

AUDIT SERVICES REPORT

OFFICE OF THE PRESIDENT

REPORT DATE

January 25, 2018

AUDIT PERIOD

January 1, 2017 - August 31, 2017

DISTRIBUTION

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Risk and Compliance Oversight Council

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Audit Services at the University of Louisville is committed to providing an independent and objective assurance program that adds value and enhances the university's achievement of its mission. Our objective is to assist the university in accomplishing this mission by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Each internal audit project performed by Audit Services is assigned a rating. The rating is developed based on the results of transaction testing, interviews with staff and faculty, and evaluation of internal operating procedures and policy. The rating is related to the results of this project only. It is not intended to provide assurances as to the state of risk at the university as a whole. Five potential ratings can be given to a project: Excellent, Good, Satisfactory, Needs Improvement, and Unsatisfactory. Refer to Appendix A for rating definitions and criteria. Based on the work performed for this project we assigned the following rating:

OFFICE OF THE PRESIDENT

EXCELLENT

No significant comments were identified during this project.



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INTRODUCTION

Audit Services performed a financial audit of Office of the President. The objectives of the audit were to obtain reasonable assurance that:

- Internal controls over business activities were implemented.
- The Office of the President was compliant with applicable laws, regulations, and university policies.

The scope of the audit included, but not be limited to interviews with staff and faculty to identify current processes and possible improvements. Transactions posted between January 1, 2017 and August 31, 2017 were tested to confirm processes and to verify compliance with university policies.

We performed this audit in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. The purpose of the *Standards* is to: (1) delineate basic principles that represent the practice of internal auditing as it should be; (2) provide a framework for performing and promoting a broad range of value-added internal audit activities; (3) establish the basis for the evaluation of internal audit performance; and (4) foster improved organizational processes and operations.

BACKGROUND

Gregory Postel, M.D., assumed the interim presidency of the University of Louisville in January 2017. The Office of the President has many programs that include gifts, endowments, general funds, special events, communications and marketing, and the faculty and staff senate. Historically, business functions were the responsibility of the Office of the President staff. Beginning in March 2017, these responsibilities were transferred to the Executive Administration Coordinated Business Services (EACBS), as recommended by the forensic audit of the UofL Foundation performed by Alvarez and Marsal Disputes and Investigations, LLC (A&M). The transfer of business functions will help ensure that staff resources are used effectively and efficiently.

The business activities transferred include the budget and monthly reconciliation process, deposits and cash receipts, human resources and payroll processes, the procurement card process, and the procure to pay processes. Programs and projects transferred include gifts, endowments, general funds, special events, communication and marketing, and faculty and staff senate. The Special Events staff are responsible for tracking ticket purchases, sales, reconciling the activity to an internal accounting system, and for monitoring for compliance with the payment card industry security standards. Appropriate separation of duties has been established over the tickets handled by the Office of the President.

COMMENTS AND ACTION PLANS

Based upon the results of our review, we obtained reasonable assurance that controls over business functions have been implemented for the Office of the President to ensure that faculty and staff complies with university policy and federal regulations. In addition, recommendations from the special forensic audit conducted by A&M that relate to the Office of the President have been implemented as agreed. No follow-up was performed on recommendations that related to UofL Foundation activities. No significant issues were identified.

APPENDIX A: AUDIT RATINGS AND GUIDELINES

Audit ratings have been developed to indicate the overall level of performance of the function audited from an internal audit perspective. The ratings relate to the adequacy and effectiveness of controls encompassing risk management, control, and governance processes within the area audited. This includes the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding assets, and compliance with applicable laws, regulations, contracts, and university policy. The internal auditor's judgment is an essential ingredient of the ratings and will take precedence over any literal interpretation of these guidelines. Priorities are assigned based on the conditions encountered during the audit period and will not reflect any corrections or action plans implemented during the audit. The following conditions are reflective of circumstances that can contribute to a particular rating, but do not include every factor that may be considered. The identification of recurring comments could result in down-grading the project rating.

RATING	CONDITION
Excellent	Overall performance exceeds the expected level No report comments combined with few verbal comments
Good	Overall performance meets the expected level <ol style="list-style-type: none">1. Few moderate priority report comments2. One or two high priority comments that were corrected during the audit3. Relatively few verbal comments which were easily corrected, combined with a few moderate priority report comments
Satisfactory	Overall performance does not consistently meet the expected level <ol style="list-style-type: none">1. Several moderate priority report comments2. Average number of verbal comments3. Two or more high priority report comments4. Report comments that require routine efforts (reorganization, time, or resources) to correct in the normal course of business
Needs Improvement	Overall performance is weak and frequently falls below expected levels <ol style="list-style-type: none">1. Numerous moderate priority report comments2. Three or more high priority report comments3. Internal control weaknesses that create above average exposures, including unidentified losses from fraud, embezzlement, or misappropriation4. Report comments that require substantial effort (reorganization, time, or resources) to correct5. Reoccurring report comments
Unsatisfactory	Overall performance is unacceptable <ol style="list-style-type: none">1. Excessive number of report comments2. Several high priority report comments3. Unreasonable deadlines for correction of report comments4. Previously reported, unresolved report comments5. Significant violations of law, regulations, or established policies6. Internal control weaknesses that create substantial or material exposures7. Fraud, embezzlement, or misappropriation of funds occurred because of failure to maintain controls or follow established policies or procedures

APPENDIX B: COMMENT PRIORITIES

Report comments have been assigned a priority rating to assist administration in directing resources and monitoring resolution of the comments. The assigned priorities are determined from an internal audit perspective and do not correspond directly to criteria relating to materiality for financial statements or as defined by any third party sponsor or external auditor. In order to promote operational efficiencies and encourage above average performance within the university, more stringent standards are applied to an internal audit perspective for assigning priorities. The internal auditor's judgment is an essential ingredient of the priority rating and will take precedence over any literal interpretation of these guidelines. Priorities are assigned based on the conditions encountered during the audit period and will not reflect any corrections or action plans implemented during the audit. The following conditions are reflective of the numerous considerations that can contribute to a particular priority, but do not include every factor that may be considered.

PRIORITY

CONDITION

High

Management should initiate immediate action to address the comment

1. Major internal control weakness
2. Major policy or procedure exceptions
3. Significant unmanaged risk exposures
4. Major financial impact – loss, misstatement, errors, fraud (regardless of amount)
5. Non-compliance with significant laws or regulations
6. Significant potential opportunity for revenue enhancement, cost savings, efficiencies, and improvements

Moderate

Management should initiate timely action to address the comment

1. Substantial internal control weakness
2. Substantial policy or procedure exceptions
3. Substantial unmanaged risk exposure
4. Substantial financial exceptions
5. Substantial non-compliance with laws and regulations
6. Substantial opportunities to enhance revenue, reduce costs, or realize efficiencies

Verbal/Low

In addition to high and moderate priority comments detailed in formal reports, audits will frequently identify comments that are easily addressed in the normal course of business and that have little associated residual risks. These comments will be communicated to department administration verbally. Departments will be responsible for initiating corrective actions to ensure these minor comments do not escalate into significant risks for the department or the university.