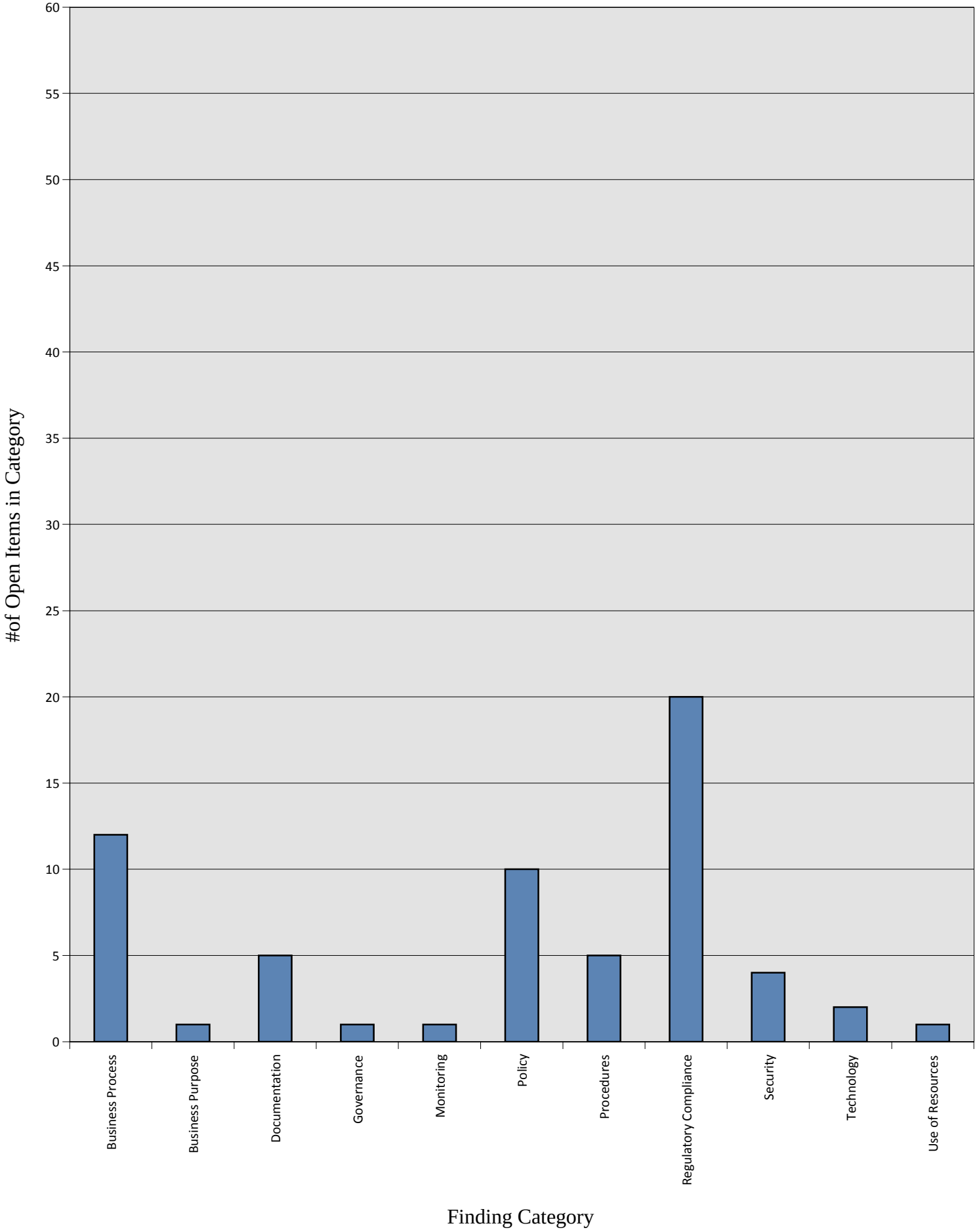
# Open Overdue Items by Functional Area - Based on Original Due Date



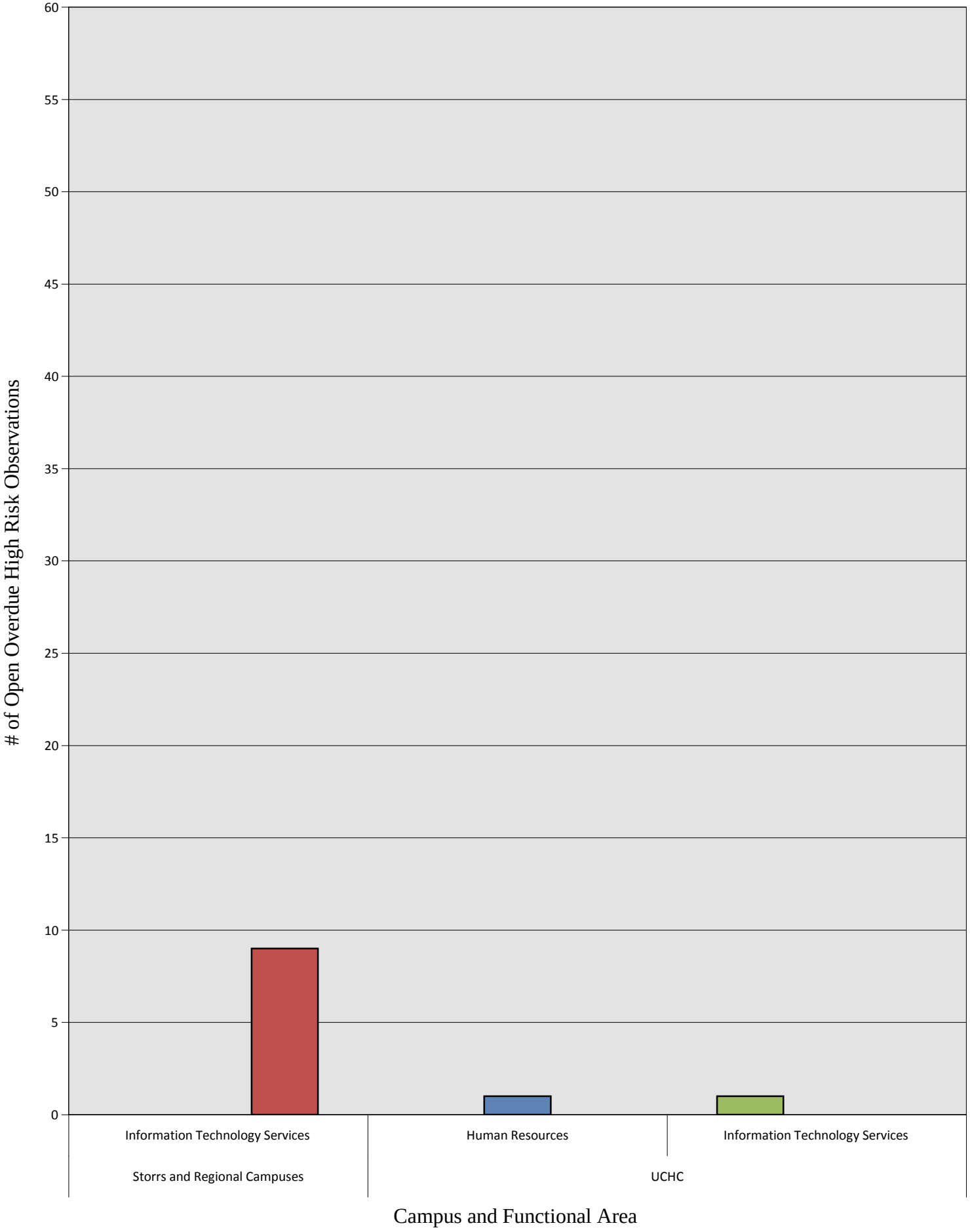

Corrective Actions Pending OACE Review
# of Corrective Actions Pending OACE Review
60
55
50
45
40
35
30
25
20
15
10
5
0
Animal Care
Controller
IT Infrastructure
Provost
Functional Area
Storrs and Regional Campuses
UCHC

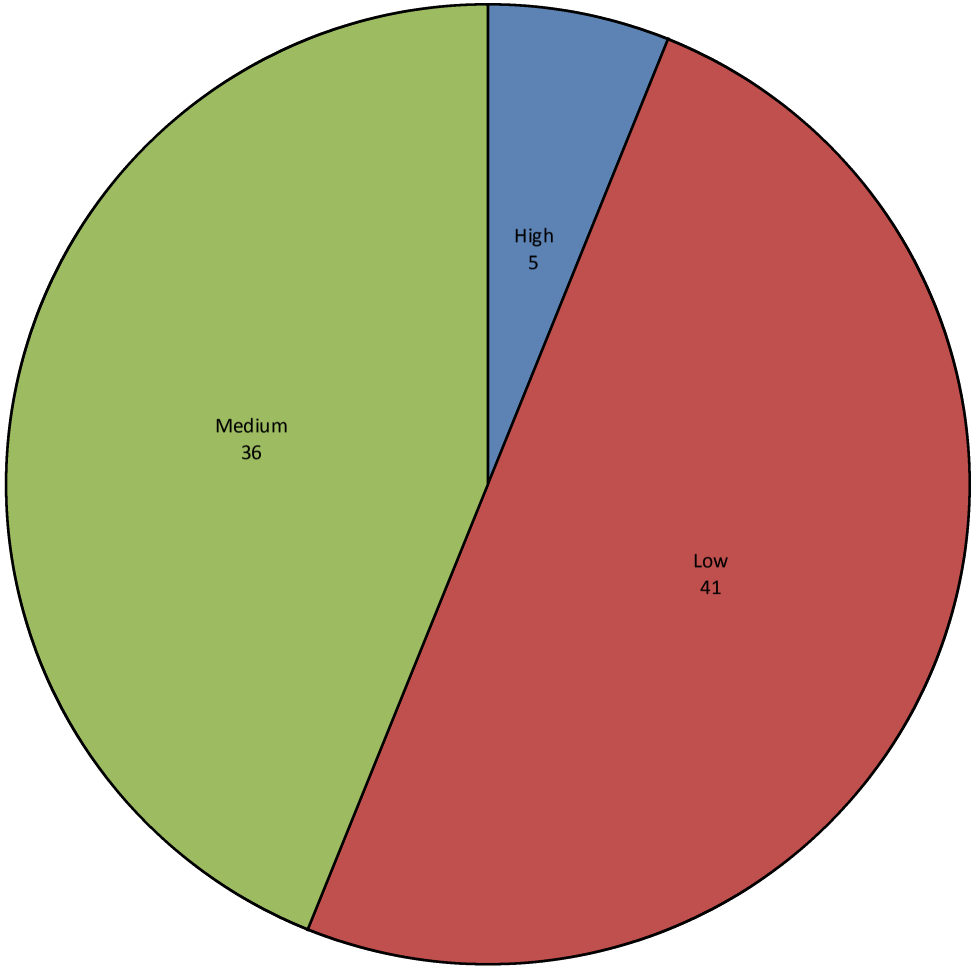

Open Items by Finding Category - Storrs
#of Open Items in Category
65
60
55
50
45
40
35
30
25
20
15
10
5
0
Business Process
Business Purpose
Documentation
Governance
Monitoring
Physical Security of Assets
Policy
Procedures
Regulatory Compliance
Security
Segregation of Duties
Supervisory Review and Approval
Training
Use of Resources
Finding Category

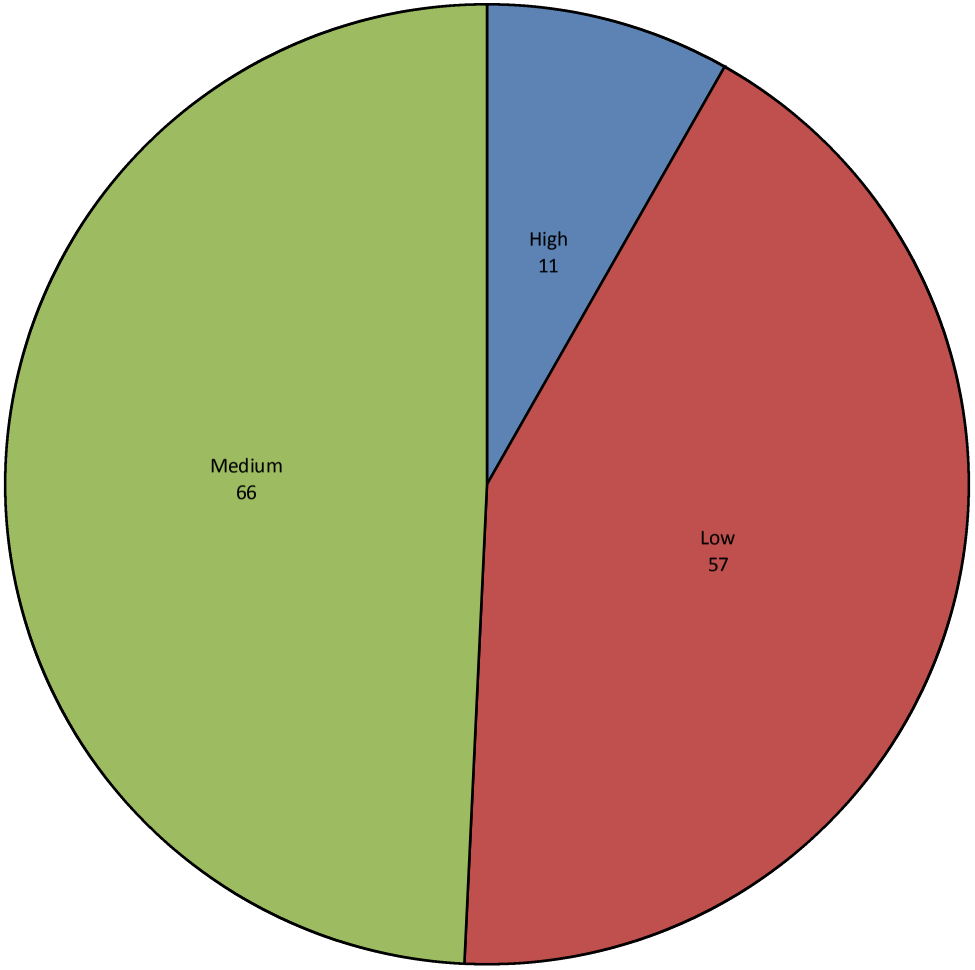
# Open Items by Finding Category - UConn Health



# High Risk Overdue by Functional Area




Implemented
High
5
Medium
36
Low
41


Open OverDue Items by Risk Level
High
11
Medium
66
Low
57

# Joint Audit & Compliance Committee
# Audit Finding Rating Definitions

May 20, 2014

**Low**

Meaningful reportable issue for client consideration that in the Auditor's judgment should be communicated in writing. The finding results in minimal exposure to the University or UConn Health and has little or no impact on the University's or UConn Health's compliance with laws and regulations. The issues related to this control weakness will typically not lead to a material error.

**Medium**

Significant exposure to the area under review within the scope of the audit. The finding results in the potential violation of laws and regulations and should be addressed as a priority to ensure compliance with University's or UConn Health's policies and procedures. The significance of the potential errors related to this control weakness makes it important to correct.

**High**

Significant exposure to the University or UConn Health that could include systemic University or UConn Health wide exposure. The finding could result in a significant violation of laws and regulations and should be viewed as a highest priority which the University or UConn Health must address immediately.

May 20, 2014

# TAB 5

# University of Connecticut Single Audit Report Excerpts FYE 6/30/2013

- Issue Date – March 28, 2014
- Complete Statewide Report - http://www.cga.ct.gov/apa/reports/statewide/STATEWIDE_20140328_FY2013.pdf
- Applicable University Federal Programs
  1) Research and Development
  2) Federal Student Financial Assistance

# Federal Funds

- Total Federal Assistance Statewide - **$8,989,000,000**

  Type A Program Threshold

  (<$10B = Larger of $3m or FFA * .003) - **$26,967,000**

- Federal Assistance Expended at the University System:
  1. University R&D $ 84,000,000
  2. Health Center R&D $ 69,000,000
  3. Student FFA $209,000,000 (Storrs $194m UCHC $15m)

     TOTAL FFA **$362,000,000**

# Audit Findings – R&D

## 1. Allowable Costs/Cost Principles – Time and Effort (University)

- **Per OMB Circular A-21, the distribution of salaries and wages must be supported by after-the-fact activity reports signed by responsible persons who have used suitable means to verify that the work was performed.**

  Under the university's current time and effort reporting system, researcher time and effort reports are prefilled with estimated percentages of effort devoted to various projects by each researcher on a semester basis. These percentages are estimated by dividing the amount charged to each account by the total charged to all accounts on a biannual basis. Many researchers are nine month employees who work September through May, but are compensated on a 12 month basis. Accordingly, the charges recorded for a biannual period do not completely correspond with these employees' actual personal service costs for the semester, as accounts are charged when compensation is paid, not earned. We recommend that this process be corrected to meet Circular A-21 requirements.

  *Agency Response – "The University agrees with this finding."*

# Audit Findings – R&D

## 2. Allowable Costs/Costs Principles – National Institutes of Health Salary Cap (University)

- **The legislatively mandated National Institutes of Health salary cap, which is set through appropriation legislation, limits the direct salary that a researcher may receive under a National Institutes of Health award. The cap is tied to the federal Executive Schedule of Pay. The salary cap was set at $179,700 annually for a full-time employee for awards issued during the period from December 23, 2011 through January 11, 2014.**

  We identified 28 instances in which the cap was potentially applicable. Each instance included all compensation charged to one or more National Institutes of Health awards for one semester for one individual whose pay rate exceeded $179,700. We tested ten of these instances and found that the researchers had been charged at rates that exceeded the applicable salary cap in three of the ten instances. Excess amounts charged (salary only, not including associated fringe benefits and facilities and administrative costs) totaled $6,476, $4,118, $1,986 and $340 for awards 5R01ES003154-29, 9R01EB014586-06A1, M11A11069 (A08211) and 1R21HD066230-01A1, respectively.

  *Agency Response – "The University agrees with this finding."*

# Audit Findings – ARRA – NIH Research Support

## 3. Allowable Costs/Cost Principles Unallowed Costs (University)

- **In accordance with the Office of Management and Budget (OMB) Circular A-21, costs charged to a federal award must be for work actually performed for the benefit of the award. The university's key control with respect to claims for reimbursement submitted by subrecipients in connection with subawards issued by the university is the evaluation of the claims by the principal investigators for the awards. The principal investigators are ultimately responsible for the awards and are in the best position to determine if work has actually been performed.**

  We noted that the principal investigator for award 1RC4MH091939-014 initially disallowed $53,393 in claims for reimbursement submitted by the University of Connecticut Health Center as subawardee of the university. However, the claims were subsequently approved with no clear rationale.

  *Agency Response – "The University cannot agree at this time because we believe this finding is premature. A thorough evaluation of this matter has not been performed."*

# Audit Findings – R&D

## 4. Allowable Costs/Cost Principles – Applicable Credits (University)

- **In accordance with the Office of Management and Budget (OMB) Circular A-21, to be allowable under federal awards, costs must be net of all applicable credits, e.g., volume or cash discounts, insurance recoveries, refunds, rebates, trade-ins, adjustments for checks not cashed, and scrap sales.**

  The university participates in the state's purchasing card program. The state receives rebates on credit card purchases made under this program, but does not credit them to the cost centers that the purchases were charged to. The State Comptroller should transfer purchasing card program rebates allocable to the university's federal accounts to the university so that they can be appropriately credited to the accounts.

  *Agency Response – The Office of Policy and Management and Office of the State Comptroller were asked to respond to this finding and have expressed disagreement with the recommendation.*

# Audit Findings – R&D

## 5. Equipment and Real Property Management (UCHC)

- **OMB Circulars A-21 and A-110 require that a physical inventory of equipment be taken at least once every two years.**

During our testing of the Health Center's equipment inventory we concluded that equipment records lacked evidence that a physical inventory had been conducted in a complete and timely fashion.

*Agency Response – "We agree with this finding. The physical inventories themselves were completed in a timely fashion and the Health Center's equipment records were updated in December, 2013 to reflect the results of the most recent physical inventory. However, our data reconciliation process was delayed by the implementation of our new accounting system."*

# Audit Findings - SFFA

**6. Cash Management (University)**

- **Title 34 Code of Federal Regulations Section 668.166(b) states that an institution may maintain an amount of excess cash for up to seven days that does not exceed one-percent of the total amount of funds the institution drew down in the prior award year. The institution must immediately return any amount of cash over the one-percent tolerance and any amount remaining in its account after the seven-day tolerance period to the Secretary of the United States Department of Education.**

  Our review disclosed that excess cash of between $4,110 and $7,610 was on hand for 30 days from June 24, 2013 through July 24, 2013, for Award #P007A120802; excess cash of $694, was on hand for ten days from April 26, 2013 through May 6, 2013, for Award #P063P101228; and excess cash of $58 was on hand 15 days from October 4, 2012 through October 19, 2012, for Award #P268K111228.

  *Agency Response – "We agree with this finding."*

# Audit Findings - SFFA

**7. Student Eligibility – Cost of Attendance (University)**

- **Qualification for subsidized loans is based on financial need, which is defined as the student's cost of attendance (COA) less expected family contribution (EFC) and other resources. The term cost of attendance refers to the "tuition and fees normally assessed a student carrying the same academic workload as determined by the institution and including costs for rental or purchase of any equipment, materials, or supplies required of all students in the same course of study." Institutions also may include an allowance for books, supplies, transportation, miscellaneous personal expenses, and room and board.**

  From a sample of 36 students selected for eligibility testing at the University of Connecticut, we noted three instances in which there were inaccuracies used to determine student need.

  *Agency Response – "We agree with this finding."*

# Audit Findings - SFFA

**8. Student Eligibility – Federal Supplemental Educational Opportunity Grants (FSEOG) (University)**

- **Title 34 Code of Federal Regulations Section 676.10 establishes the particular eligibility requirements for a student to receive FSEOG. One of these requirements is that an institution shall select students with the lowest Expected Family Contribution (EFC) who will also receive Pell in that year.**

  We noted certain students who demonstrated Pell Grant eligibility, with the lowest EFC, were not awarded FSEOG funds as these students' Institutional Student Information Report were processed later than eligible students with a higher EFC.

  *Agency Response – "We agree with the finding."*

# Audit Findings - SFFA

**9. Eligibility – ARRA- Nurse Faculty Loan Program (NFLP) (University)**

- **On December 28, 2012, the University of Connecticut received a final determination from the Health Resources and Services Administration regarding $3,095 unallowable costs cited in the Statewide Single Audit Report for fiscal year ended June 30, 2010. The university was informed that the funds in question may be used to make an additional loan to an eligible recipient.**

  Upon follow-up of the university's Summary Status of Prior Audit Recommendations received on December 30, 2013, we noted that on June 17, 2013, the university disbursed the $3,095 ARRA-NFLP funds in question by exchanging $3,095 of a total of $27,956 in NFLP loan funds that a borrower received during the 2010-2011 fiscal year. This violated the terms and conditions of the Notice of Award for the NFLP, which states that, "If the ARRA funds were made available to your NFLP program in the past, no one student may receive both ARRA-NFLP funds and regular NFLP appropriated funds in the same project period." The Notice of Award states that, "All expenditures must comply with program terms." Questioned costs total $3,095.

  *Agency Response – "We agree with the finding."*

# Audit Findings - SFFA

**10. Matching (University)**

- **Title 34 Code of Federal Regulations Section 676.21(a) states that the federal share of the Federal Supplemental Educational Opportunity Grant (FSEOG) awards made by an institution may not exceed 75 percent of the amount of FSEOG awards made by that institution.**

  At the time of our review, the University of Connecticut's federal share of the FSEOG award exceeded 75 percent of the amount of the FSEOG awards made by the institution. Upon our discovery, the university matched 25 percent of the FSEOG awards.

  *Agency Response – "We agree with the finding."*

# Audit Findings - SFFA

**11. Reporting – Fiscal Operations Report and Application to Participate (FISAP) (University)**

- **The instructions for completing the FISAP are contained in the Instructions Booklet for Fiscal Operations Report for 2012–2013 and Application to Participate for 2014–2015 (FISAP).**

  We reviewed the FISAP at the University of Connecticut and noted a number of errors concerning the number of borrowers and classifications of such borrowers. We also noted minor exceptions concerning expenditure amounts reported.

  *Agency Response – "We agree with the finding."*

# Audit Findings - SFFA

**12. Special Tests: Verification (University)**

- **Title 34 Code of Federal Regulations (CFR) Section 668.53 requires an institution to establish policies for verifying information contained in a student aid population. Title 34 CFR Section 668.56 requires that an institution must verify all Free Applications for Federal Student Aid that have been selected for verification.**

  From a sample of 15 students selected for verification testing at the University of Connecticut, we noted one instance in which the amount of the student's earned income per the Internal Revenue Service. Form W-2 did not agree with the reported amount on the Institutional Student Information Record. The university has subsequently processed the correction for this student.

  *Agency Response – "We agree with the finding."*

# Audit Findings - SFFA

**13. Special Tests: Entrance Interviews (University)**

- **Per the United States Department of Health and Human Services – Health Resources and Services Administration, Nurse Faculty Loan Program (NFLP) Guidance, the school must document an entrance interview for each academic year during in which the student receives the NFLP loan. Entrance interview documentation must include personal borrower information which will assist in skip-tracing should this be necessary during the collection process.**

  From a sample of nine students who received a NFLP loan at University of Connecticut, we noted one instance where entrance interview documentation was not on file for a loan received during the audited period.

  *Agency Response – "We agree with the finding."*

# Audit Findings - SFFA

**14. Special Tests: Return of Title IV Funds – Policy Issue (University)**

- **Title 34 Code of Federal Regulations Section 668.22 provides guidance regarding the treatment of Title IV funds when a student withdraws from an institution. Per DCL GEN-04-03, if a student who began attendance and has not officially withdrawn fails to earn a passing grade in at least one course offered over an entire period, the institution must assume, for Title IV purposes, that the student has unofficially withdrawn, unless the institution can document that the student completed the period.**

  UConn did not review all Title IV recipients that failed to earn a passing grade in at least one course for the fall 2012 semester to determine whether they began attendance during a period completed the period or should be treated as a withdrawal in accordance with DCL GEN-04-03. Upon our discovery in August 2013, the university identified and processed nine Return of Title IV Funds calculations.

  *Agency Response – "We agree with the finding."*

# Audit Findings - SFFA

**15. Special Tests: Enrollment Reporting (University)**

- **Per Title 34 Code of Federal Regulations Section 682.610(c)(2), changes in enrollment to less-than-half-time, graduated, or withdrawn, must be reported within 30 days. However, if a roster file is expected within 60 days, the data may be provided on that roster file.**

  From a sample of 14 student borrowers who received Federal Direct Student Loans program funds that separated from the University of Connecticut, we noted that four of the five borrowers who were deceased were reported as withdrawn.

  *Agency Response – "We agree with the finding."*

# State of Connecticut

# Statewide Single Audit,

## For the Fiscal Year Ended June 30, 2013

## Findings and Management Responses for the

## University of Connecticut & University of Connecticut Health Center

## Joint Audit and Compliance Committee

**Statewide Single Audit - University of Connecticut**
**Federal Financial Assistance Programs with Management Responses**

**Cash Management**

**Federal Supplemental Educational Opportunity Grant (CFDA #84.007)**
**Federal Pell Grant Program (CFDA # 84.063)**
**Federal Direct Student Loans (CFDA # 84.268)**
**Federal Award Agency: Department of Education**
**Award Year: 2012-2013**

***Criteria:*** Title 34 Code of Federal Regulations (CFR) Section 668.166(b) states that an institution may maintain for up to seven days an amount of excess cash that does not exceed one percent of the total amount of funds the institution drew down in the prior award year. The institution must immediately return any amount of cash over the one percent tolerance and any amount remaining in its account after the seven-day tolerance period to the Secretary of the United States Department of Education.

***Condition:*** During our review of cash management at the University of Connecticut, we noted the following exceptions:

Due to Federal Supplemental Educational Opportunity Grant (FSEOG) adjustments made during June 2013 and July 2013, excess cash of between $4,110 and $7,610 was on hand for 30 days from June 24, 2013 through July 24, 2013, for Award #P007A120802.

Due to a federal Pell Grant program adjustment made on April 26, 2013, Award #P063P101228, excess cash of $694, was on hand for ten days from April 26, 2013 through May 6, 2013, for Award #P063P101228.

Due to a federal Direct Student Loans program adjustment made on October 4, 2012, excess cash of $58 was on hand 15 days from October 4, 2012 through October 19, 2012, for Award #P268K111228.

***Effect:*** The University was not in compliance with federal regulations governing cash management.

***Cause:*** The University did not follow established cash management procedures.

***Recommendation:*** The University of Connecticut should comply with the cash management provisions stipulated in 34 CFR Section 668.166(b) by ensuring that federal cash drawdowns do not exceed the amounts necessary for immediate disbursement, and that any excess cash is returned within the timeframe established in the regulations.

***Agency Response:*** *We agree.*

***Corrective Action Plan:*** The Office of Student Financial Aid Services (OSFAS) is enhancing procedures so as to ensure close communication with both the Bursar's Office and the Office of Sponsored Programs (OSP) during critical timeframes relative to the disbursement and the drawing of federal funds. Additionally, the OSFAS is developing procedures to make explicit the notification to the Bursar's and OSP any adjustments that occur in Title IV programs that occur in a closed fiscal year. Procedural enhancements will be finalized prior to the implementation of the 2014-2015 financial aid production cycle.

***Anticipated Completion Date:*** March 1, 2014

***Contact Person:*** Mona Lucas, Director of Student Financial Aid Services

***Contact Phone Number:*** 860-486-2819

## Student Eligibility – Cost of Attendance

## Federal Direct Student Loans (CFDA # 84.268)
## Federal Award Agency: Department of Education
## Award Year: 2012-2013

***Background:*** Qualification for subsidized loans is based on financial need, which is defined as the student's cost of attendance (COA) less expected family contribution (EFC) and other resources; qualification for an unsubsidized loan is not based on financial need.

***Criteria:*** The student's COA must exceed his/her EFC to be eligible for "need-based" aid (such as grants, scholarships and subsidized loans). The EFC is based on information collected from the Free Application for Federal Student Aid (FAFSA). The total amount of the subsidized loan combined with other "need-based" aid cannot exceed the student's "financial need".

The term "cost of attendance" refers to the "tuition and fees normally assessed a student carrying the same academic workload as determined by the institution and including costs for rental or purchase of any equipment, materials, or supplies required of all students in the same course of study." Institutions also may include an allowance for books, supplies, transportation, miscellaneous personal expenses, and room and board.

Adequate controls over the financial aid awarding process require that data be entered correctly to the institution's information system.

***Condition:*** From a sample of 40 students, we noted three instances where there were inaccuracies used to determine student need, as follows:

- In one instance a student with need was awarded and disbursed an unsubsidized federal Direct Student Loans (Direct Loan) of $5,500, when she should have been awarded a subsidized Direct Loan of $3,500 and an unsubsidized Direct Loan of $2,000. Upon notification, the university adjusted the student's Direct Loan amounts to the annual limits for subsidized and unsubsidized loans.

- In two instances, the cost of attendance was overstated. In one of these instances, a student's transportation portion of the cost of attendance was overstated. In this instance the student was over-awarded $550 in an unsubsidized Direct Loan. Upon notification, the university reduced the student's unsubsidized Direct Loan. In the other instance, a student's fees portion of the cost of attendance was overstated by $118. In this instance, the overstatement had no effect on the student's awards.

***Effect:*** A student was awarded an unsubsidized Direct Loan when a portion of the loan should have been subsidized.

The costs of attendance budgets were overstated. In one of these instances, a student was over awarded $550.

***Cause:*** The causes of the above conditions were:

- System error.

- Professional judgment amount for transportation costs was not calculated in accordance with university policy. In the other instance the Financial Aid Office used the off-campus fee rates in developing a particular budget. However, it was determined that these students were billed at the Storrs campus fee rates regardless of which campus they attended.

***Recommendation:*** The University of Connecticut should ensure that the packaging process evaluates students for subsidized loan eligibility. The University of Connecticut should establish controls to ensure that components of the cost of attendance budgets are in accordance with or consistent with policy.

***Agency Response:*** *We agree.*

***Corrective Action*** The OSFAS identified a specific programming flaw that led to the error in

***Plan:*** this isolated instance. The programming flaw was addressed in July, 2013. The OSFAS is updating procedures and offer training to professional employees regarding the proper execution of Cost of Attendance (COA) appeals. Procedure updates will be finalized prior to the implementation of the 2014-2015 financial aid production cycle. In-service training sessions will be incorporated into the 2013/14 schedule.

***Anticipated Completion Date:*** March 1, 2014

***Contact Person:*** Mona Lucas, Director of Student Financial Aid Services

***Contact Phone Number:*** 860-486-2819

## Student Eligibility – Federal Supplemental Educational Opportunity Grants

### Federal Supplemental Educational Opportunity Grants (CFDA #84.007)
### Federal Award Agency: Department of Education
### Award Year: 2012-2013

***Criteria:*** Title 34 Code of Federal Regulations (CFR) Section 676.10 establishes the particular eligibility requirements for a student to receive the Federal Supplemental Educational Opportunity Grant (FSEOG). One of these requirements is that an institution shall select students with the lowest Expected Family Contribution (EFC) who will also receive federal Pell Grants in that year.

***Condition:*** We noted certain students who demonstrated Pell Grant eligibility, with the lowest EFC, were not awarded FSEOG funds as these students' Institutional Student Information Report were processed later than eligible students with a higher EFC.

***Effect:*** The university's policy for awarding FSEOG was not in compliance with federal regulations.

***Cause:*** The university's policy is to award the FSEOG on a first-come, first-serve basis to those students with an EFC between 0 and 999.

***Recommendation:*** The University of Connecticut should award and disburse Federal Supplemental Educational Opportunity Grants in accordance with the requirements stipulated in 34 CFR Section 676.10.

***Agency Response:*** *We agree*.

***Corrective Action Plan:*** The OSFAS is adjusting systemic awarding procedures to ensure that only Federal Pell Grant recipients with the lowest possible Expected Family Contributions (EFC) are awarded Federal Supplemental Educational Opportunity Grant (FSEOG). The procedures will be finalized prior to the implementation of the 2014-2015 financial aid production cycle.

***Anticipated Completion Date:*** March 1, 2014

***Contact Person:*** Mona Lucas, Director of Student Financial Aid Services

***Contact Phone Number:*** 860-486-2819

## Matching

### Federal Supplemental Educational Opportunity Grants (CFDA #84.007)
### Federal Award Agency: Department of Education
### Award Year: 2012-2013

***Criteria:*** Title 34 Code of Federal Regulations (CFR) Section 676.21(a) states the federal share of the Federal Supplemental Educational Opportunity Grant (FSEOG) awards made by an institution may not exceed 75 percent of the amount of FSEOG awards made by that institution.

The 2012-2013 Federal Student Aid Handbook states that when the school establishes an FSEOG account for federal program funds the matching funds must be deposited at the same time the federal funds are deposited.

***Condition:*** At the time of our review, the university's federal share of the FSEOG award exceeded 75 percent of the amount of the FSEOG awards made by the institution. Upon notification, the university matched 25 percent of the FSEOG awards.

Further, the nonfederal share of the FSEOG awards was not deposited at the same time the federal funds were deposited. The first drawdown of federal funds was on October 26, 2012. The university's match of the funds was posted to the FSEOG account on May 24, 2013.

***Effect:*** The university was not in compliance with federal regulations related to matching of FSEOG funds.

***Cause:*** The university erroneously processed an adjustment, which caused the institution to exceed 75 percent of the federal share of the FSEOG awards.

Established federal policies and procedures were not adhered to.

***Recommendation*** The University of Connecticut should comply with federal regulations relating to the matching requirements of the Federal Supplemental Educational Opportunity Grant program.

***Agency Response:*** *We agree.*

***Corrective Action Plan:*** The OSFAS is providing the Bursar's Office and OSP with instructions regarding the timing and specifications (i.e. the amount to be drawn from the federal program and the amount required for the institutional matching allocation) for the appropriate drawdown of FSEOG funds. Procedural enhancements will be finalized prior to the implementation of the 2014-2015 financial aid production cycle.

***Anticipated Completion Date:*** March 1, 2014

***Contact Person:*** Mona Lucas, Director of Student Financial Aid Services

***Contact Phone Number:*** 860-486-2819

## Reporting – Fiscal Operations Report and Application to Participate (FISAP)

## Federal Work-Study Program (CFDA #84.033)
## Federal Perkins Loan Program – Federal Capital Contributions (CFDA #84.038)
## Federal Award Agency: Department of Education
## Award Year: 2012-2013

***Criteria:*** The instructions for completing the FISAP are contained in the Instructions Booklet for Fiscal Operations Report for 2012–2013 and Application to Participate for 2014–2015 (FISAP).

***Condition:*** We reviewed the FISAP at the University of Connecticut (UConn) and noted the following:

- The total number of independent graduate/professional students with an "automatic" zero estimated family contribution and total independent graduate/professional students were reported as 151 and 3,454, respectively. The supporting documentation for these figures was 51 and 3,354, respectively.
- The total cumulative amount of Federal Perkins Loan Program (FPL) funds loan principal adjustments – other, number of

borrowers was reported as 245. The supporting documentation for this amount was 345.

- The total cumulative amount of FPL borrowers in default more than two years but not more than five years as of June 30, 2013 was reported as $329,897. The supporting documentation for this amount was $329,891.

- The total institutional expenditures for the Job Location Development (JLD) Program was reported as $55,873, which based upon the support provided that included $48,583 of expenditures reported in the federal share of the JLD Program. Consequently, the total expenditures reported for the JLD Program were overstated.

***Effect:*** The FISAP that the institution submitted to the United States Department of Education contained errors. If an institution provides inaccurate data, the level of funding for its campus-based programs could be affected.

***Cause:*** The above conditions were caused by data entry, addition errors, and inaccurate summary information inadvertently being submitted to the office responsible for the submission of the FISAP.

***Recommendation:*** The University of Connecticut should establish internal controls to ensure that data reported on the Fiscal Operations Report and Application to Participate (FISAP) is accurate and in compliance with instructions provided by the United Stated Department of Education. The university should make necessary corrections to the FISAP data submitted for 2012-2013.

***Agency Response:*** *We agree.*

***Corrective Action Plan:*** The OSFAS made all appropriate corrections to the FISAP in accordance with the federal deadline, December 15, 2013.

The OSFAS is instituting procedures to establish an internal secondary review process prior to the annual October 1st submission deadline. Procedural enhancements will be finalized prior to the implementation of the 2014-2015 financial aid production cycle.

***Anticipated Completion Date:*** March 1, 2014

***Contact Person:*** Mona Lucas, Director of Student Financial Aid Services

***Contact Phone Number:*** 860-486-2819

**Special Tests: Verification**

**Federal Supplemental Educational Opportunity Grant (CFDA # 84.007)**
**Federal Work-Study Program (CFDA # 84.033)**
**Federal Perkins Loan Program – Federal Capital Contributions (CFDA # 84.038)**
**Federal Pell Grant Program (CFDA # 84.063)**
**Federal Direct Student Loans (CFDA # 84.268)**
**Teacher Education Assistance for College and Higher Education Grants (CFDA #84.379)**
**Federal Award Agency: Department of Education**
**Award Year: 2012-2013**

***Criteria:*** Title 34 Code of Federal Regulations (CFR) Section 668.53 requires an institution to establish policies for verifying information contained in a student aid population.

Title 34 CFR Section 668.56 requires that an institution must verify all Free Applications for Federal Student Aid (FAFSA) that have been selected for verification.

Items that are required to be verified include household size; number of household members who are in college; food stamps – Supplemental Nutrition Assistance Program (SNAP); child support paid; adjusted gross income; U.S. income taxes paid; education credits; IRA deductions; tax exempt interest; and certain types of untaxed income and benefits. The financial aid office verifies student and parental income and household data by comparing financial data found on tax related documents to data found on the Institutional Student Information Report (ISIR). Further, it confirms household data and other untaxed income items found on the verification worksheet to data found on the ISIR.

***Condition:*** From a sample of 15 students selected for verification testing at the University of Connecticut, we noted one instance where the amount of the student's earned income per the IRS Form W-2, did not agree with the reported amount on the ISIR. The university has subsequently processed the correction for this student.

***Effect:*** The university was not in compliance with verification requirements. In this instance the student's Estimated Financial Contribution amount and award was not affected.

***Cause:*** It appears that the university did not resolve conflicting information before verification was completed.

***Recommendation:*** The University of Connecticut should review its procedures to ensure compliance with the federal regulations pertaining to verification.

***Agency Response:*** *We agree*.

***Corrective Action Plan:*** The OSFAS is updating procedures and forms for subsequent verification cycles in an effort to clarify parameters and requirements regarding federal verification regulations. Procedure and form enhancements will be finalized prior to the implementation of the 2014-2015 financial aid production cycle

***Anticipated Completion Date:*** March 1, 2014

***Contact Person:*** Mona Lucas, Director of Student Financial Aid Services

***Contact Phone Number:*** 860-486-2819

## Special Tests: Disbursements Entrance Interviews

## Nurse Faculty Loan Program (CFDA #93.264)
## Federal Award Agency: Department of Health and Human Services
## Award Year: 2012-2013

***Criteria:*** Per the United States Department of Health and Human Services – Health Resources and Services Administration (DHHS-HRSA), Nurse Faculty Loan Program (NFLP) Guidance, the school must document an entrance interview for each academic year during which the student receives the NFLP loan. Entrance interview documentation must include personal borrower information which will assist in skip-tracing should this be necessary during the collection process.

***Condition:*** From a sample of nine students who received a NFLP loan, we noted one instance where entrance interview documentation was not on file for a loan received during the audited period.

We also noted that the University of Connecticut is not requiring NFLP borrowers to complete a NFLP loan application form as part of the entrance interview process. The university procedure has the borrower complete an internal NFLP Confidential Data Form. However, this internal form does not require the borrower to provide all necessary personal information, i.e., current address and driver's license number and state, to assist in skip-tracing should this be necessary during the collection process.

***Effect:*** The university was not in compliance with federal regulations related to

awarding and disbursing NFLP loan funds.

The required entrance interview documentation was not on file.

***Cause:*** The university did not follow established policies and procedures. Furthermore, the internal form being used by the university for documenting personal borrower information does not include all the required information.

***Recommendation:*** The University of Connecticut should comply with federal regulations relating to the disbursement of Nurse Faculty Loan Program funds. The university should consider requiring the borrower to complete a Nurse Faculty Loan Program (NFLP) loan application, during the entrance interview for each academic year the student receives a NFLP loan.

***Agency Response:*** *We agree in part.*

***Corrective Action Plan:*** The OSFAS performed a thorough review of internal procedures and determined that the issue noted was an isolated incident, rather than a systemic issue. The OSFAS has systems in place to ensure that NFLP loans only disburse upon receipt of all required documents. No further action required. This appears to have been an isolated incident.

The University will enhance existing procedures to incorporate usage of the standard NFLP application as part of the entrance counseling process for awards made January 2014 forward.

***Anticipated Completion Date:*** January 1, 2014

***Contact Person:*** Mona Lucas, Director of Student Financial Aid Services

***Contact Phone Number:*** 860-486-2819

**Special Tests: Return of Title IV Funds – Policy Issues**

**Federal Supplemental Educational Opportunity Grants (CFDA #84.007)**
**Federal Perkins Loans – Federal Capital Contributions (CFDA #84.038)**
**Federal Pell Grant Program (CFDA #84.063)**
**Federal Direct Student Loans (CFDA #84.268)**
**Teacher Education Assistance for College and Higher Education Grant (CFDA #84.379)**
**Federal Award Agency: Department of Education**

**Award Year: 2012-2013**

***Background:*** We requested a list of all Title IV recipients that failed to earn a passing grade in at least one course for the fall 2012 semester. This was done as a result of a recommendation that we made for the fiscal year ended June 30, 2012, where we noted that the university did not have a procedure for determining whether a Title IV recipient who began attendance during a period completed the period or should be treated as a withdrawal in accordance with Dear Colleague Letter (DCL) GEN-04-03.

***Criteria:*** Title 34 Code of Federal Regulations (CFR) Section 668.22 provides guidance regarding the treatment of Title IV funds when a student withdraws from an institution.

Per DCL GEN-04-03, if a student who began attendance and has not officially withdrawn fails to earn a passing grade in at least one course offered over an entire period, the institution must assume, for Title IV purposes, that the student has unofficially withdrawn, unless the institution can document that the student completed the period.

***Condition:*** The University of Connecticut did not review all Title IV recipients that failed to earn a passing grade in at least one course for the fall 2012 semester to determine whether they began attendance during a period completed the period or should be treated as a withdrawal in accordance with DCL GEN-04-03. Upon notification in August 2013, the university identified and processed nine Return of Title IV Funds calculations.

***Effect:*** The university was not in compliance with the federal regulations governing the Return of Title IV Funds for the fall 2012 semester.

***Cause:*** The university developed procedures to comply with DCL GEN-04-03 in the spring 2013. At the time of our inquiry in August 2013, the university did not apply those procedures to the students who did not earn a passing grade in at least one course for the fall 2012 semester.

***Recommendation:*** The University of Connecticut should continue to follow its established procedures for determining whether a Title IV recipient who began attendance during a period completed the period or should be treated as a withdrawal in a timely manner.

***Agency Response:*** *We agree.*

***Corrective Action Plan:*** The University will continue to adhere to established procedures for determining whether a Title IV recipient who began attendance during a payment period completed that payment period.

***Anticipated Completion Date:*** Complete.

***Contact: Person:*** Margaret Selleck, Bursar

***Contact Phone Number:*** 860-486-1675

**Special Tests: Enrollment Reporting**

**Federal Direct Student Loans (CFDA # 84.268)**
**Federal Award Agency: Department of Education**
**Award Year: 2012-2013**

***Criteria:*** Per Title 34 Code of Federal Regulations (CFR) Section 682.610(c) (2), changes in enrollment to less-than-half-time, graduated, or withdrawn, must be reported within 30 days. However, if a roster file is expected within 60 days, the data may be provided on that roster file.

Proper internal control over enrollment to the National Student Clearinghouse requires that data submitted be accurate and complete.

***Condition:*** From a sample of 14 student borrowers who received Federal Direct Student Loans (Direct Loan) program funds that separated from University of Connecticut (UConn), we noted four borrowers who were deceased were reported to the NSLDS as withdrawn. In one of these instances, the deceased student was on a leave of absence prior to his date of death but was reported as withdrawn. Upon notification, the university processed the adjustments to three of these students' enrollment status.

***Effect:*** Enrollment information for student borrowers having a deceased status was not provided to the loan community in a timely and/or accurate manner.

***Cause:*** During our audited period, the university had not completed implementing changes for reporting students with a deceased status.

***Recommendation:*** The University of Connecticut should finalize implementation procedures to ensure that enrollment status changes are accurately submitted in a timely manner to the National Student Loan Data System in accordance with federal regulations for students with a deceased status.

***Agency Response:*** *We agree.*

***Corrective Action*** During this audit cycle, the Office of the Registrar was in the process of

***Plan:*** further refining the reporting procedures regarding deceased students to the National Student Clearinghouse. The reporting status of deceased students to the National Student Clearinghouse was changed to reflect “deceased” as opposed to “withdrawn” effective April 9, 2013.

As of December 4, 2013, the Registrar’s Office changed the logic of the National Student Clearinghouse report to "A" (leave of absence) from "W" (withdrawn). As a result, students who take leave of absences are being reported correctly with a status of "A”.

The Office of the Registrar has determined that, in addition to changing the coding in the NSC report, we will manually update deceased students individually instead of only relying on the automatic report.

Effective November 1, 2013, the Registrar’s Office has implemented a policy to update deceased students in the National Student Clearinghouse manually.

***Anticipated Completion Date:*** Complete.

***Contact Person:*** Lauren DiGrazia, Registrar

***Contact Phone Number:*** 860-486-3903

**Statewide Single Audit – University of Connecticut**
**Research and Development with Management Responses**

## Cash Management

**Federal Award Agency: Department of Defense**
**Award Year: State Fiscal Year Ended June 30, 2013**
**Research and Development Programs:**

**Military Medical Research and Development (CFDA #12.420)**

**Account #5253310 – "Tracking the Health of Soldiers with Advanced Implantable Nano-Sensors" – W81XWH-09-1-0711 issued by the U.S. Army Medical Research Acquisition Act, project period September 15, 2009 through April 14, 2013**

**Account #5615520 – "Optimizing and Validating a Brief Assessment for Identifying Children of Service Members at Risk for Psychological Health Problems Following Parent" – W81XWH-12-2-0036 issued by the U.S. Army Medical Research Acquisition Activity, project period June 15, 2012 through June 14, 2015**

*Criteria:* Per OMB Circular A-110, cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs.

*Condition:* Average daily cash balances in excess of $100,000 were maintained for two awards that should have been funded on a cost reimbursement basis. These cash balances were significantly in excess of immediate cash needs. **51057.01**

An average daily cash balance of $364,862 was maintained for award W81XWH-09-1-0711; the average amount expended each day was $1,043. An average daily cash balance of $110,319 was maintained for award W81XWH-12-2-0036; the average amount expended each day was $73.73. **51057.01**

*Effect:* Excess cash balances were maintained.

*Cause:* With respect to awards W81XWH-09-1-0711 and W81XWH-12-2-0036, the grantor agencies deliberately transferred funds substantially in excess of the university's immediate cash needs.

The grantor agencies bear the responsibility for taking appropriate remedial action.

*Conclusion:* This condition was deliberately engendered by the grantor agencies; they bear the responsibility for taking appropriate remedial action. 51057.01

*Agency Response:* "*Not applicable*" 50100.02

*Anticipated Completion Date:*
*Contact:*

## III.G.?. Allowable Costs/Cost Principles – Applicable Credits (University of Connecticut)

**Federal Award Agency: Various**
**Award Year: State Fiscal Year Ended June 30, 2013**
**Research and Development Programs:**

**Various**

*Criteria:* Per OMB Circular A-21, to be allowable under federal awards, costs must be net of all applicable credits, e.g., volume or cash discounts, insurance recoveries, refunds, rebates, trade-ins, adjustments for checks not cashed, and scrap sales.

*Condition:* The university participates in the state's purchasing card program. The state receives rebates on credit card purchases made under this program, but does not credit them to the cost centers that the purchases were charged to.

During the 2013 fiscal year, charges to accounts maintained by the university for federal research and development programs aggregated $2,500,776. The state's rebate rate under the purchasing card program was 1.32 percent for the 2012 calendar year. Using 1.32 percent as a reasonable estimate of the rebate rate for the 2013 fiscal year, $33,010 in applicable credits should have been allocated to federal research and development programs administered by the university.

*Effect:* Unallowable costs in the amount of $33,010 were charged to federal research and development programs administered by the university

*Cause:* Amounts rebated were retained in central state accounts; they were not made available to the university for allocation to the cost centers that the purchases were charged to.

*Recommendation:* The State Comptroller should transfer purchasing card program rebates allocable to the university's federal accounts to the university so that they can be appropriately credited to the accounts.

*Agency Response:* "*Not applicable*."

*Anticipated Completion Date:*

*Contact:*

## III.G.?. Allowable Costs/Cost Principles – National Institutes of Health Salary Cap (University of Connecticut)

**Federal Award Agency: Department of Health and Human Services**
**Award Year: State Fiscal Year Ended June 30, 2013**
**Research and Development Programs:**

**Environmental Health (CFDA # 93.113)**
**Account #5224710 – "Electrocatalytic Studies of Toxic Pollutant Activation" – 5R01ES003154-29 issued by the National Institute of Environmental Health Sciences, project period March 1, 1983 through November 30, 2013**

**Drug Abuse and Addiction Research Programs (CFDA # 93.279)**
**Account #5617400 – "Factors Influencing the Health Behavior of Young African American Adults" – 7R01DA021898-12 issued by the National Institute on Drug Abuse, project period August 10, 2001 through December 31, 2012**

**Discovery and Applied Research for Technological Innovations to Improve Human Health (CFDA # 93.286)**
**Account #5613660 – "Protein Biosensor Arrays Based on Nanomaterials" – 9R01EB014586-06A1 issued by the National Institute of Biomedical Imaging and Bioengineering, project period September 15, 2011 through August 31, 2015**

**Lung Diseases Research (CFDA # 93.838)**
**Account #5258160 – Subaward M11A11069 (A08211) from Yale University under "Counter-Irritation by Menthol: Molecular Targets and Role in Airway Disease" – 5R01HL105635-02 issued by the National Heart, Lung and Blood Institute, project period January 1, 2011 through December 31, 2014**

**Child Health and Human Development Extramural Research (CFDA # 93.865)**

**Account #5614730 – "Estimating the Causal Effects of Social Networks on Health Behaviors" – 1R21HD066230-01A1 issued by the Eunice Kennedy Shriver National Institute of Child Health and Human Development, project period September 27, 2011 through August 31, 2013**

*Criteria:* The legislatively mandated, through appropriation legislation, National Institutes of Health salary cap limits the direct salary that a researcher may receive under a National Institutes of Health award. The cap is tied to the federal Executive Schedule of Pay.

The cap does not limit researchers' salaries. It limits the amount that can be charged to National Institutes of Health awards. In instances where researchers' pay rates exceed the cap, awards cannot be charged more than would be allowable if the researchers' pay rates were at the cap.

The salary cap was set at $179,700 annually for a full time employee for awards issued during the period from December 23, 2011 through January 11, 2014. Higher levels were permissible for awards issued prior to and following this period. As the salary cap limits pay rates, the annual amount must be reduced proportionately for percentage of employment, the fraction of a year the time period represents and the percentage of effort devoted to the award during the time period for which the salary allocation is calculated.

*Condition:* We identified 28 instances where the cap was potentially applicable. Each instance included all compensation charged to one or more National Institutes of Health awards for one semester for one individual whose pay rate exceeded $179,700. We tested ten of these instances and found that the researchers had been charged at rates that exceeded the applicable salary cap in four of the ten. Excess amounts charged (salary only, not including associated fringe benefits and facilities and administrative costs) totaled $6,476, $4,153, $4,118.07, $1,986 and $340 for awards 5R01ES003154-29, 7R01DA021898-12, 9R01EB014586-06A1, M11A11069 (A08211) and 1R21HD066230-01A1, respectively.

*Effect:* Unallowable costs were charged to NIH awards.

*Cause:* The university has not established a standard process for addressing this compliance requirement. As a result, though the annual salary caps were appropriately reduced for the fractions of a year represented by the periods during which the work was

performed, the necessity to further reduce the caps for the percentages of effort devoted to the awards in question during those periods was not recognized in all cases.

*Recommendation:* The university should identify all instances where individuals whose rate of pay exceeds the salary cap are charged in whole or part to National Institutes of Health awards. Amounts in excess of the cap should be charged to specific accounts clearly designated for that purpose.

*Agency Response:* *"The University agrees with this finding."*

*Corrective Action Plan:* *Sponsored Programs Services will implement a process that addresses this compliance requirement. Going forward, we will flag NIH proposals with budgeted salary of investigators over the salary at the time of proposal review and will set up cost share accounts designated for that purpose if awarded. We will furthermore offer training to departmental grants administrators and faculty in how the effort reports are to be certified in these instances. For existing accounts, we will run reports to identify faculty with salaries over the cap whose salary is charged to NIH accounts and will review the accounts to make sure that salary is charged only as allowed. If more than the allowed salary is charged, it will be moved off the account.*

*Anticipated Completion Date:* *June 30, 2014*

*Contact:* *Antje Harnisch, Director, Sponsored Programs Services, 860-486-3994*

## III.G. ?. Allowable Costs/Cost Principles – Time and Effort (University of Connecticut)

**Federal Award Agency: Various**
**Award Year: State Fiscal Year Ended June 30, 2013**
**Research and Development Programs:**

**Various**

*Criteria:* Per OMB Circular A-21, the distribution of salaries and wages must be supported by after-the-fact activity reports signed by responsible persons who have used suitable means of verification to verify that the work was performed. The majority of the charges to Federal Research and Development Programs are for

personal service costs. Accordingly, the accuracy and integrity of the time and effort reporting system is crucial.

*Condition:* Under the university's current time and effort reporting system, researchers' time and effort reports are prefilled with estimated percentages of effort devoted to various projects by each researcher on a semester basis. These percentages are estimated by dividing the amount charged to each account by the total charged to all accounts on a biannual (July through December and January through June) basis.

Many researchers are nine month employees who work September through May, but are compensated on a 12 month basis. Accordingly, the charges recorded for a biannual period do not completely correspond with these employees' actual personal service costs for the semester, as accounts are charged when compensation is paid, not earned.

For example, charges for amounts paid to a nine month employee in July will be aggregated into the succeeding fall semester. However, these costs actually relate to work performed over the preceding fall and spring semesters.

The prefilled percentages reflect the apportionment of salaries paid during the period, not salaries paid for work performed during the period. Overlapping payments for summer semester work create an additional complication. These inconsistencies make it difficult to readily correlate the percentages reflected on the time and effort reports with the work actually performed, may have delayed the completion of the reports.

*Effect:* These inconsistencies make it difficult to readily correlate the percentages reflected on the time and effort reports with the work actually performed.

*Cause:* The university pays nine month employees on a 12 month basis as a convenience for the employees. The implications of this practice with respect to the time and effort system do not appear to have been given adequate consideration.

*Recommendation:* The university should charge restricted accounts for the full cost of personal services when the costs are incurred.

*Agency Response:* "The University agrees with this finding."

*Corrective Action Plan:* *Based on current system limitations this change would create an onerous administrative burden. The University is currently building a new effort reporting system and it is anticipated that a new payroll system will be implemented over the next couple years. The University will strive to develop this functionality in the future*

*Anticipated Completion Date:* *Uncertain*

*Contact Person:* *Antje Harnisch, Director, Sponsored Programs Services, 860-486-3994*

## Allowable Costs/Cost Principles – Unallowable Costs (University of Connecticut)

**ARRA - Trans-NIH Recovery Act Research Support (CFDA # 93.701)**
**Federal Award Agency: Department of Health and Human Services, National Institutes of Health, National Institute of Mental Health**
**Award Year: State Fiscal Year Ended June 30, 2013**
**Federal Award Number: 1RC4MH091939-01**

*Criteria*: Per OMB Circular A-21, costs charged to an award must be for work actually performed for the benefit of the award. The university's key control with respect to claims for reimbursement submitted by subrecipients in connection with subawards issued by the university is the evaluation of the claims by the principal investigators for the awards. The principal investigators are ultimately responsible for the awards and are in the best position to determine if work has actually been performed.

*Condition:* We noted that the principal investigator for award 1RC4MH091939-014 disallowed $53,393 in claims for reimbursement submitted by the University of Connecticut Health Center as subawardee of the university. The principal investigator rejected the claims in the belief that the work was not done.

It appears to us that the principal investigator was then pressured by colleagues to approve the claims. This interfered with the principal investigator's ability to freely exercise judgment in this matter. The claims were subsequently paid.

*Effect:* Unallowable costs were charged to the award.

*Cause:* There was a breakdown in internal control.

*Recommendation:* The university should reimburse the award for the unallowable costs charged. The principal investigator's ability to freely exercise judgment with respect to the approval of claims for reimbursement submitted by subrecipients should not be abridged.

*Agency Response:* *"The University cannot agree at this time because this finding is premature. A thorough evaluation of the matter has not been performed"* **50100.02**

*Corrective Action Plan:* *The University will conduct an independent investigation of the facts and circumstances surrounding this finding. The University will take appropriation action based on the outcome of this investigation. If it is determined that unallowable costs have been charged to this award the University will reimburse the award for the full amount of questioned costs.*

*Anticipated Completion Date:* *June 30, 2014*

*Contact Person:* *Antje Harnisch, Director, Sponsored Programs Services, 860-486-3994*

## III.G. ?. Eligibility – ARRA-Nurse Faculty Loan Program

**ARRA - Nurse Faculty Loan Program (CFDA #93.408)**
**Federal Award Agency: Department of Health and Human Services**
**Award Year: State Fiscal Year Ended June 30, 2013**

*Background:* On December 28, 2012, the University of Connecticut received a final determination from the Health Resources and Services Administration regarding $3,095 unallowable costs cited in the Statewide Single Audit Report for fiscal year ended June 30, 2010. The university was informed that the funds in question may be used to make an additional loan to an eligible recipient.

*Criteria:* In accordance with the terms and conditions set forth in the Notice of Grant Award, if American Recovery and Reinvestment Act (ARRA) funds were made available to your Nurse Faculty Loan Program (NFLP) in the past, no one student may receive both ARRA-NFLP funds and regular NFLP appropriated funds in the same project period.

*Condition:* Upon follow-up of the university's Summary Status of Prior Audit Recommendations received on December 30, 2013, we

noted that on June 17, 2013, the university disbursed the $3,095 ARRA-NFLP funds in question by swapping out $3,095 of a total of $27,956 in NFLP loan funds that a borrower received during the 2010-2011 fiscal year. This violated the terms and conditions of the Notice of Award for the NFLP,, which states that, "If the ARRA funds were made available to your NFLP program in the past, no one student may receive both ARRA-NFLP funds and regular NFLP appropriated funds in the same project period." The Notice of Award states that, "All expenditures must comply with program terms." Questioned costs total $3,095.

*Effect:* A loan adjustment was made to a student in violation of the terms and conditions of the program.

*Cause:* Program administrators did not follow the guidance provided in the Notice of Grant Award.

*Recommendation:* The University of Connecticut should contact the Health Resources and Services Administration for resolution of this matter.

*Agency Response:* *"The University agrees with this finding".*

*Corrective Action Plan:* *The University of Connecticut contacted the Health Resources and Services Administration (HRSA) to confirm whether the course of action previously taken was acceptable. HRSA indicated that the University of Connecticut should remove the ARRA-NFLP loan from the student's award and reuse it to make additional loans. The Office of Student Financial Aid Services cancelled the ARRA-NFLP loan in question on February 6, 2014 and will hold the funds in reserve until another eligible borrower can be identified.*

*Anticipated Completion Date:* *Complete*

*Contact Person:* *Mona Lucas, Director of Student Financial Aid Services, 860-486-2470*

**Statewide Single Audit - University of Connecticut Health Center**
**Research and Development with Management Responses**

**1. Equipment and Real Property Management**

**Federally-Sponsored Research and Development Programs**

**Federal Award Agency: Various Federal Agencies**
**Award Year: State Fiscal Year Ended June 30, 2013**
**Research and Development Programs:**

*Criteria:* OMB Circulars A-21 and A-110 require that a physical inventory of equipment be taken at least once every two years and reconciled to the equipment records..

*Condition:* During our testing of the Health Center's equipment inventory we concluded that equipment records lacked evidence of timely reconciliation to the most recent physical inventory.

*Effect:* The Health Center's equipment inventory records do not demonstrate compliance with the cost principals and administrative requirements established by OMB Circulars A-21 and A-110.

*Cause:* The implementation of a new accounting system caused an untimely updating of equipment inventory records.

*Recommendation:* The Health Center's records relating to their physical inventory of equipment should be reconciled in a manner that demonstrates the timeliness and completeness of the physical inventory.

*Agency Response:*

| ***Corrective Action Planned by the Health Center*** | ***Anticipated Completion Date*** | ***Department Contact*** |
|---|---|---|
| *We agree with this finding. The physical inventories themselves were completed in a timely fashion and the Health Center's equipment records were updated in December 2013 to reflect the results of the most recent physical inventory. However, our data reconciliation process was delayed by the implementation of our new accounting system. Each Health Center department will work with Materials & Logistics Management to ensure that their equipment data is reconciled by June 30, 2014.* | *June 30, 2014* | *Jack Ferraro, Director of Materials & Logistics Management 860-679-1927* |

May 20, 2014

# TAB 6

# The Office of Audit, Compliance & Ethics

## Status of External Audit Projects

May 20, 2014

| Vendor | Area | Scope | Comments |
|---|---|---|---|
| BKD | Storrs Athletics | NCAA agreed upon procedures performed on all revenues, expenses, and capital expenditures for or on behalf of the University's Athletics Program for FY2013. | Engagement complete. Reports were presented to the JACC at the December 3, 2013 meeting. |
| McGladrey | Storrs, Regionals & UConn Health | Audit of UCONN 2000 named projects substantially completed during FY2013, deferred maintenance projects with designated budgets substantially completed in FY2013 and agreed upon procedures performed on total UCONN 2000 expenditures (named projects, deferred maintenance and equipment) for FY2013. | Engagement underway. Reports will be presented to the JACC at the May 20, 2014 meeting. |
| Marcum, LLP | UConn Health | Audits of the John Dempsey Hospital and Dental Clinics (Clinical Programs Fund), including the OHCA filings, UConn Medical Group (UMG) and the University of Connecticut Health Center Finance Corporation for FY2013. | Engagement complete. Reports were presented to the JACC at the December 3, 2013 meeting. |

May 20, 2014

# TAB 7

# *2014 state of the internal audit profession study*

## Higher performance by design: A blueprint for change

*March 2014*

*PwC's annual survey results suggest that alignment of stakeholder expectations, and matching skills and capabilities to these expectations, helps internal audit enhance the value delivered to the organization.*

pwc

# The heart of the matter

## Transforming internal audit by design

State-of-the-art buildings are constructed based on a series of detailed blueprints agreed upon by stakeholders, including owners, builders, tenants, and inspectors. The builder then deploys the right skills and capabilities to build with quality against the blueprint. The alignment of stakeholders, a thoughtfully developed blueprint, the right capabilities, and disciplined execution result in a product that is valued by stakeholders and emulated by others. A more traditional or functional building will also be valued by stakeholders, but only if all interested parties agree on what they want and get what they are expecting.

Effective, profitable, and well-run companies apply the same level of detailed design, execution, and alignment in running their operations. Leaders are purposeful and systematic in defining expectations, establishing performance measures, and continually asking for higher levels of performance. Definitive steps are taken to build the necessary capabilities to deliver on business expectations, and performance is continually evaluated. When the necessary capabilities do not reside within the organization, they are obtained or advisors are leveraged in order to fulfill the obligations thoughtfully agreed upon by stakeholders. In this, our 10th annual *State of the Internal Audit Profession Study*, we take a deep dive into how today's internal audit functions can apply these same principles in order to deliver greater value to their organizations.

This year's study reflects the opinions of more than 1,900 chief audit executives (CAEs), internal audit managers, members of senior management, and board members, who told us that, given adequate resources, opportunities exist for internal audit to increase its value and its contribution to the business. More than half (55%) of senior management told us that they do not believe internal audit adds significant value to their organization. Nearly 30% of board members believe internal audit adds less than significant value. On average, only 49% of senior management and 64% of board members believe internal audit is performing well at delivering on expectations. While many reported that their internal audit functions made progress during the past year, performance issues identified in prior years' research continue and stakeholders told us the progress has not been sufficient to keep pace with the changing business environment. This year's research once again confirms that today's increasingly complex and risky business landscape has resulted in many internal audit functions struggling to be viewed as valuable. Further, internal audit's ability to build the right capabilities and deliver on expectations continues to be challenged.

This year's survey results have brought the drivers of these continuing trends into further focus. In order to build the right capabilities to add the

***"Internal audit services are not restricted to providing assurance and satisfying regulatory compliance requirements, but these things remain core elements of the internal audit expectations. However, internal audit also adds a number of other competencies to its arsenal to keep pace with stakeholder expectations. This includes shifting the balance between assurance and advisory to achieve greater business insights. Internal audit now has become more collaborative than before. There is no more 'You' and 'I' and finger-pointing. Internal audit takes up coaching responsibility for the business, driving performance improvement initiatives and closing internal control gaps."***

***—Nagesh Pinge, CAE, TATA Motors Limited, India***

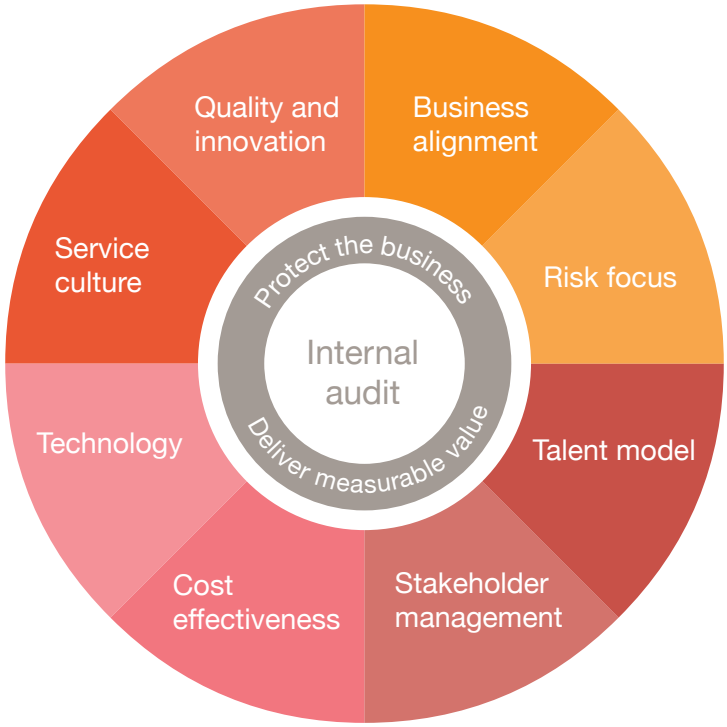
*"I wonder if the audit committee has an appreciation for how the pendulum has swung for internal audit. The expectations of internal audit must be very clear and all stakeholders—board, executive officers, line management—must align."*

*—Chief Compliance Officer, Fortune 50 consumer products company*

maximum value to the organization, each internal audit function must first define value and ensure alignment of definition and expectation. Therefore, any analysis of performance and value starts with an assessment of alignment of expectations. Without clear expectations established, no clear definition of value even exists. Our research indicates that many internal audit functions are responding to a wide variety of stakeholder demands versus taking purposeful action in designing the function around an aligned set of expectations. While internal audit has an important objective to carry out, it must be aligned with the expectations of its stakeholders regarding both the critical risks the organization faces and the expectations of internal audit relative to those risks. These are foundational steps without which internal audit is unable to strategically build the right capabilities, raise its performance, and add value.

It is also hard to dismiss the levels of performance we've continued to see since we began studying internal audit through the lens of stakeholders three years ago. As we explain further in the paper, these challenges continue to be rooted in not having the right capabilities to perform on eight foundational attributes (Figure 1). Stakeholders reported low levels of performance in multiple areas, including bringing the right level of talent to the organization, leveraging technology (including advanced data analytics), and delivering cost-effective services.

**Figure 1: The eight foundational attributes of internal audit**




In this year's study, we take a deep dive into these alignment and performance issues to uncover the challenges and reveal the characteristics internal audit and stakeholders are demonstrating in high-performing organizations. Our 2014 survey revealed that when stakeholders expect more, and internal audit is able to deliver at a "trusted advisor" level of service (i.e., meeting a broader stakeholder expectation set, based on a track record of providing value-added services and proactive strategic advice to the business), the following benefits result:

- Performance on the eight foundational attributes is better—by a wide margin—versus functions delivering at an "assurance provider" level of service (defined as meeting limited expectations focused on executing effectively and efficiently on an often more traditional audit plan)

- The function is valued by stakeholders at more than twice the level accorded to assurance providers

- Stakeholders believe the benefits of these internal audit departments far exceeded their costs, by nearly 40% over assurance providers

Our survey results also showed that when the expectations of internal audit's various stakeholders are aligned, the function can perform well and be seen as providing significant value, irrespective of the level at which it's expected to deliver: trusted advisor, assurance provider, or somewhere in between. Functions at the assurance provider level should strive to deliver value by ensuring alignment around their expectation set and then executing at the highest quality within that level. Additionally, internal audit functions at every level should always be looking to add value by expanding their capabilities in emerging areas (e.g., data analytics), leveraging greater subject matter expertise, and entering into emerging risk spaces such as compliance, IT security, geographic or product expansion, and new acquisitions.

Building a world-class internal audit function that is responsive to growing stakeholder expectations and an expanding risk universe is a matter of deliberate design and collaboration. Organizations that want to craft an internal audit function that delivers optimal value and enables management to make better business decisions should consider these few key questions:

- The first step towards generating more value is aligning with stakeholders: Is there alignment of expectation across the critical stakeholders?

- When more is expected, internal audit has the opportunity to generate more value: Am I asking for enough? Has historical performance positioned the function to expand the scope of what is expected?

- Higher expectations require increased capabilities: Do we have the right capabilities?

**67%**

**of trusted advisors are providing significant value compared to**

**33%**

**of assurance providers**

# An in-depth discussion

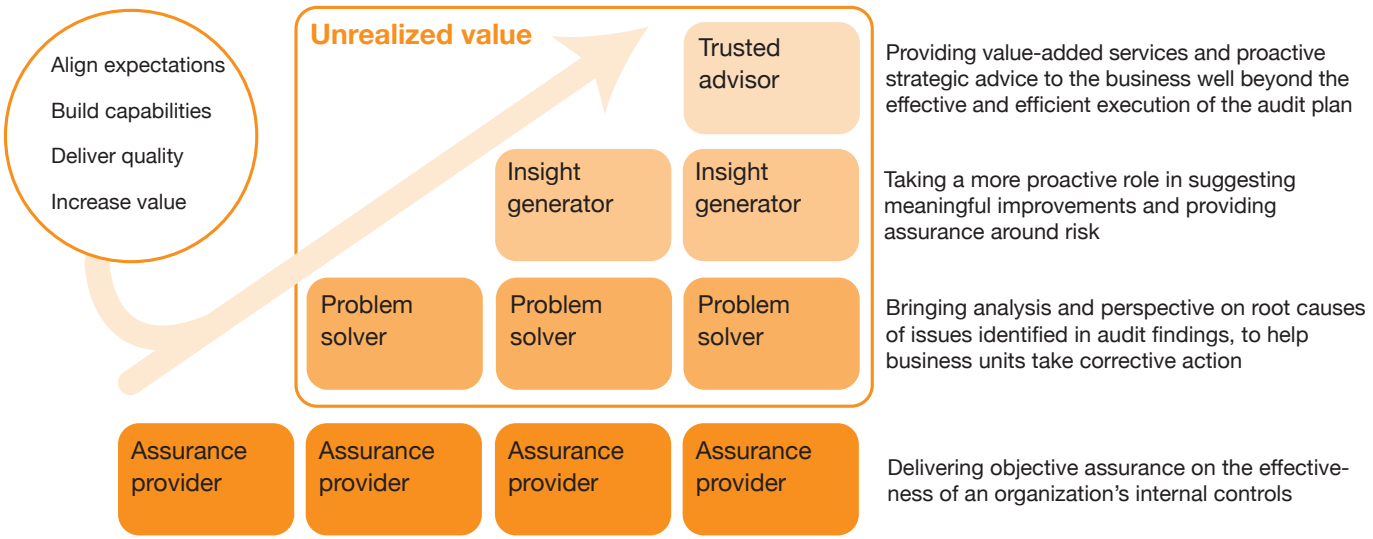
## *Crafting the blueprint for an aligned, value-enhancing internal audit function*

As a critical function of the business in identifying and managing risk, internal audit should be an effective contributor to the priorities of stakeholders and the organization. That is why, each year, PwC conducts a survey of CAEs and their key stakeholders. Nearly 1,400 CAEs (which, in our study, includes internal audit directors) and more than 520 stakeholders, representing 24 industries and 37 countries, participated in the *2014 State of the Internal Audit Profession Study*. This rich data has given substantial insight into how internal audit is performing and the steps individual functions are taking to increase their contribution to their respective organizations. To gain even deeper insights on survey findings, PwC also conducted one-on-one interviews with more than 125 stakeholders and CAEs across North America, Europe, Australia, and Asia. Further, PwC interviewed certain key regulators across the globe to better understand their expectations of internal audit.

Through our research and experience, we know that internal audit functions can provide value across a spectrum of delivery approaches—from assurance provider to trusted advisor (see Figure 2). Our survey and interviews revealed that those functions adding significant value are purposefully deciding where they fall on this spectrum and aligning capabilities accordingly. However, many others are operating by default rather than by purposeful design.

Internal audit's journey to maximize its contribution is not unlike a builder's journey to construct a world-class building. Several components contribute to the development of any new construction. Both the short- and long-term uses of the building must be considered so that it can be designed to be adaptable to future needs. The style of the building must be decided—whether it will be a simple, lower-cost, utilitarian building or a more innovative structure compliant with leading environmental standards and equipped with the latest technologies. The building must also be designed on a blueprint that details each space and the predetermined use or flexibility required from that space. These decisions are made with the input of all constituencies involved in the building's construction and use. Once decisions are made, they are broadly communicated so that every party is aligned on the blueprint prior to construction. Prior to breaking ground, the builder confirms that skilled resources and equipment will be on the job site when needed.

**Figure 2: The journey to capture unrealized value**



***"We've seen internal audit's role in enterprises continue to change in reaction to events, risks, or regulation affecting the company. More time needs to be invested to shift internal audit from reactionary to aligned with the enterprise's strategic needs. When the breadth of expectations of internal audit is agreed upon, enterprises have made the fundamental first step toward deriving the most out of their internal audit function."***

***—John Tantillo, Partner, PwC***

To help board members, senior management, and CAEs gain insight into how internal audit can build itself into a world-class structure, realize its full value potential, and maximize its contribution to the business, we present our survey findings in five sections:

1. Is it time to renovate? The case for change
2. Laying the groundwork for value: Expanding the expectation set
3. Creating the blueprint: Developing an aligned set of expectations
4. Preparing to build: Crafting the capabilities to deliver on expectations
5. Sharing the blueprint: Internal audit's communication strategy

## Is it time to renovate? The case for change

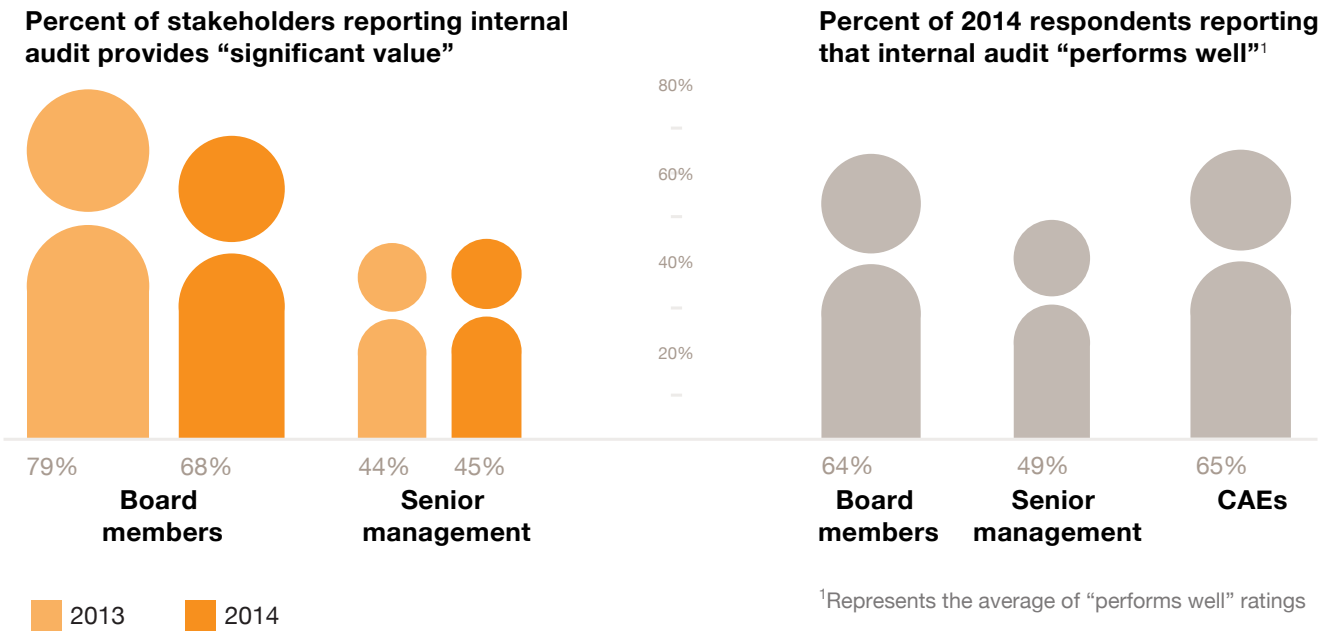
Last year, PwC's *2013 State of the Internal Audit Profession Study* identified the fact that many internal audit functions were struggling to maximize the impact of their contribution and were therefore in danger of losing relevance to other risk and compliance functions within the organization. Twelve months later, while we continue to see leading functions delivering at a high level, the majority of our survey respondents have made minimal progress. Our 2014 survey results indicate that many stakeholders do not believe internal audit is meeting expectations. Fewer than half (45%) of senior management believe internal audit adds significant value. Board members are somewhat more bullish, with nearly 70% expressing a belief that internal audit adds significant value, but this percentage is more than 10 points lower than in 2013, somewhat undercutting its positive spin. This trend could either be due to internal audit failing to keep pace with the changing, complex risk environment, or it could reflect a situation in which internal audit lacks the resources to meet rising board member expectations.

Furthermore, on average, only 49% of senior management and 64% of board members believe internal audit is performing well at delivering on the foundational attributes and their associated expectations. Even CAEs are critical of their function's performance, with just 65% believing on average that their function is performing well (see Figure 3).

To gain a more comprehensive perspective on the expectations and performance of leading internal audit functions, we expanded our evaluation of internal audit's eight foundational attributes to investigate the types of responsibilities leading internal audit functions are delivering on today.

Our survey results indicate a variety of different opinions between board members, senior management, and CAEs regarding what is expected from internal audit. We highlight in Figures 4 and 5 our research findings in a more detailed analysis of four of the foundational attribute areas: risk focus, business alignment, stakeholder management, and service culture.

**Figure 3: Satisfaction with internal audit value and performance**



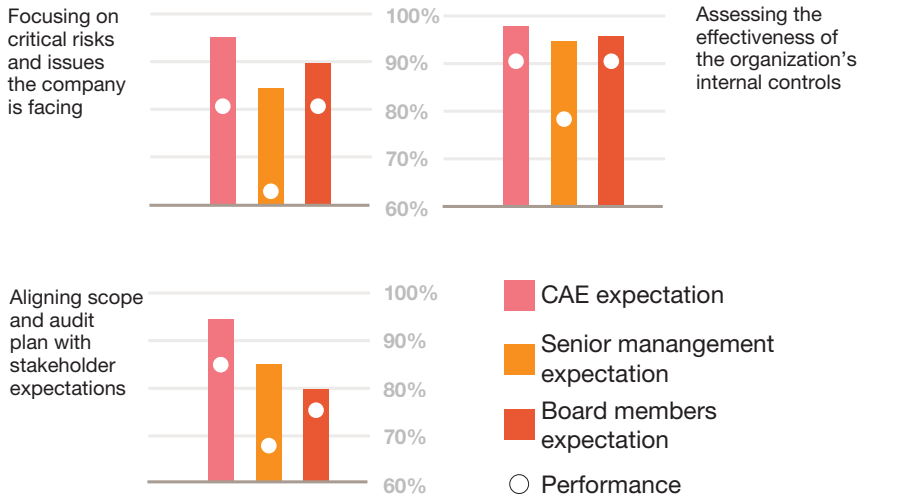
## Risk focus and business alignment

Our research identifies varied perspectives between board members, senior management, and CAEs as to what they expect from internal audit regarding risk focus and business alignment (see Figure 4). For example, focusing on critical risks and issues the company is facing is one of internal audit's foundational attributes and an expectation of most stakeholders. Senior management (85%), board members (90%), and CAEs (96%) are aligned on the expectation that internal audit should focus on critical risks and issues the company is facing. How well internal audit performs against that expectation, however, is debatable: 81% of CAEs who believe this is expected of them report they do this well, while only 63% of senior management agree. Perhaps the gap indicates that internal audit is not truly focused on the most critical risks faced by the organization, and is therefore not aligned with stakeholders on those risks. Alternatively, internal audit may be focused on the right risks but lacks the capabilities to execute effectively against those risks. In our interview process, both of these scenarios were discussed.

There is also agreement on the expectation that internal audit will assess the effectiveness of internal controls, an area in which many internal audit functions are performing well. Approximately, 80% of senior management, 90% of CAEs, and 90% of board members believe internal audit is delivering on assessing the effectiveness of internal controls. This is good news, suggesting that as internal audit expands its capabilities and reaches high performance on basic assurance provider expectations around testing of financial, operational, and compliance controls, it will then be able to purposefully design its journey up the spectrum toward trusted advisor status.

On the expectation that internal audit align its scope and audit plan with stakeholder expectations, CAEs and stakeholders are not in full agreement, with 94% of CAEs believing the function has this mandate and only 85% of senior management and 80% of board members believing the same. Further, there is varying perspective on the performance against this expectation, with 85% of CAEs, 68% of senior management, and 76% of board members who expect such alignment believing internal audit delivers on this goal.

**Figure 4: Expectations and performance on risk focus and business alignment**




Expectation: % who expect this from internal audit (base = total survey responses)

Performance: % who believe internal audit performs well in this area (base = only respondents who expect this from internal audit)

## Stakeholder management and service culture

Stakeholders were not well aligned in their expectations of internal audit in the areas of stakeholder management and delivering quality through a client service culture. In addition, performance against these attributes was reported to be fairly low (see Figure 5). For example, 89% of CAEs believe they are expected to provide timely, proactive advice to senior management on current and emerging issues. This compares to 81% of senior management. From a performance perspective, there was a 20-point gap between senior management's and CAEs' perception of whether internal audit was performing well on this attribute (41% and 61%, respectively).

When it comes to engaging and managing a relationship with stakeholders, 77% of CAEs said this was an expectation of internal audit, while 55% of senior management and just 36% of board members believe this is a critical expectation of internal audit. Among the 55% of senior management who expect this from internal audit, just over half (54%) believe internal audit does it well.

Significant differences of opinion were also evident regarding the identification of thematic issues an organization is facing. While 79% of CAEs believe this is expected of them, just 63% of senior management and 65% of board members agree. Among those in senior management who believe identification of thematic issues is expected of internal audit, only 39% report that internal audit does it well.

**Figure 5: Expectations and performance on stakeholder management and service culture**


Expectation: % who expect this from internal audit (base = total survey responses)

Performance: % who believe internal audit performs well in this area (base = only respondents who expect this from internal audit)

When asked if promoting quality improvement and innovation was part of internal audit's expectations, stakeholders had different perspectives: 56% of senior management agreed, compared to 69% of board members and 77% of CAEs. Among the board members who expect this, just 64% believe internal audit does it well.

Based on our research, internal audit could take several steps towards building a better function. Do CAEs know how to meet and exceed their stakeholders' expectations, when these expectations vary so widely? In order for internal audit to be purposeful in identifying the capabilities and skills it needs to deliver quality, it must first align its stakeholders' expectations to form a comprehensible and focused set of goals.

*"The CAE is expected to select the 'best' resource to get the work done, which may include outsourcing, bringing in others—the best in the industry—to increase the knowledge of your own team and get different perspectives on issues. We leverage the co-source relationships to learn different ways of doing things within internal audit."*

*—Melvin Flowers, Corporate Vice President of Internal Audit, Microsoft, USA*

## Laying the groundwork for value: Expanding the expectation set

As CAEs work with their stakeholders to build alignment, the conversation should include what the groundwork for value looks like today and into the future, since the definition of value will differ for each stakeholder.

By aligning on expectations and having the right capabilities, internal audit functions can add significant value to their organization as either an assurance provider or trusted advisor. Our survey results indicate that those with a broader expectation set (trusted advisor) are more often seen as adding significant value. We believe this is a result of those internal audit functions having the ability to bring in a broader range of skills and capabilities to the organization. However, our survey results show that, while harder, it is possible to perform well against limited expectations and be valued by stakeholders, although typically this involves executing on more traditional audit plans—the role of an assurance provider. Regardless of the expectation set (assurance provider or trusted advisor), internal audit has the opportunity to drive greater value to the organization by expanding capabilities and skill sets.

In organizations where internal audit's expectations are narrow, yet where CAEs have gained consensus on those expectations and aligned capabilities to deliver, some stakeholders reported receiving value. In our construction metaphor, this is analogous to a builder constructing a highly efficient building designed to fulfill a narrow, highly specific purpose for its tenants. Performance scores show that 26% of internal audit functions with narrow expectations (i.e., assurance providers) are performing well on the most foundational expectations and are adding significant value. However, 55% of the functions in this group were perceived as performing poorly and adding only some to little value.

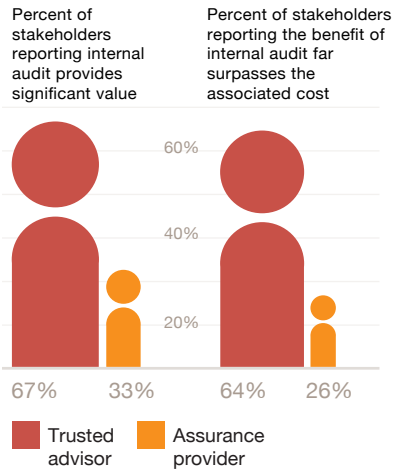
In contrast, our survey results indicate that when an organization has broad expectations of internal audit, and internal audit has invested in the right capabilities to deliver on these expectations, stakeholder satisfaction and performance is significantly higher and internal audit is viewed as a trusted advisor. When internal audit is viewed as a trusted advisor, twice the percentage of stakeholders (67%) say the function adds significant value, versus just 33% when internal audit's expectation set is limited to that of assurance provider. In addition, when internal audit is viewed as a trusted advisor, more than twice the percentage of stakeholders report that the function's benefit far surpasses its associated cost (see Figure 6).

SPX CFO Jeremy Smeltser "expects internal audit to be involved in areas of change in the business, integrating emerging risk areas into the audit plan and performing audits both around controls and integrity of the risk behind the business strategy." Smeltser also noted that, "internal audit is proactive because they have earned a seat at the table. As new issues arise, internal audit is asked to come in and is always able to share thoughts across the organization because they have the benefit of hearing perspectives from all levels of the business. Senior management expects their involvement." In this organization, being a trusted advisor does not take away from internal audit's core responsibility of providing value protection to the company, nor does it impede the function's ability to be objective. When expectations are broad and internal audit has support from stakeholders, it is able to align capabilities to meet these broader expectations and bring a relevant, well-thought-out perspective on the organization's critical risks. The ability to continually provide high-quality perspectives to stakeholders earns internal audit a seat at the table and allows it to deliver more business-relevant perspectives and increase the value it delivers on initiatives that matter most to the organization.

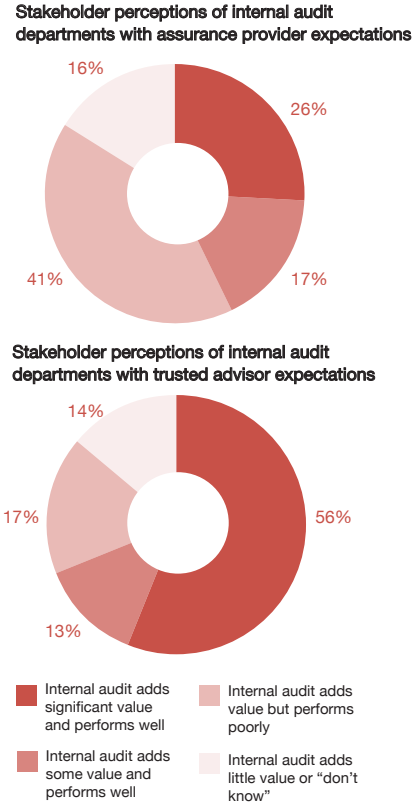
Our evidence shows that internal audit can deliver greater value for the enterprise if stakeholders expand their expectations and internal audit expands its capabilities in response. In the same way a building constructed and equipped for multi-purpose use meets the needs of more tenants and enjoys greater occupancy, a more relevant internal audit function will enjoy enhanced stakeholder satisfaction and earn a place as a trusted advisor. Among companies in which internal audit is accepted as a trusted advisor,

## Figure 6: Profile of trusted advisors

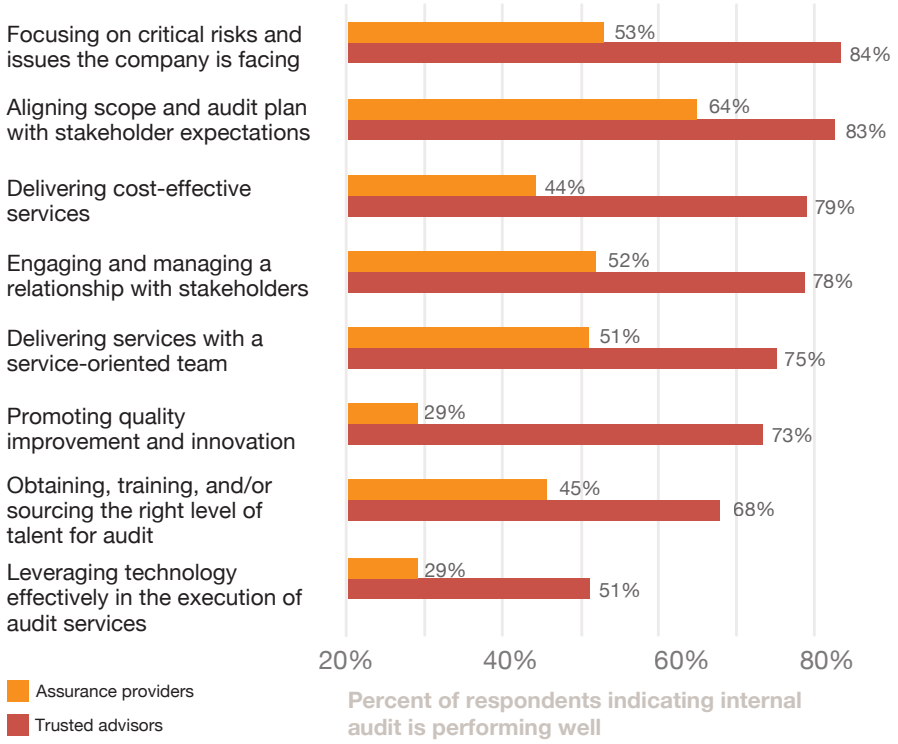
### Trusted advisors are more valued by stakeholders



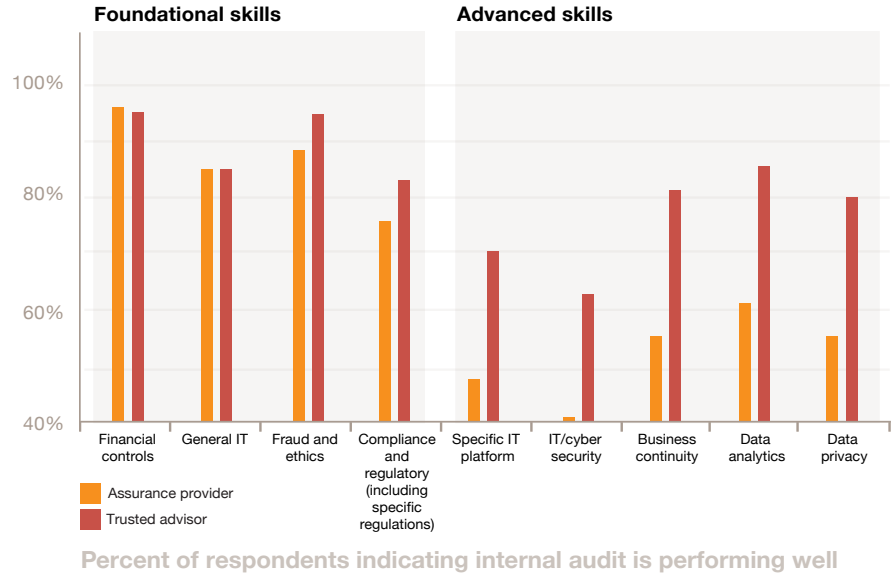

### Trusted advisors combined performance and value far exceeds assurance providers




### Trusted advisors are performing at a much higher level




### Trusted advisors more often possess advanced skills



*"Ensuring that internal audit's mandate is aligned with organizational objectives and risk is currently dependent largely on the skills of the head of internal audit and the strength of the audit committee."*

*—Veronica Du Preez, audit committee member (various organizations) and former CEO, Institute of Internal Auditors, South Africa*

56% reported internal audit was adding significant value and performing well. Higher expectations demand stronger capabilities, which beget higher performance. In addition, broader expectations infer internal audit is covering more risk areas, and broader risk coverage can make internal audit more relevant as it expands its skill sets.

## Creating the blueprint: Developing an aligned set of expectations

Just as buildings big and small are constructed using detailed blueprints, effective, profitable, and well-run companies move forward by design, not default. The expectations of internal audit—just like those of other functions—should be crafted, not patched together in isolation to address immediate needs. It is only when organizations rethink internal audit and align it with the expectations of its multiple stakeholders that the function is able to raise its performance and provide added value to the organization.

In our interviews, CAEs who believed they were performing well against stakeholder expectations and were highly valued by their organization attributed the foundation of this success to a well-understood and widely communicated expectation set. Internal audit must be aligned with the expectations of its stakeholders and with the critical risks the organization faces. These are foundational steps without which internal audit will be unable to strategically build the right capabilities and raise its performance and value.

Without dialogue and collaboration among board members, senior management, the CAE, and even external stakeholders (e.g., regulators and external auditors), it is very difficult for alignment of expectations to be achieved. Consider again the huge difference of opinion about whether CAEs should be engaging and managing relationships with stakeholders. Perhaps board members and senior management perceive relationship building to be in conflict with internal audit objectivity. Senior management may also fail to understand the value that they could be receiving when such relationships exist. On this particular expectation, our survey shows that those internal audit functions that are most highly valued focus on managing stakeholder relationships. This is not to suggest that CAEs should blindly follow the expectations laid out by their stakeholders. We heard in our interviews that the process of achieving alignment must be led by the CAE, but in collaboration with a variety of internal and external stakeholders, balancing their expectations. While the CAE owns the process, stakeholders should be prepared to contribute to the design process if they want to reap the value internal audit can deliver.

To accomplish this, internal audit and stakeholders should be establishing expectations aligned to the eight foundational attributes, while proactively considering current and future needs as well as the increasing expectations of regulators and the second lines of defense, the business units and the risk/compliance functions.

### The blueprint components: What goes in the expectation set

Our discussion with stakeholders and CAEs and our survey responses point to the importance of aligning on the eight foundational attributes that comprise an effective internal audit function (see Figure 7). Further, CAEs need to develop and gain alignment on the specific expectations of how they are going to successfully deliver on these eight attributes. To develop these more descriptive expectations, CAEs should engage in dialogue with stakeholders to gain clarity on roles and responsibilities, and further understand those stakeholders' expectations regarding scope of services and how they define adding value to the organization. Given the preponderance of evidence that delivering at the trusted advisor level increases value in the eyes of the stakeholder, the CAE discussion should also focus on whether the stakeholder actually wants internal audit to build these capabilities. If they want this purposeful design for internal audit, a discussion of the timeline to build out these skill sets needs to ensue.

We recognize that all key stakeholders may not agree on expectations of internal audit and how internal audit can build the function to deliver on the eight foundational attributes. Therefore, it is important for CAEs to not only gather a variety of perspectives, but reconcile them to establish a common base of expectations on which it can deliver.

## Figure 7: The eight foundational attributes of internal audit

### Quality and innovation

Quality standards have been defined and cover all of internal audit's activities

Formal quality reviews are regularly completed to identify improvement opportunities

Innovation is embedded in the culture of internal audit and is consistently fostered and rewarded

### Business alignment

Expectations are clearly articulated and communicated

Internal audit defines and articulates its mission and value

Metrics are developed to measure progress towards the stated mission and vision

### Risk focus

The audit plan is based on both a top-down, strategic approach and bottoms-up approach to identifying business risks

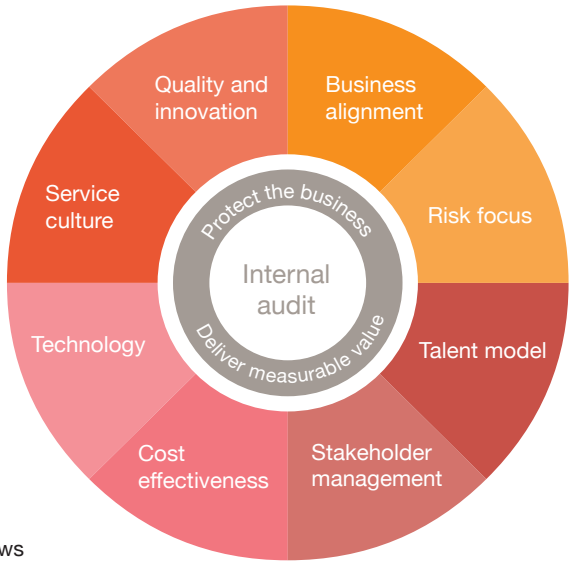
The audit plan is continuously updated to respond to changes in the company and the external business environment

Appropriate time and effort are spent on assessing the key risks of the enterprise, including emerging and enterprise risks

### Service culture

Metrics measure customer satisfaction based on stakeholder expectation

All services provide balance of objectivity and value




### Talent model

An appropriate mix of core internal audit and subject matter specialists (including those with significant business acumen) exists to meet required expectations

A continual learning and development model exists to improve internal audit's knowledge of the business and the related risks, in addition to conflict management and critical thinking

Staff performance feedback is provided to facilitate growth and development of staff as well as the department

### Technology

Data analytics are deployed, which allows for alignment with business areas while also providing efficiency in testing through automation

Data is utilized to provide deep and persuasive intelligence on business issues and observations/ recommendations

Continuous auditing techniques are leveraged to increase audit coverage to provide early warning of risk indicators and increase audit coverage

Related activities are effectively coordinated through leveraging governance, risk and compliance (GRC) tools

### Cost effectiveness

The staffing model effectively leverages internal and external resources, varying staff levels and geographical locations to efficiently complete audit activities

Productivity is actively measured and managed to ensure the most cost-effective delivery of services

Audit methodology and processes are standardized and simplified to be cost effective

Investments in audit infrastructure are based on a disciplined ROI approach

### Stakeholder management

Stakeholders perceive internal audit as operationally excellent and, where appropriate, as a provider of strategic support

An internal audit strategic plan exists that captures expectations, communication strategy, and timelines

Internal audit seeks function-specific feedback regularly, captured though both one-on-one interviews and survey basis

Internal audit coordinates with the business unit to define expectations and share scope of the audit

Many CAEs have taken these steps to purposefully design a broader set of expectations that evolve them into trusted advisors, and while the journey has not been easy, they consistently attribute their success to alignment and support from stakeholders. Dominique Vincenti, Vice President of Internal Audit of retailer Nordstrom, notes her expectation set is extremely broad, with internal audit expected to provide a point of view on risk and controls across the organization, whether strategic, operational, financial, or compliance-related. She also notes that the vast majority of the audit plan and 2014 risk assessment topics are around new technology, execution of new strategic initiatives, and other emerging areas. Although Nordstrom's management doesn't yet always come to internal audit proactively about these new areas, there is a process to reach alignment with management so that those critical topics become a focus of the audit plan.

Ms. Vincenti also admits that getting to the point of being a trusted advisor has not been easy. Management wanted internal audit involved in more areas, and so those areas were added to the expectation set. Ms. Vincenti noted that while the board members are in complete alignment, "management didn't realize what they were signing up for." As internal audit has increased its scope and started to go in areas that had not been audited before, it initially generated discomfort and it required extra effort to create adequate partnership with management and respond to management's legitimate questions about why internal audit is involved.

Nonetheless, she noted that over the past 12 months, internal audit has started to get "more pull than push," especially as it has built up its knowledge and expertise and proven its worth on a few highly visible projects. This example highlights that getting to trusted advisor status is a journey, and internal audit should broaden expectations in lockstep with the right capabilities to deliver. This may make the journey longer, but agreement on both current and future stakeholder expectations allows the CAE to focus on the critical risks of the organization and begin to identify the capabilities necessary to increase value and relevance.

Once internal audit and stakeholders explicitly agree on the breadth of what the organization expects from internal audit, it is critical that the function stands firm on executing against its scope. Beginning with aligned expectations should reduce pushback; however, there could be instances where conflicts arise. For example, the business may not see value in certain expectations, but the board or regulators do. Further, internal audit may understand leading practices better than its stakeholders, giving the function a more informed perspective on the value it's delivering. Stakeholders may at times have to listen to and trust their CAEs, as long as those CAEs are operating within and towards world-class execution and seeking to define and clearly align expectations. With expectations clearly and collaboratively defined, internal audit should be empowered to manage its resources and activities so that expectations are fulfilled.

### Proactively considering future needs and making expectations responsive to change

Over the next 18 months, senior management expects ongoing market changes that will significantly impact their organizations. According to PwC's 2014 *Risk in Review* study, the three biggest areas of business impact include technological change and related IT risks, increasing regulatory complexity, and rapidly changing customer needs and behavior. To address these shifts, companies continue to adapt their strategies and sometimes drive radical business transformation. Three out of four of our survey respondents say their organization has undergone a transformation initiative, is doing so, or will in the near future. The combination of market shifts with the business changes undertaken in response is intensifying risk, with 75% of senior management saying that risks are increasing. Internal audit organizations delivering the greatest value have alignment on their role in the current risk environment as well as around emerging risks. As the interconnectedness of risks and pace of change continue to increase, continually adjusting and gaining alignment on internal audit expectations is critical to obtaining significant value where it matters most.

According to Richard Chambers, President and CEO of the Institute of Internal Auditors, "Internal audit tends to be very reactionary to the risk *du jour*." A risk *du jour* approach makes it hard for internal audit to be relevant to the organization, let alone proactive in

aligning skill sets to evaluate how the organization is mitigating its most critical risks. In our interviews, stakeholders reinforced the notion that internal audit delivers more value when it is aligned to the risks of the company. Sprint CFO Joe Euteneuer described internal audit's mandate as "internal audit's mandate is to be proactive in helping us forecast, assess, and manage risk. They are expected to partner with the business as they manage day-to-day operations and be an 'idea tank' for insights around risks and controls for the overall benefit of the company." A well-aligned internal audit function provides value through its ability to bring an objective perspective on managing risk in the areas that matter most to the company.

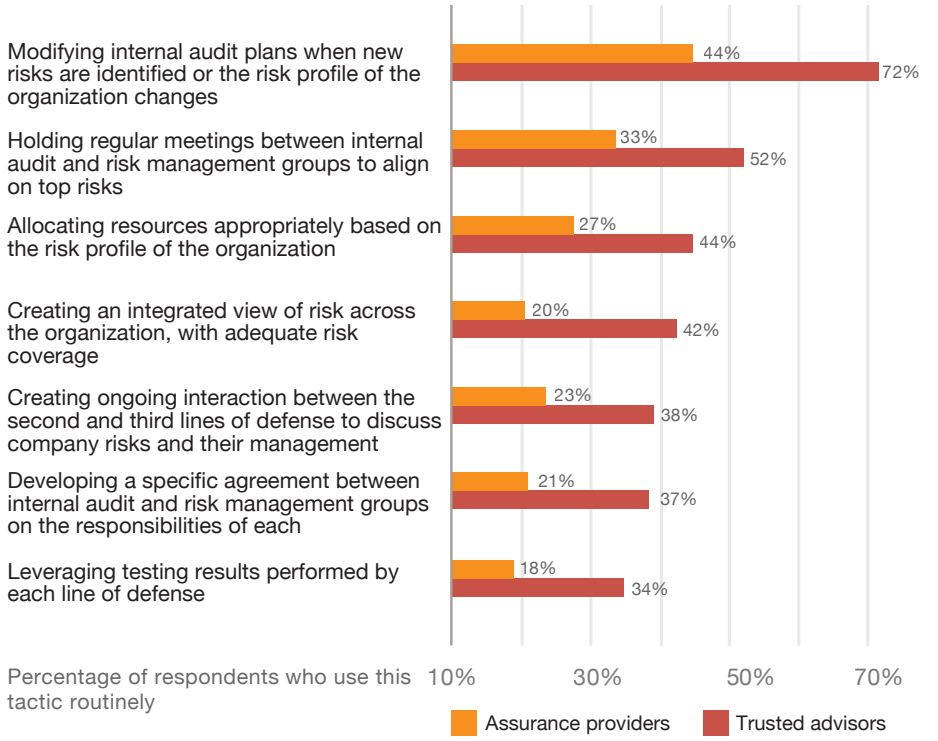
## Aligning with other lines of defense and third parties

Building construction requires collaboration between many parties outside of the immediate project team, from tenants who will inhabit the building to safety inspectors and community zoning boards. In addition to board members and senior management, we believe that a key stakeholder of internal audit is the second line of defense, which includes the enterprise's risk management oversight function, and hence it is critical for internal audit to achieve alignment with that line of defense. To further understand the difference in how assurance providers and trusted advisors interact with the other lines of defense, we evaluated the tactics that each group uses (see Figure 8).

***"Internal audit needs to be able to be in the business conversation and show they understand the business objectives. Internal audit won't have a seat at the table if they don't understand the business and have credibility in management's eyes. Teams need to be transforming and hiring people outside the box. The skill set is totally different today. We used to hire the best accountants. Now we need someone that is as good with communication and able to listen, in addition to having good technical knowledge. If internal audit thinks their job starts with the balance sheet, they are going to be wrong. Their job starts with the business objectives and where the company is going. If they focus on the business objectives, they will be aligned to the critical risks of the organization."***

***—Melvin Flowers, Corporate Vice President of Internal Audit, Microsoft, USA***

**Figure 8: Tactics used to align internal audit with other lines of defense**



As demonstrated leaders in optimizing value for stakeholders, trusted advisors routinely employ certain tactics at a much higher percentage than their assurance provider counterparts. In fact, for virtually all of the areas on which we surveyed, trusted advisors use of these tactics is double that of assurance providers. From our *Risk in Review* research, we are continuing to see a gradual maturing of enterprise risk management oversight functions. As these functions mature, all internal audit groups can take some lessons from the trusted advisors and start developing plans to deploy these tactics for interacting more collaboratively with the second line of defense. Simple steps that can be taken, regardless of the maturity of the organization's enterprise risk management function, include beginning to use common definitions of enterprise risks, gaining clarity of expectations regarding the roles and responsibilities of the second line of defense versus internal audit's roles and responsibilities as the third line, and then designing a plan to collaborate on an ongoing basis.

***"From a big-picture perspective, regulators take a risk-based approach to regulatory oversight. Part of our assessment of the risk profile of an organization is the effectiveness of risk management and the control environment. Internal audit is a critical third line of defense, so the effectiveness of this function directly impacts our perception about the risk profile of the organization and the commitment of senior management and the board to effective risk governance."***

***— Carlo di Florio, Executive Vice President, Risk & Strategy, FINRA, USA***

Third-party expectations of internal audit should be considered as well. This year, in addition to interviewing stakeholders and CAEs for this report, PwC spoke with senior leaders at certain regulatory agencies to get their "outside in" perspective on the influence regulatory expectations are having on internal audit. In general, we found that regardless of whether they're operating in traditionally regulated sectors (e.g., financial services, healthcare) or are regulating across multiple sectors, regulators agreed that internal audit should demonstrate the eight foundational attributes described in Figure 7. From our discussions, it was clear that regulators plan to place even more reliance on internal audit, leading them to emphasize the need for internal audit to be involved in emerging risk and other areas of change. The regulators also emphasized the need to include more technical resources on the team and to establish more effective lines of communication with all key constituents throughout the enterprise. Finally, regulators also stressed the importance of internal audit taking advantage of its unique position of having a macro/enterprise point of view across lines of business and functions and of being involved in critical initiatives while maintaining its wall of objectivity.

Our interviews and PwC's experience indicate that regulators are expecting more from internal audit; however, according to this year's survey, these expectations are not translating into significant influence over internal audit areas of focus. When asked about the extent to which regulatory expectations were impacting internal audit, most respondents didn't think such impacts were significant. That said, board members believe the influence of regulators on internal audit is much greater than CAEs believe it to be. This lack of alignment on regulator influence serves as evidence that more consideration of the applicable regulators' expectations could be warranted.

While many are not seeing significant regulator impact, our survey data and interviews showed that internal audit groups are taking varied approaches to addressing regulator expectations. Across survey respondents, 29% have added headcount as a result of regulatory expectations, while 40% have increased use of third parties to gain the necessary skill sets.

Nordstrom's initial approach to address the increases in regulatory expectations has been to quickly increase the number of resources, with the intention of "right-sizing" resourcing once skills are built up. As part of

this ramp-up, Nordstrom is rethinking the types of skills it needs from operational auditors to address regulatory compliance. For example, Nordstrom has hired lawyers into internal audit and is training them to become auditors. Company Vice President of Internal Audit Dominique Vincenti commented, "They are well tuned and able to understand regulatory rulings, and it has worked really well. It builds good credibility with management and, in particular, with the regulating body examiners, that someone understands the legal rules at an expert level as well as their implication."

According to a Fortune 50 Chief Compliance Officer, in an effort to more proactively manage the broad scale of complex global compliance risks facing the organization, the compliance function turned to internal audit to support its compliance auditing program. In turn, internal audit, leveraging its co-source provider for subject matter expertise, created a compliance audit group whose sole focus is executing compliance audits to measure adherence to global compliance policies in support of the Chief Compliance Officer's compliance monitoring program.

While each industry has its own regulatory influences, board members, senior management, and CAEs should understand the specific expectations of their regulators and, if appropriate, design their expectations accordingly. To effectively manage change and complexity and keep their organizations in compliance, CAEs should be expected to regularly reassess applicable regulatory requirements.

***"Internal audit needs to have the respect of the business to be effective. To be respected, you need to have the right attitude in internal audit. We have put together a rotation plan that brings top talent into internal audit from the business and from outside the organization. This helps develop broader business knowledge in internal audit and also continues to help us expand our control skills and corporate values in the business. We also co-source to supplement internal audit resources. This provides a consistent presence that complements the rotation program and offers coverage where we don't have people or the specialized skill set required for a particular situation."***

***—Jeremy Smeltser, CFO, SPX, USA***

## Preparing to build: Crafting the capabilities to deliver on expectations

Achieving alignment on the breadth of expectations and critical risks is a significant step toward internal audit improving its relevance and value to the business. However, continued, measured, strong performance on these newly aligned expectations is what ultimately increases internal audit's value and provides the opportunity for internal audit to expand its expectation set. This can only be accomplished through innovative solutions and expanded capabilities.

### Choosing the right building materials

For many internal audit groups, high-quality performance on expectations requires continual investment in new, innovative solutions. Google CAE Lisa Lee reported that, "As a technology company, we need to continue to innovate and adapt for a changing environment. This has led to internal audit focusing more time on consulting-type engagements or up-front advisory services to think about upside and downside risk. This is done in lockstep with management to help them think about controls and risk throughout the process, even if the end product is not yet defined. As we continue to spend more time in the forward-looking audits, where management is finding the most value from internal audit, there is a need to find the balance to also do more traditional transactional assurance audits or backward-looking audits. We have begun to look at leveraging data analytics to supplement the backward-looking audits to free up more time for forward-looking audits."

Over the past few years, Bank of the West internal audit has changed its report format significantly to be more focused on control gaps and root causes instead of exceptions. According to David Fong, Bank of the West Professional Practices Audit Director, "The challenge with this has been training up tenured auditors to think differently about audits and audit testing." To address this challenge, internal audit has expanded staffing with experienced directors who can challenge and build up skill sets within functional areas. Fong believes that "in order to get a seat at the table within the organization, you have to earn it. This will be done by putting the right person in to do the audit that can bring perspective around control gaps and root causes."

***"We have created local audit offices in new markets (Shanghai, Sao Paulo). This allowed internal audit to be closer to local business units, acquire knowledge of local context, and develop talents regionally, while trying to maintain consistency in the audit approach among all audit teams globally. Staffing of engagements remains global—ensuring approaches are consistent."***

***—Valerie Moumdjian, CAE, Solvay, Belgium***

Leading organizations are demonstrating that internal audit can continue to take performance to the next level by employing continuous improvement methodologies such as Six Sigma. Progressive Corporation recently hired a Six Sigma–trained black belt as an audit manager with the specific intention of improving internal audit performance. They use only the aspects of Six Sigma that are relevant for internal audit, applying the concepts that make sense for their environment. While initially skeptical, the audit team has seen the benefits. Auditors now have a better process understanding and a relentless focus on process improvement and root cause analysis, and they support findings with data and statistical analysis. Adopting Six Sigma methodologies has helped internal audit improve its understanding of how processes are controlled, and has also improved collaboration between auditors and auditees, driving better buy-in on findings and recommendations for improvement.

## The most critical building material: Skill sets

Internal audit functions create value through high-quality performance, which is enabled by having the right capabilities to meet the organization where it is today and stay ahead of where it is heading in the future. Establishing more robust expectations, fully aligned with stakeholders, gives internal audit a framework against which to assess its current capabilities and identify gaps. While virtually all internal audit functions evaluate the need for headcount annually, they do not always evaluate their current and future resource needs against the specific skill sets that align to stakeholder expectations. A gap assessment of this nature may lead to a very different talent model than internal audit has historically employed. Once this skill set assessment is completed, a thoughtful, well-designed plan to obtain the right skill sets can be put into place.

Stakeholders of trusted advisor internal audit functions believe internal audit has to expand its skills well beyond financial controls, fraud and ethics, and general IT to encompass areas of critical business risk such as cyber-security, business continuity, data privacy and security, and specific IT platforms. For example, stakeholders of trusted advisors are 22% more likely than stakeholders of assurance providers (70% vs. 48%) to believe internal audit has skills related to specific IT platforms (e.g., SAP, Oracle, PeopleSoft). A similar difference can be seen in the areas of data privacy and business continuity skills, where more than 80% of trusted advisors say internal audit has these skills, versus just 56% of stakeholders of assurance providers. Trusted advisors did not attain these skills by default, rather they purposefully designed a plan to obtain the skill sets that were most valued by their respective organizations, whether by recruiting different skills from within their company or by leveraging sourcing relationships (see Figure 6).

In our survey and interviews, CAEs cite problems with increased turnover and a lack of specific subject-matter specialist skills, yet they also state that having people with skills aligned to the risks of the organization is a critical building block to an effective function. Diving deeper on this point, the majority of these same CAEs also report that they will not be adding resources in the next 12 months, and will instead try to do more with the resources they already have. Based on our survey results, this approach has been noticed by stakeholders, as fewer than half (49%) of senior management believe that internal audit is performing well at obtaining, training, and/or sourcing the right level of talent and the right specialists for its needs. As the right talent model is imperative to delivering on expectations, it is no wonder that there is such a correlation between stakeholders' views about internal audit's skill set development and their views about its overall performance. As CAEs take charge of building a function by design, they must address skill-set needs head-on with stakeholders. Stakeholders, for their part, must be open to the conversation and supportive of the potential investments or changes that may be needed.

Internal audit functions that continually evaluate resources and skills against a defined set of expectations

get the support from stakeholders to invest accordingly and are able to deliver quality services that are relevant to their organizations. As any company expands or changes, leaders in all areas of the business take proactive steps to keep pace with those changes. This proactive approach should be no different for internal audit, regardless of whether it is delivering on foundational or more strategic expectations.

Many internal audit functions are finding that they can only deliver on expectations by leveraging subject-matter experts to fill the gap in skill sets on a near-term basis—a strategy that, in many organizations, requires a new way of thinking about how to source talent and develop resources. Several CAEs we spoke with indicated that they are turning to co-sourcing to bring in the necessary skills missing in the function. Educational Testing Service is one company that has taken action to address both its skill set and staffing approach. CFO Jack Hayon said it well: "In this day and age, a small, static internal audit group cannot bring the skills that are needed to manage the complex risks companies face . . . understanding FCPA, IT security, data, PII, international risks, and more. Such groups tend to do the audits they're comfortable doing. If they move outside of traditional areas, they sometimes find they don't have the skills or approach to deliver. Such small internal audit shops with limited skills may be a disservice to a company." Mr. Hayon indicates that by leveraging a co-source arrangement, internal audit was able to demonstrate it could add value on a broader expectation set by bringing the right skills when needed. According to Hayon, it has delivered value routinely, and now, when there is an issue, management asks for internal audit involvement.

To meet expectations, many CAEs are seeking further clarity from their stakeholders on how to develop the right talent model. In our research, we continued to hear about formal rotation and guest auditor programs, extending recruiting efforts beyond traditional financial accounting or external audit experience, co-sourcing to gain access to better methodologies and skill sets, and, where warranted, full outsourcing of the function. As Caterpillar Inc. CAE Amy Campbell told us, "Co-sourcing has brought the audit subject-matter expertise where and when we need it. Combining this with our in-house business expertise has been essential in our ability to deliver on our stakeholder expectations."

***"We expect internal audit to highlight good practices and areas of opportunity per the latest regulatory requirements. We ask internal audit to provide views and insights on anticipated regulatory changes, the impact of these changes on our operations, and our preparedness for them."***

***—Raman SK, COO and board member (Finance Head), Kemwell Biopharma, India***

*"The team's innovation into data analytics has been the biggest visible change to our approach at Australia Post. It has improved the value we deliver significantly and allows the team to audit key processes regularly and efficiently. In a number of cases, we have handed over testing activities to the business to help them manage their risks in real-time. Thanks to data analytics, we are now performing more audits and providing greater comfort."*

*—Greg Evans, General Manager, Internal Audit, Australia Post, Australia*

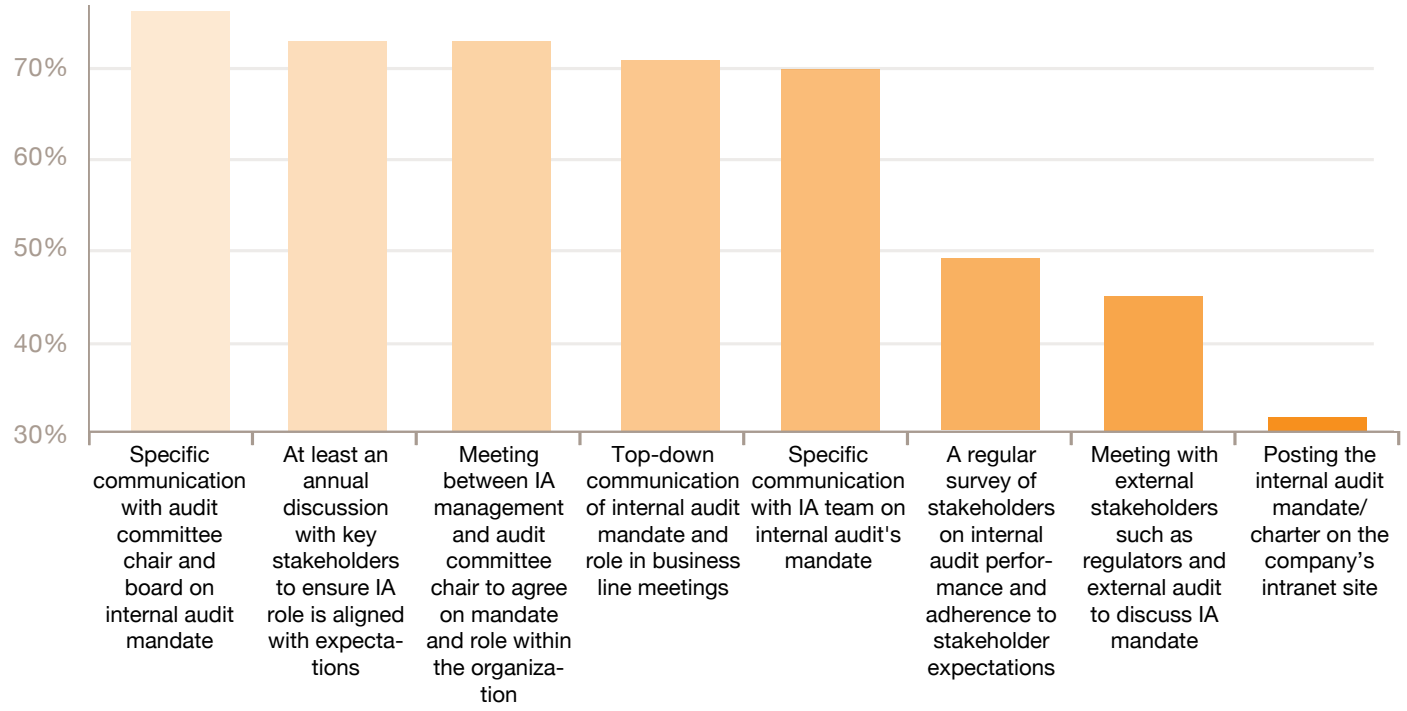
## Sharing the blueprint: Internal audit's communication strategy

A comprehensive communication plan is a critical component of internal audit being able to stay the course against its defined expectation set. Leading internal audit functions create a communications strategy that spans all stakeholders in order to gain and sustain consensus on expectations and the capabilities required to deliver on expectations.

CAEs that are considered trusted advisors to their organizations employ multiple tactics in their communication strategy. Among these CAEs, the approaches considered most important all involved discussion between the CAE, senior management, the audit committee chair, and other stakeholders regarding internal audit's mandate, its role within the organization, and the expectations on which it needs to deliver—including at least annual discussion to assure internal audit remains aligned on expectations, taking into account the organization's changing needs and changes in the business environment (see Figure 9).

Interview participants also offered their own approaches that have consistently helped them to communicate expectations and performance. Some of these include regular participation in integrated working groups with stakeholders, quarterly meetings with business unit management, utilization of experienced business resources within the internal audit function, and one-on-one discussion with operational management.

**Figure 9: Communications tactics used by leading internal audit functions**
(Percent of trusted advisor CAEs indicating tactic is important or very important)



As Sprint CAE Karen Begelfer told us, communicating internal audit's mandate is a continuous process. She believes that alignment on internal audit's role is due to a strong information-sharing process by internal audit across the company, and noted that her team "pounds the pavement by getting out and talking to as many people as we can." Ms. Begelfer meets with the CEO's direct reports once per quarter to discuss initiatives, risks, and trends. Internal audit managers meet with their peer stakeholders once per quarter as well.

Regular communication of expectations and responsibilities with stakeholders allows the CAE to set the foundation. Just as a builder is responsible for executing the construction based on the blueprints and reporting on progress to stakeholders, internal audit should monitor, track, and report performance and value against stakeholder expectations. Performance and value monitoring and reporting enables stakeholders to see what internal audit is doing well and provides feedback to internal audit on where value is perceived and where performance gaps may exist. For those internal audit functions tackling performance gaps, a performance improvement plan should be developed, close and frequent monitoring against that plan should occur, and milestones to improve performance should also be put in place.

Our survey results show that internal audit functions that operate at the assurance provider level more often report classic value measures to stakeholders such as successful completion of the audit plan and coverage. In contrast, trusted advisors are focused on communicating the value they bring to the organization through the recommendations they provide and their involvement in emerging issues. Our interviews also identified several internal audit functions that are tracking and communicating the influence that they've had on changing the control environment to better the organization (see Figure 10).

***"Given our unique perspective on the company, internal audit has a tremendous opportunity to be a change agent. Through monthly and quarterly meetings, we stay abreast of what is happening across the company and the industry and provide real-time observations and recommendations regarding key initiatives, decisions, and processes."***

***—Michael Jenkins, Vice President Internal Audit, The Gap, USA***

**Figure 10: Ways that internal audit is communicating its value**

- Involvement and value provided in all key initiatives and emerging risks, including new systems, acquisitions, dispositions, new products, new regulations, etc.
- Ability of internal audit to provide macro/horizontal views on key issues and areas of critical risk to the organization
- Ability of internal audit to be a "change agent" in the organization, exercising influence that improves the overall control environment year over year
- Annual "voice of the customer" survey
- Ability of internal audit to answer questions from the board and management
- Value of recommendations provided
- Cost savings and revenue enhancement based on internal audit recommendations and findings

# What this means for your business

## Actions to be taken

When building anything of substance and value, whether a world-class skyscraper or a world-class audit organization, the builder needs input from others: an owner who sets the vision, clients who describe their needs, workers with the capabilities to meet those needs and exceed expectations, and inspectors to advise on quality and safety throughout the various stages of completion. Though responsibility ultimately rests with the builder, the construction process is a group effort. Without alignment on expectations, investment in capabilities to deliver, and a well-designed communication plan, internal audit cannot achieve optimal performance and deliver real, measurable, and appreciated value.

Our research indicates that CAEs that are given the opportunity and the resources to deliver against more strategic expectations are more relevant to their organizations, and stakeholders report receiving greater value from internal audit. The vast majority of CAEs are doing what they can to construct a function that delivers value, but many are doing so with resources and processes that may not be aligned to their stakeholders' expectations. Through purposeful action, trusted advisors broadly communicate their expectations and the results achieved, and they insist on matching their resources to deliver on stakeholder expectations.

The CAE must purposefully design his or her internal audit function by leading on collaboration and gaining consensus on stakeholder expectations. However, given the complex and changing risk environment facing most organizations, senior management and board members should also have an active voice in the design of the function, be supportive of the potential need for investments in skill sets, and encourage internal audit to focus on delivering value to the organization.

To accomplish this, we offer specific actions.

### Chief audit executives: Lead the design and communication plan

- Lead by developing a point of view on what your stakeholders expect of internal audit and how you are fulfilling these expectations. The level of detail included in this expectation set should be more granular than what's included in the internal audit charter, and could potentially include responsibilities that go beyond the more traditional internal audit areas. Our research continues to show that purposefully designed functions focused on what matters most to stakeholders are delivering more value.

- Lead by using an aligned set of expectations to assess needed skill sets against your current capabilities and to develop an action plan, including milestones and metrics to address any capability gaps. Gain support from stakeholders to invest in resources as needed, or revise expectations to what can be achieved with the resources available to you.

- Lead by creating a communication plan to purposefully gain alignment on the suggested inventory of expectations. We recognize that each stakeholder may have different objectives and expectations of internal audit. Complete alignment may not be achieved, but the blueprint of what internal audit plans to execute on should be clearly communicated back to all stakeholders.

- Lead the effort to regularly re-evaluate the design and approach of the function to keep it aligned with stakeholder expectations. This is often done through regular monitoring of performance against expectations and execution of a communication plan to validate with stakeholders the value you are delivering.

### Board members: Provide proactive input and approval of the design

- Provide input on the board's expectations, with an understanding of leading practices and the value internal audit could deliver if expectations, supported by capabilities, are more strategic in nature and better aligned with the most critical risks of the organization.

- Provide input to senior management on your expectations of internal audit, and encourage them to provide guidance to the CAE to facilitate alignment on expectations.

- Provide input on how you expect internal audit to achieve its short- and long-term strategic plans, including the need to invest in skill sets and processes to deliver on your expectations.

- Provide input on when and how the CAE should communicate with you. In most organizations, the CAE reports directly to the board, but has an executive to whom they are also accountable. Acknowledge the healthy governance this structure creates, encourage the CAE to have regular (more frequently than quarterly) communications with you, and support them by removing barriers to making this dialogue productive.

- Provide input to the CAE on how and when you would prefer internal audit report progress against expectations. Don't settle for "on-time, on-budget" type reporting. You should expect more—and internal audit should be delivering more.

- Provide approval from audit committee on agreed-upon design

### Executive management: Support the design

- Support the design by clearly communicating expectations and working collaboratively to reach an aligned set of expectations, recognizing that not all management expectations will make it into the final blueprint.

- Support the idea of involving internal audit in non-traditional areas, and value the new perspectives and feedback the function can bring. Embrace the concept that internal audit capabilities have evolved, and that, if properly aligned and resourced, it's capable of delivering on broader, more strategic initiatives and producing significant value. We recognize this effort can be difficult and sometimes uncomfortable, but our research clearly indicates that when internal audit journeys toward trusted advisor status, stakeholders receive great value.

- Support the efforts to align skill sets with your business risks and the aligned expectation set. We understand cost pressures exist and are not advocating rote or complete approval of all new investments. We encourage you to engage in a dialogue around skill set gaps and the alignment to your expectations, rather than limiting discussion to traditional areas such as full-time equivalent headcount.

- Support the need for ongoing communication and encourage the CAE to have regular dialogue with board members and various members of senior management.

- Support internal audit's efforts to develop metrics that align to your expectations, and expect more than the typical report on controls. Trusted advisor functions are progressive in the metrics they monitor. Consider if your internal audit function could improve its scorecard, and hold it accountable.

In today's business environment, the velocity of change is too fast to continue to try and do more with the same approach and the same resources. As our survey and experience have shown, aligning expectations of internal audit, having candid discussions around the value it can bring, and talking frankly about the capabilities it needs to do so will consistently result in internal audit functions that are highly valued by their organizations.

Business units adjust sales targets for the sales group each year. Manufacturing sets annual goals for improving yield and productivity. Just like other functions striving to be world-class, internal audit should continue to evolve with the organization through a purposeful strategy, aligning on stakeholder expectations that themselves are continually evolving with the business. Meeting these changing expectations through continually evolving and expanding capabilities, instead of reacting to change after it has occurred, will enable internal audit to become and remain more relevant, no matter what strategies and directions the business pursues.

***Are you creating high performance by design?***

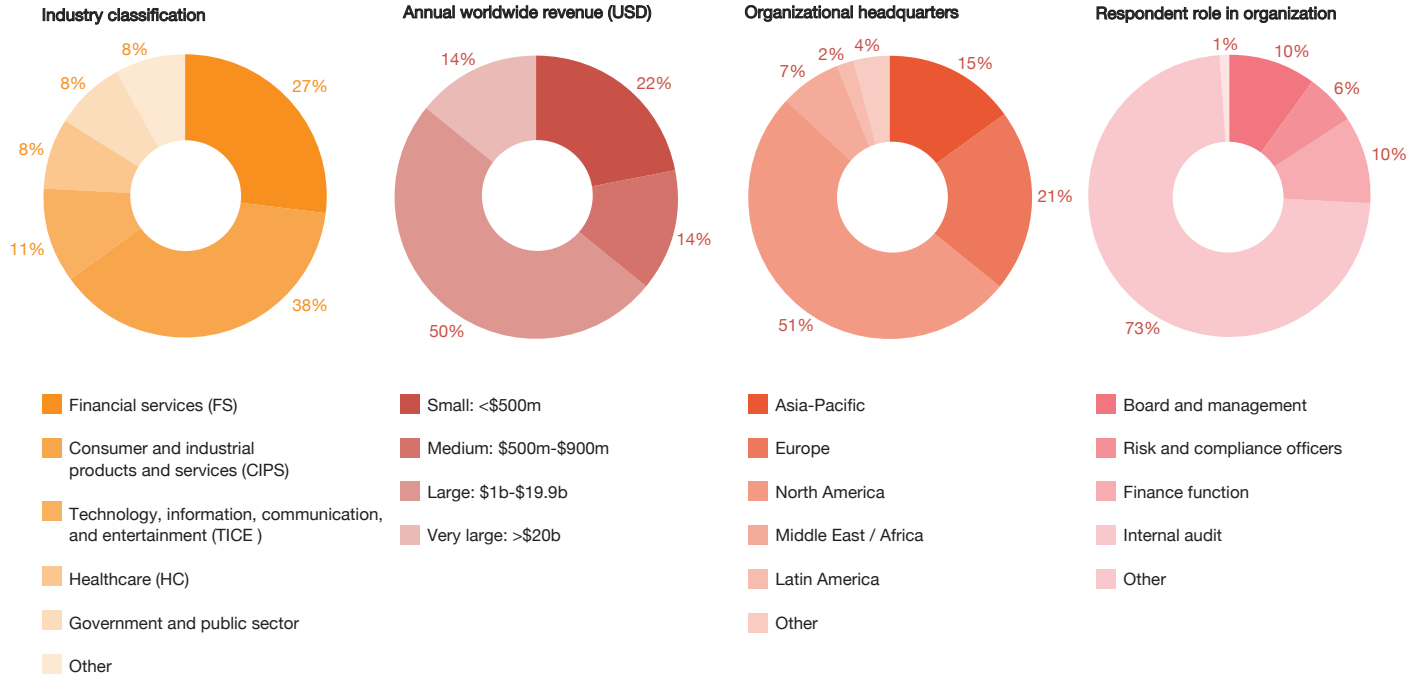
# Appendix A: About the research

The *2014 State of the Internal Audit Profession Study* combines qualitative and quantitative research. An online survey was fielded in the fall of 2013, generating response from 1,920 executives. The majority of respondents were chief audit executives and their direct reports, with the remainder encompassing audit committee chairs and other board members, CEOs, CFOs, chief risk officers, compliance officers, and general counsel. These participants represented companies across a range of company sizes and industries, with 24 industries and 37 countries represented in the respondent base.

To gather qualitative data on perspectives and leading practices, PwC also conducted one-on-one interviews with more than 125 stakeholders and CAEs across North America, Europe, Australia, and Asia. To further develop our qualitative perspectives, we leveraged our experience in performing internal audit services for a number of clients across a broad range of financial sizes, industries, and geographic sectors. We would like to thank all of the executives who gave their time to provide added insight to this year's study. Their perspectives are extremely helpful and greatly appreciated.

Within this report, we refer to a subset of respondents as trusted advisors. This group comprises 24% of the survey sample, with balanced representation of industry, geography, and company size. This grouping represents those respondents who indicated the definition of the value they receive from internal audit best matched the following description: "Internal audit provides value-added services and proactive strategic advice to the business well beyond the effective and efficient execution of the audit plan." Similarly, the group referred to as assurance providers in our study (representing 13% of respondents) selected the definition "executes effectively and efficiently on audit plan and communicates findings accordingly" as the best match for the value they receive from internal audit.

**Figure 11: Respondent demographics**



# Appendix B: Critical risks

Risks are rising across the board, a trend acknowledged by three out of four survey respondents (75%) and carried over from last year's survey, when 81% of respondents indicated the same. While news headlines focus on economic recovery and moves toward fiscal austerity in many parts of the world, top executives' attention has shifted: In all, only 42% of respondents ranked global economic shifts and uncertainty as major drivers of change over the next 18 months. Instead, respondents expect the most impactful driver of change to their organization over the next 18 months to be technological change and IT risks (58%) (see Figure 12).

In response to this and other powerful market shifts, organizations in all sectors are undertaking dramatic business transformations. Indeed, when asked to rank the biggest internal drivers of change over the next 18 months, 71% of survey respondents pointed to business transformation (see Figure 12). Following business transformation are other, closely related internal change-drivers: growing reliance on technology and IT systems; innovation around products, services, and business models; and changes in talent, staffing, and resources.

As organizations identify their capability gaps relative to these changes, internal audit must be aligned with the critical risks organizations face and the expectations on their function relative to those risks. Our *State of the Internal Audit Profession* survey results show that organizations that expect internal audit to be a trusted advisor want internal audit involved in critical risks.

**Figure 12: Biggest drivers of change over the next 18 months**

| In your view, which of the following external drivers of change will have the biggest impact over the next 18 months on your organization? | |
|---|---|
| Technological change and IT risks | 58% |
| Increasing regulatory complexity and scrutiny | 56% |
| Changing customer needs and behaviors | 50% |
| Government policy changes (fiscal and monetary policy, etc.) | 42% |
| Global economic shifts and uncertainty | 42% |

| In your view, which of the following internal drivers of change will have the biggest impact over the next 18 months on your organization? | |
|---|---|
| Business transformation / change management initiatives | 71% |
| Growing reliance on technology and IT systems | 59% |
| Innovation around products, services, and business models | 52% |
| Changes in talent, staffing, and resources | 38% |
| Mergers, acquisitions, and divestitures | 32% |

For example, 80% of respondents expect trusted advisors to be more involved in the company's increased reliance on Big Data and business analytics in the next 12 months (see Figure 13). In all risk areas, trusted advisors are more likely to be involved than assurance providers.

Finally, our survey results show that those enterprises with internal audit functions operating at a trusted advisor level also tend to have more mature risk management capabilities. Those enterprises with mature risk management capabilities manage risk well more often (96%) relative to those that are in the early stage of risk management capabilities (36%) (Figure 14). Thus, the maturity and depth of the organization's risk management and internal audit functions in helping to manage risk are both of paramount importance as organizations wrestle with an increasingly complex global risk environment.

Focusing on critical risks and issues is a foundational internal audit attribute. When developing its draft expectation set, internal audit should explicitly discuss with stakeholders their expectations of internal audit's role in addressing critical risks. Stakeholders should understand the value internal audit could deliver against critical risks and support internal audit's investment in the capabilities to provide value where it is needed most. Ultimately, with strong coordination and clear role definition across the three lines of defense, organizations are in a position to best defend against a dynamic, evolving risk landscape.

*"Our three lines of defense are clearly articulated and understood throughout the organization and therefore no one ever questions or does not understand internal audit's role. I truly believe we are fully aligned on expectations, but it only happens when there are clear definitions of the lines of defense."*

*—Janet Chapman, General Auditor, Union Bank, USA*

**Figure 13: Areas in which respondents want greater internal audit involvement over next 12 months**

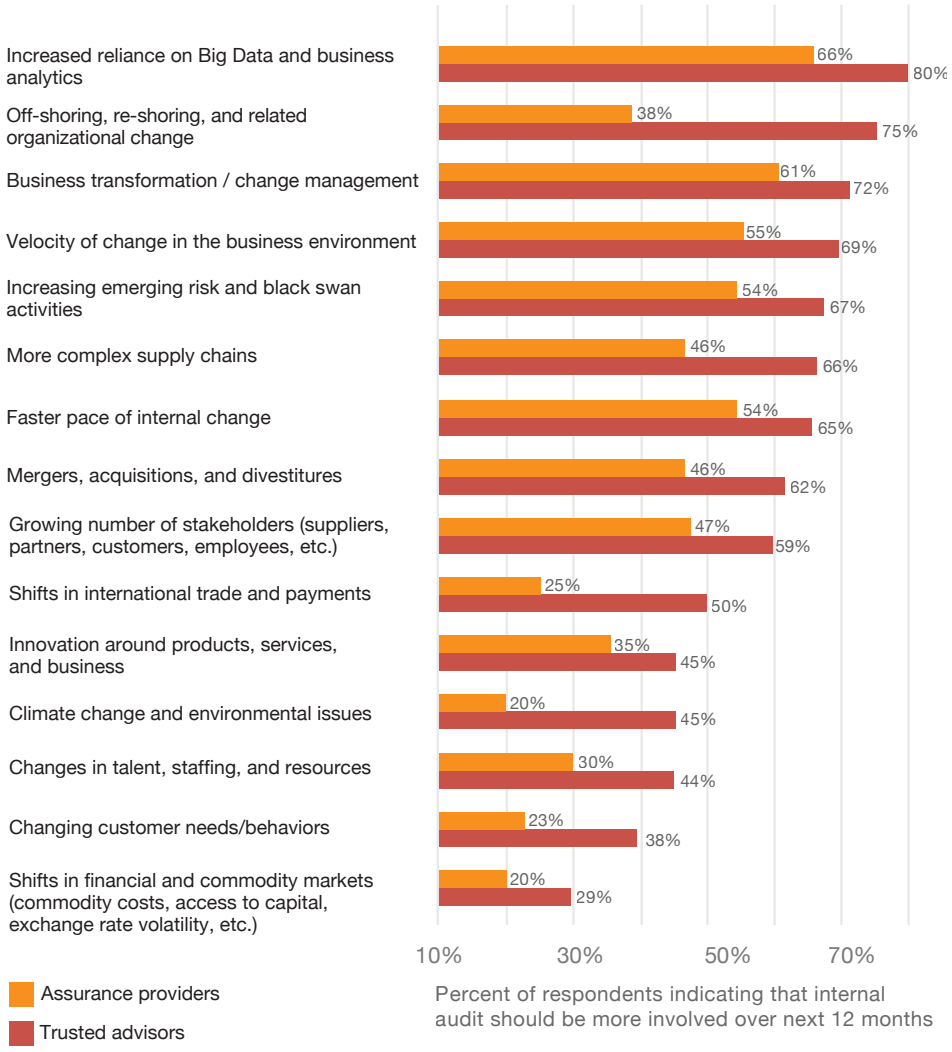
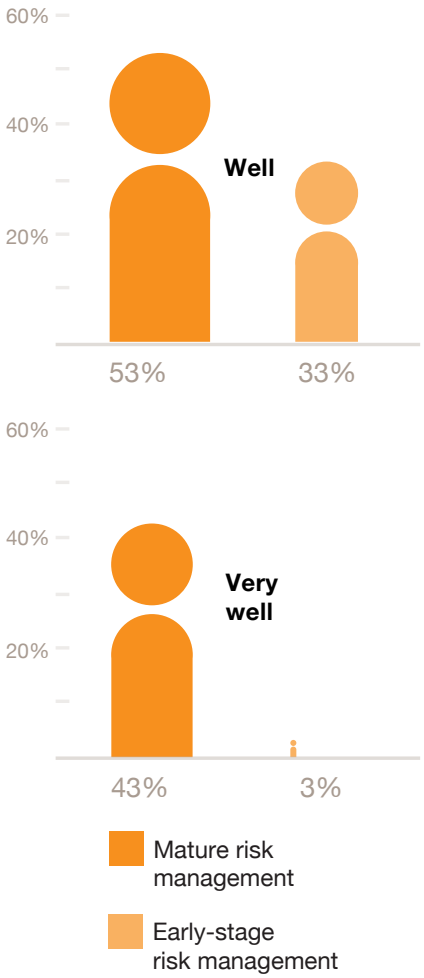



**Figure 14: Those with mature risk management capabilities more often manage risk well**

**How well does your organization manage risk?** (mature versus early-stage risk management capabilities)



***www.pwc.com***

***To have a deeper conversation about how this subject may affect your business, please contact:***

**Jason Pett, Partner**
US Internal Audit Leader
+1 410 659 3380
jason.pett@us.pwc.com

**Michelle Hubble, Partner**
US Internal Audit Center of Excellence Leader
+1 309 680 3230
michelle.hubble@us.pwc.com

**John Tantillo, Partner**
Internal Audit Services
+1 646 471 6729
john.tantillo@us.pwc.com

**Denise Rigli, Director**
Internal Audit Services
+1 415 498 8142
denise.rigli@us.pwc.com

**John Feely, Partner**
Global Internal Audit Leader
+61 (2) 8266 7422
john.feely@au.pwc.com

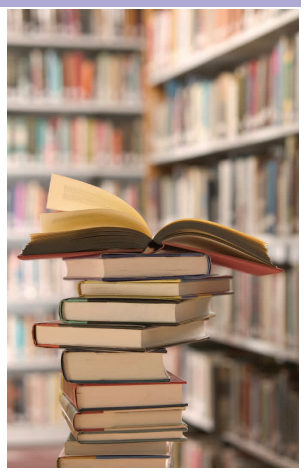
Volume 7, Issue 3

Spring 2014


# COMPLIANCE Courier

UNIVERSITY OF CONNECTICUT
OFFICE OF AUDIT, COMPLIANCE & ETHICS

## *End of Semester Reminder for Faculty: What to do with Textbooks*



As we head into the end of the semester, many questions arise regarding the textbooks that have been sent to University faculty, often unsolicited, from publishers.

Under the State Code of Ethics, *it is not permissible to keep these textbooks as personal property, nor is it permissible to sell the textbooks for personal profit.*

These books may be kept as University property, since the State Code of Ethics allows gifts from so-called restricted donors be accepted as "gifts to the state," (i.e., to the University or a division/department, not to any individual state employee). These textbooks can then be kept as department or school property. Faculty and staff should never sell these textbooks to book buyers who often come to campus.

They can also be sent to the University Libraries as University property when they are no longer useful for faculty. As appropriate, University Libraries has the option of adding these books to its collection, selling them at its book sale, donating them to Better Word Books (which sells them and donates the proceeds to various charities), or disposing of them in a proper manner.

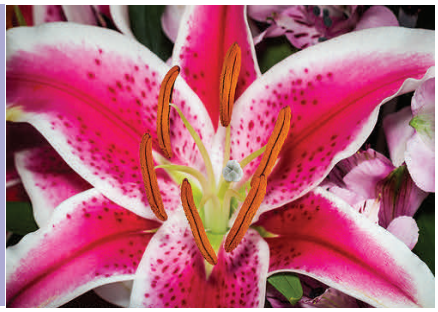
For more information see the Libraries Disposal Policy online.

## *Pre-Employment Criminal Background Check Policy*

The University of Connecticut prides itself on hiring qualified employees who are prepared to work in the best interests of the University and its students. Pre-employment criminal background checks serve as an important element of the University's ongoing efforts to ensure a safe and secure campus and workplace. Criminal history information can identify prospective employees who may be predisposed to engage in violence, sexual misconduct, misappropriation of resources, identify theft, data breaches and other misconduct.

The Pre-Employment Criminal Background Check Policy was approved by the President's Cabinet and made effective on January 8, 2014. Please take time to read the entire policy at policy.uconn.edu and the additional information on the Human Resources webpage.

*The Compliance Courier is a quarterly newsletter issued by the Office of Audit, Compliance & Ethics. Each newsletter will provide updates on important compliance issues. For questions or concerns or to suggest future articles, please contact Kimberly Fearney at (860) 486-6195 or Kim.Fearney@uconn.edu.*



## Reporting Necessary Expenses

Necessary expenses may be received by state employees only if the employee, in his/her official capacity, is actively participating in an event (giving a speech or presentation, running a workshop, etc.). Conn. Gen. Stat. § 1-84 (k). Within 30 days of receiving payment or reimbursement of necessary expenses for lodging or out-of-state travel, state employees must file an ETH-NE form with the Office of State Ethics. Necessary expenses can include: Travel (coach); Lodging (standard cost of room for the night before, of, and immediately following the event); Meals; and Related conference expenses.

## A New Training Program for Managers

UConn employees who currently have supervisory responsibilities and those who are promoted or newly hired into management jobs will soon receive valuable training to help them develop and hone those skills.

The training program aims to help supervisors clearly understand UConn's management philosophy and its core institutional values, policies, and procedures. It also addresses unique and nuanced areas of managing employees, and will give managers the tools to model UConn's core values and ensure their staff members comply with UConn's expectations and regulations.

Some of the training topics will include effective methods for managing employees, particularly in challenging situations; conducting performance evaluations; recognizing and diffusing conflict; building effective communication skills; and several other areas important to supervisor success at UConn.

One particularly important area will focus on training managers on their responsibilities and duties under UConn policies and federal and state laws prohibiting any form of harassment based on an employee's race, sex, creed, sexual orientation, or other personal characteristic.

The management training sessions are being set up in small groups, which the University expects will help facilitate discussions among supervisors from different areas and opportunities to learn from each other's experiences.

This article was written by Stephanie Reitz. The full version is located at the UConn Today website.

## Compliance Training There's Still Time!

Mandatory Annual Compliance Training must be completed online or by attending an in person session by May 16, 2014. To learn more, visit http://audit.uconn.edu/training.htm

UConn
Office of Audit, Compliance & Ethics

9 Walter's Avenue, Unit 5084
Storrs, Connecticut, 06269-5084
Telephone: (860) 486-4526
Facsimile: (860) 486-4527

Web: www.audit.uconn.edu

REPORTLINE
Phone: 1-888-685-2637
Web:https://uconncares.alertline.com/gcs/welcome

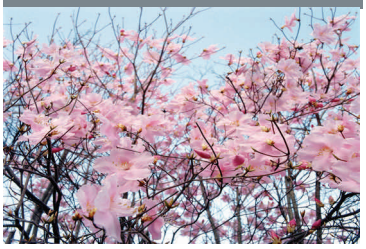
## Division of Athletics Employee Handbook

The latest version of the Division of Athletics Employee Handbook is available by visiting http://policy.uconn.edu/?p=527.

UCONN HEALTH

Volume 8, Issue 2

May, 2014



OFFICE OF AUDIT, COMPLIANCE & ETHICS

Compliance Courier

## Celebrating Corporate Compliance And Ethics Week

"National Corporate Compliance and Ethics Week" is May 4th-10th which gives Compliance programs across the country an opportunity to promote the importance of compliance and ethics within their institutions. Look for Broadcast messages during that week which will highlight various aspects of UConn Health's Compliance program.

The Office of Audit, Compliance and Ethics (OACE) would like to thank members of the UConn Health community for their ongoing contributions to not only ***do things right*** in light of a governing law or standard but to ***do the right thing*** on behalf of those we serve each and every day—patients, research participants, students, colleagues and the community. The role of every UConn Health community member is vital but this is ultimately a team effort. It's really quite simple—if we work together to uphold our University's core values of honesty, integrity, respect, professionalism and the pursuit of knowledge, institutional integrity and success will flourish.

The OACE is here to work side by side with employees, administrators and faculty members to provide education, guidance, and assistance with any questions or concerns related to compliance and ethics in the complex environment which is an academic health center. You may contact us at 860-679-4180 or compliance.officer@uchc.edu

So, together, let's celebrate doing things right **and** doing the right thing every single day.

Virginia Pack, Associate Compliance Officer/UConn Health Ethics Liaison
x1280 or pack@uchc.edu

## Office of Inspector General Work Plan 2014

On January 31, 2014, the Office of Inspector General ("OIG") published its Work Plan for 2014. The Work Plan describes the audit and enforcement priorities for the upcoming year.

Although there is overlap between this year's and last year's Work Plan, there are some new areas of focus. On the hospital side, new areas of focus include: new inpatient admission criteria; costs associated with defective medical devices; comparison of provider-based and freestanding clinics; outpatient evaluation and management services billed at the new-patient rate; review of cardiac catheterization and heart biopsies; indirect medical education payments; pharmacy practice of compounding (safety); oversight of hospital privileging and credentialing of mental health providers. On the physician practice side, new areas of focus include: use of kwashiorkor diagnosis on claims and covered uses of drugs under Medicare part B.

In 2014, the OIG will also continue to examine several compliance risk areas that were also an interest in previous years' work, including the following: medical necessity of sleep studies; physician visits for evaluation and management services; professional services in anesthesia care; reconciliations of outlier payments; impact of provider-based status on Medicare billing; inpatient claims for mechanical ventilation; review of selected inpatient and outpatient billing requirements; duplicate graduate medical education payments; outpatient dental claims; requirements for psychiatric partial hospital programs; and hospital participation in projects with Quality Improvement Organizations.

The OIG Work Plan is useful in providing a preview of many of the OIG's enforcement priorities planned for FY 2014. To learn more about the OIG Workplan, please visit this link http://oig.hhs.gov/reports-and-publications/archives/workplan/2014/Work-Plan-2014.pdf

Margaret DeMeo, Associate Compliance Officer at 860-679-1226 or Demeo@uchc.edu

OFFICE OF AUDIT, COMPLIANCE & ETHICS

Compliance Courier

# Ongoing Monitoring of Access to Patient Information in Our Electronic Patient Systems

In order to assure that our patient's protected health information is only accessed when there is a legitimate work related need to know, the Compliance Office is routinely monitoring staff access to our electronic health records (EHR). We are working with department managers to select patients and staff for review. If you are a user of our EHRs you should be aware of these monitors of your access. Patient records should only be accessed for specific work related reasons, not to satisfy curiosity about the clinical details of a case or to learn more about an interesting case. Teaching cases are only selected by individuals in charge of a department or service and access to patient information for teaching purposes should always be in collaboration with the individual in charge of the specific teaching need.

The Compliance Office reminds you that the audit trails in our EHRs report the history of access by a specific user to all patient records accessed. Audit trails are also run to assess all the users that have accessed a specific patient record. Monitors have been established and are ongoing for the types of access noted below as well as for cause / complaint-based access reviews.

- Comparison of users by role/job title to detect unusual access patterns
- Vendor's / business associate's access
- Non-UConn Health employed workforce member's access
- Access to high interest patients or patients in the news
- New Employee's access
- Access to UConn Health-employed patients
- Volunteer's access
- Security monitoring of log on / log off activity

Remember to log off as a user when you complete your work at any workstation. Never share your password. If your name is associated with any questionable access, you will be held responsible for that access and sanctions could follow, up to and including termination.

UConn Health has found improper access in several of our monitors and in some instances these were determined to be breaches requiring notification of patients and reporting to the Office for Civil Rights as required by federal law. UConn Health takes patient privacy seriously and will continue to be proactive in protecting our patients' medical information.

Iris Mauriello RN, CHC
Compliance Integrity & Privacy Officer, X 3501 mauriello@uchc.edu

# The Office of Audit, Compliance Ethics
# JACC Agenda Forecast

| Agenda Item | 02/13/13 | 05/08/13 | 09/10/13 | 12/03/13 | 02/11/14 | 05/20/14 | 09/12/14 | 12/02/14 |
|---|---|---|---|---|---|---|---|---|
| Annual Agreed-Upon Procedures to the Statements of Revenues & Expenses of the UConn's Athletics Program[i] *(currently BKD)* | | | | | | | | |
| - Approval to Hire | | | X | | | | X | |
| - Present Report to the JACC | | | | X | | | | X |
| State-Wide Single Audit (Auditors of Public Accounts) | | X | | | | X | | |
| Biennial Departmental Audits (2-90) UConn and UConn Health (Auditors of Public Accounts) | | | | | | | | |
| - Storrs | | | | | | | X | |
| - UConn Health | | | | X | | | | |
| Audited financial statements of UConn and UConn Health – (Auditors of Public Accounts) | X | | | | X | | | |
| Audited financial statements of UConn Health JDH, UMG, & Finance Corporation (Currently Marcum) | | | | | | | | |
| - Approval to Hire | | | | | | | | |
| - Present Report to the JACC | X | | | X | | | | X |
| Annual Audit and Agreed Upon Procedures - UCONN 2000 Construction Projects Expenditures *(currently McGladrey)* | | | | | | | | |
| - Approval to Hire | | | X | | | | X | |
| - Update | | | | | | | | |
| - Present Report to the JACC | X | | | | | X | | |

# The Office of Audit, Compliance Ethics
# JACC Agenda Forecast

| Agenda Item | 02/13/13 | 05/08/13 | 09/10/13 | 12/03/13 | 02/11/14 | 05/20/14 | 09/12/14 | 12/02/14 |
|---|---|---|---|---|---|---|---|---|
| Storrs Compliance Area Presentations | Immigration Services | Athletics | | | | Athletics | Research Compliance | |
| UConn Health Compliance Area Presentations | | LCD Projects | | | ICD-10 Coding & Documentation | | Research Compliance | |
| JACC Meeting Schedule Approval | | | | X | | | | X |
| OACE's Annual Risk Assessment/Audit & Compliance Plans | | | | | | | | |
| - Storrs & Regional Campuses | | | X | | | | X | |
| - UConn Health | | | X | | | | X | |
| OACE's Revised Annual Audit Plans (as necessary) | | | | | | | | |
| - Storrs & Regional Campuses | X | | | | X | | | |
| - UConn Health | X | | | | X | | | |
| Charter Review and Approvals | | | | | | | | |
| - Office of Audit, Compliance & Ethics (OACE) | | | | | | | X | |
| - Joint Audit & Compliance Committee (JACC) | | | | | | | X | |
| - Executive Compliance Committee (ECC) - Storrs | | | | | | | X | |
| - Executive Compliance Committee (ECC) - UConn Health | X | | | | | | X | |