

Office of Audit, Risk and Compliance 2018 Final Progress Report & 2019 Annual Plan

BACKGROUND

As outlined in the charter of the Oregon State University (OSU) Board of Trustees Executive & Audit Committee (Committee), the Office of Audit, Risk and Compliance (OARC) is an independent, objective, assurance and consulting service designed to add value and improve the organization's operations. The mission of the OARC is to enhance and protect organizational value by providing risk-based, objective assurance and advice.

In order to meet this responsibility, the OARC develops an annual plan to provide comprehensive audit and consulting coverage and to deploy resources in an effective and efficient manner. The charter directs that the Committee review and approve the OARC plans and progress in accordance with internationally recognized auditing standards. In accordance with the charter, the OARC presents the 2018 calendar year final progress report and the 2019 annual plan to the Committee.

2018 CALENDAR YEAR FINAL PROGRESS REPORT

❖ 2018 Calendar Year Activities

Service Area	Activity
Assurance	<ul style="list-style-type: none"> ➤ Completed the annual university risk assessment with input from key OSU stakeholders, and developed the 2019 calendar year plan. ➤ Conducted audits and made recommendations aimed to add and protect organizational value and improve operations. The following summarizes areas of impact in 2018: <ul style="list-style-type: none"> • Scholarship Process: Identified opportunities to improve the efficiency and effectiveness of the scholarship awarding process • Network Security and University Housing and Dining Services IT Systems reviews: Strengthened information technology controls and data management practices • 4-H Program review: Improved the efficiency and effectiveness of the budget process • Ship Operations and OSU-Cascades Internal Control reviews: Strengthened internal control practices for critical university operations • Athletics compliance and financial engagements: Enhanced OSU's NCAA compliance and financial reporting practices

Service Area	Activity
Consulting	<ul style="list-style-type: none"> ➤ Coordinated with university leaders on the continual development of the OSU enterprise risk management (ERM) program based on national best practices ➤ Worked with the Provost and the Office of General Counsel to re-evaluate and realign the Office of Compliance with the Office of Audit Services to reflect nationwide practices and standards ➤ Served in an advisory capacity to university leadership related to research initiatives, policy formulation, and risk management ➤ Coordinated external consultant reviews of OSU business operations and capital project management practices ➤ Held several educational training sessions for OSU groups on the topics of ethics, fraud prevention, streamlining internal controls, and the university compliance and ethics program
Investigative	<ul style="list-style-type: none"> ➤ Worked with university partners on outreach efforts to further publicize the availability of the reporting hotline to the university community, including employee critical training ➤ Administered the accountability and integrity hotline, responding to 76 complaints and hotline reports (received through 12/17/18) in a timely and consistent manner ➤ Continued efforts to refine investigation processes and procedures to reflect best practices
Follow-up	<ul style="list-style-type: none"> ➤ Followed-up on all open audit recommendations due as of December 31, 2017, and June 30, 2018. These follow-ups confirmed management has implemented action plans that helped to improve campus safety, compliance reporting, inventory management processes, policies and procedures, and information technology controls.
External Audit Coordination	<ul style="list-style-type: none"> ➤ During 2018, OARC staff supported university partners to help ensure successful outcomes with the following external audits at OSU: <ul style="list-style-type: none"> • OSU federal compliance and financial statement audits • NCAA agreed-upon procedures review • Athletics compliance audit • National Science Foundation (NSF) incurred cost audit • NSF/Ocean Observatories Initiative (OOI) incurred cost audit • Title IX compliance review (in conjunction with Office of General Counsel)
Other	<ul style="list-style-type: none"> ➤ Actively participated in the development of accounting students through internships, guest speaking, and in-class projects. ➤ OARC staff spoke and served in leadership roles in local and national audit and higher education organizations including the National Association of College and University Business Officers (NACUBO), the Association of College and University Auditors (ACUA), the Pacific Northwest Higher Education Internal Auditors (PNWHEIA), and other national invitation-only higher education audit, compliance, and risk management round tables.

❖ **2018 Performance Metrics**

The OARC annual performance metrics relate to value of service and staff qualifications. Targets take into consideration industry benchmarks from the Institute of Internal Auditors (IIA) and the Association of College and University Auditors (ACUA), as well as staff experience.

Measurement	Target	2018 Results
Value of Service	Percentage of audit client survey responses received that indicated the audit provided value to the university. Target 90%	100% (received 12 of 24 total surveys sent)
	Percentage of audit recommendations due within calendar 2018 implemented within timeline. Target 85%	88% (22 of 25)
Staff Qualifications	Average continuing professional education confirmation. Target 60 hours	55 hours ¹
	Percentage of staff with advanced degrees or professional certification. Target 100%	75% (3 of 4) ²
Productivity	Staff turnover. Target 0-20%	33% (2 of 6 staff turnover) ³
	Percentage of time spent on direct project hours. Indirect hours include vacation and sick leave, administrative duties and professional development. Target 78%	75% ⁴

¹ CPE targets not met partially due to increased staff time required for hotline complaint management

² Staff member without advanced degree/certification has passed three of the four parts for the Certified Public Accountant (CPA) examination (hired June 2018).

³ Turnover due to one staff member’s resignation and one staff member’s retirement.

⁴ Percentage of direct hours not met because of vacation spend down, unexpected staff medical leave, and administrative tasks associated with staff turnover and recruitment.

The OARC has also performed a year-end internal assessment of quality control. Based upon the internal assessment, the OARC complies with the IIA’s *International Professional Practices Framework*.

❖ **4th Quarter Reports Issued and In Progress**

Management responses to the recommendations outlined in the reports support their commitment to improving controls. The OARC will verify implementation in 2019.

Engagement <i>Status and Risk Rating</i>	Audit Objective
OSU-Cascades Campus Internal Control Review <i>Issued – Low Risk</i>	Provided an evaluation of the internal control structure for the OSU-Cascades campus. The evaluation provided leaders with assurances over the control, governance, and risk management related to fiscal management practices.
University Housing and Dining Services IT Internal Control Review <i>Issued – Medium Risk</i>	Evaluated the information technology controls to ensure data accuracy, completeness, and security within University Housing and Dining Services. The review provided assurances over existing controls and identified control improvements to enhance risk management and response.
University Housing and Dining Services Cashier Controls <i>Issued – Low Risk</i>	Verified the cash register controls designed to ensure the validity and authorization of charges to student meal plans were in place. These controls help to reduce the risk of fraud and errors by improving accountability over cash register transactions.
Pcard – Vendor Set-up Follow-up Review <i>Issued</i>	Confirmed action plans for all five recommendations included in original audit report issued February 23, 2017, have been implemented, improving the procurement card monitoring procedures and reducing the risk of fraud to OSU.
Research Business Operations (Electron Microscopy Facility Accounting Processes) <i>Summarizing Results</i>	Assessed the accounting processes within the Electron Microscopy Facility, including the budget and billing practices, to determine whether they were adequate and complied with university policy and federal regulations.
Umatilla County 4-H Financial Audit <i>Fieldwork</i>	Assessing the internal control structure over financial reporting and examining the validity, accuracy, completeness, allowability, and allocability of financial transactions.
NCAA Agreed Upon Procedures (External Audit) <i>Summarizing Results</i>	Performing the NCAA Agreed-Upon Procedures for the OSU Athletics financial reports. The format is prescribed by the NCAA.
National Science Foundation Office of the Inspector General (External Audit) <i>Fieldwork</i>	The NSF Office of the Inspector General is currently performing an incurred cost audit of awards issued to OSU and filed during the audit period beginning March 1, 2015 through February 28, 2018. The audit objective is to determine if costs claimed are allowable, allocable, reasonable, and in conformity with NSF award terms and conditions, applicable federal requirements, and OSU policies.
Title IX Compliance (External Audit) <i>Fieldwork</i>	Coordinated with the Office of the General Counsel in engaging outside firm to perform best practice review of OSU's Title IX practices.

January 17-18, 2019 Board of Trustees Meetings

In addition to the activities listed, the OARC is currently overseeing the accountability and integrity hotline complaint investigations, performing management advisory engagements, providing leadership in professional organizations, and coordinating external audit engagements.

❖ **2018 Complaint Summary**

Complaint Source	2014	2015	2016	2017	2018*
Hotline	7	18	16	21	57
Direct to the OARC	12	20	15	15	19
Total	19	38	31	36	76

*Through December 17, 2018

As a result of increased coordination with university partners, including continued outreach and required critical training modules, complaints have increased over the past year. National standards suggest that an effective program at an institution of OSU’s size and nature should receive input from all areas of the enterprise. In 2018, complaints were received in all nine functional units of the university, spanning 11 of the 13 complaint categories. These results indicate that the OSU hotline and complaint program is effective across all functional units.

The statistics included in this report are only those reported through the Accountability and Integrity Hotline or directly to the OARC. Complaints are received by other university offices, such as Equal Opportunity and Access, and are reported out separately.

2019 ANNUAL PLAN

Our assessment for identifying 2019 OARC priorities utilized the *Internal Control-Integrated Framework Principles* as published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Factors considered in setting the 2019 OARC priorities include the president’s goals, the strategic plan, enterprise risk management (ERM) efforts, the last time audited, relative importance of operations, changes in systems or management, industry trends and events, recent incidents, external audit focus, and management input.

A major portion of OARC resources is allocated to performing assurance and consulting activities. The OARC views OSU as nine major functional areas in order to ensure the plan provides comprehensive coverage across the university. OSU has approximately 89 auditable units contained within the nine major functional areas:

1. governance and leadership
2. instruction and academic support
3. research
4. student services
5. human resources
6. fiscal and asset management
7. facilities and operations
8. auxiliary operations and athletics
9. information technology

❖ **Planned 2019 Calendar Year Activities**

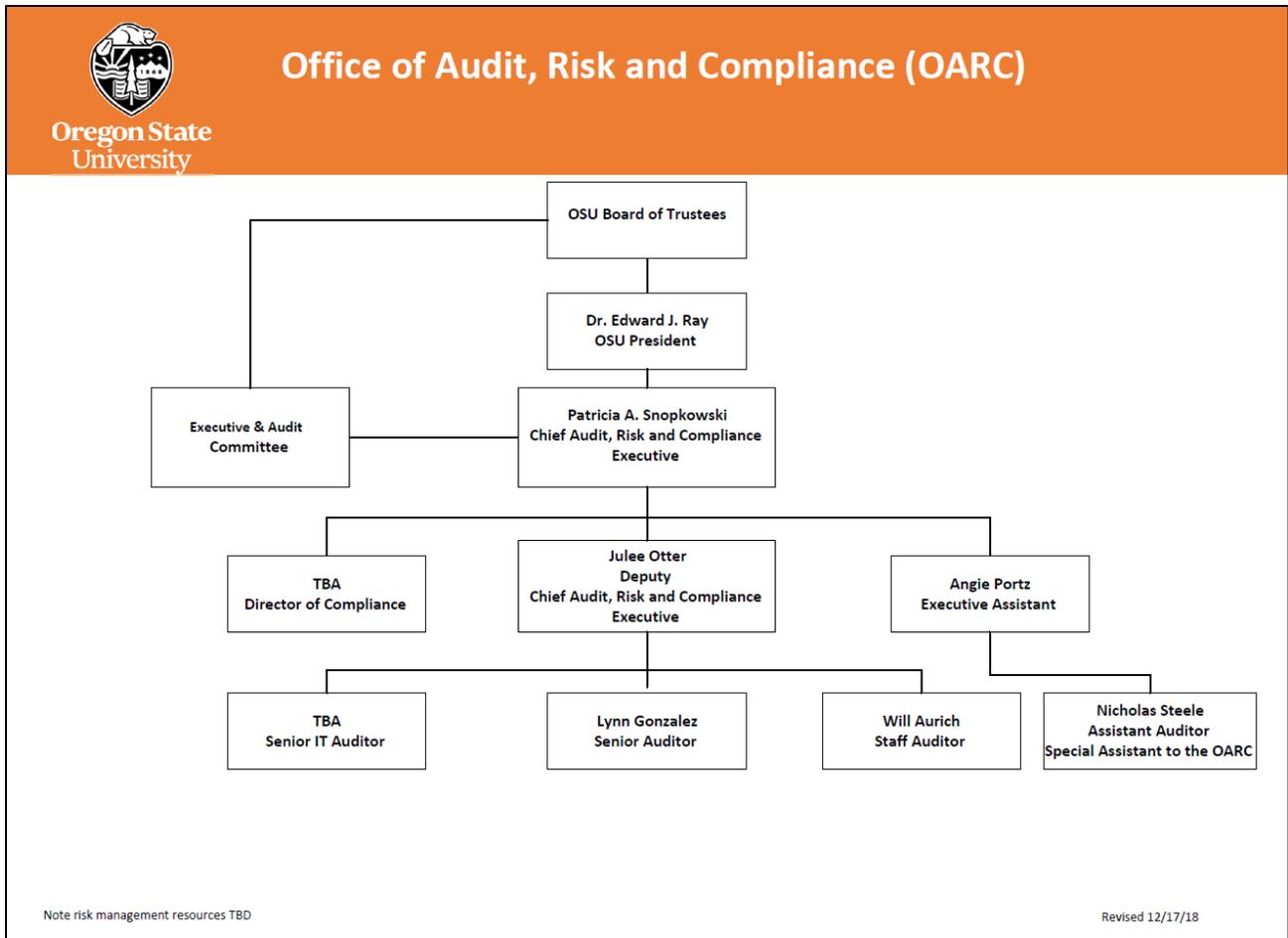
The following activities are scheduled to be conducted in 2019:

Service Area	Activity
Assurance	Audits are planned in the following areas: <ul style="list-style-type: none"> ➤ NCAA attendance certification and complimentary ticket process ➤ Standardized departmental information technology (IT) and internal control audits (multiple year coverage) ➤ Decentralized accounts receivable/revenue collections ➤ 4-H and OSU Extension operations ➤ Research Office: Conflict of interest (COI) and Research Integrity Office (RIO) outreach (possible outsource)
Consulting	<ul style="list-style-type: none"> ➤ Work with the Office of General Counsel and the Provost to onboard new director of compliance ➤ Continue efforts to align compliance program with industry best practices ➤ Serve on various committees in an advisory capacity ➤ Conduct trainings on internal controls and fraud prevention and awareness ➤ Assist with the facilitation and administration of the ERM program and continually seek ways to improve the program ➤ On-boarding/orientation with new leadership
Investigative	<ul style="list-style-type: none"> ➤ Administer the university accountability and integrity hotline ➤ Serve as a liaison and resource for external investigations
Follow up	<ul style="list-style-type: none"> ➤ Follow up on all open audit recommendations (May and September reporting)
External Audit Coordination	<ul style="list-style-type: none"> ➤ Coordinate and serve as the liaison for all external audit services including contracted and regulatory-imposed audits

❖ **Resources and Charter**

The OARC plan and responsibilities are in accordance with the existing OARC charter approved by the Executive & Audit Committee in October 2018. There are no changes to the IIA *International Professional Practices Framework* and, as a result, the duties and responsibilities located at <https://leadership.oregonstate.edu/oarc/office-charter-services> will be applied in 2019.

The OARC organizational structure provides independence in accordance with the IIA *International Professional Practices Framework*. Staffing resources are benchmarked against comparable land-grant institutions to ensure consistency with industry standards. Like many OSU departments, the OARC staffing level is currently below industry benchmarks; however, the experience level of OARC staff allows the OARC to effectively perform the duties required. The OARC will continue to monitor staffing needs to ensure appropriate levels of service and will evaluate the need for external resources in the event high risk audit areas are identified during the year.



RECOMMENDATION

Staff recommends that the Executive & Audit Committee approve the Office of Audit, Risk and Compliance’s 2018 calendar year final progress report and 2019 annual plan.