“PROFILE OF AN AUDIT SERVICE”
FISCAL YEAR 2012

INTERNAL AUDIT DEPARTMENT
THE UNIVERSITY OF TOLEDO
MESSAGE FROM THE DIRECTOR

Welcome to our inaugural issue of “PROFILE OF AN AUDIT SERVICE”!

Whether you are on the Audit Committee, on another board committee or a UT senior leader, we hope you will find this report to be a valuable source about the good work the team is performing and the background on the auditing and compliance professions in general.

We in Internal Audit take very seriously the charge given to us by the Audit Committee:

“The Audit Committee is charged with oversight and continuous improvement of fiscal and other controls for the University and insures that the fiduciary responsibility of the Board is carried out. The committee will insure that the highest ethical and legal standards are met.”

In short, we strive to remain aligned with the University mission of improving the human condition, largely by doing our part every day “to keep the University safe” and helping guide the governance and risk management agenda at The University. For additional details, please visit u Toledo.edu/offices/internalaudit for our Internal Audit Charter, our Departmental Vision and Mission, and our FAQ section: “20 Questions for Internal Audit”.

We are the University-wide resource center for risk, control and best practices information. In addition to risk-based audits, we provide a wide variety of advisory services. We also take pride in training our internal customers in “self-auditing”, enabling them to be more skilled, better informed and more effective from an internal controls perspective.

Our Compliance Team is the initial point of contact for calls made to our Anonymous Reporting Line (“Hotline”). While the hotline does not replace our existing organizational channels, which are the preferred method of handling concerns, it is available when these channels are not feasible.

Thank you for taking the time to visit this report. Please feel free to contact me directly about any topic.

Best regards,

David L. Cutri, CPA, CISA, CIA (Dave)
Director of Internal Audit
The University of Toledo
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David.Cutri@utoledo.edu
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TEAM PROFILE

David Cutri  
DIRECTOR OF INTERNAL AUDIT  
- Two years of experience with the University in Internal Audit; 24 years of IT and finance experience with three Fortune 500 companies and a “Big 4” accounting firm  
- CPA, Certified IS Auditor, Certified Internal Auditor, MBA  
- Six Sigma Black Belt

Lynn Hutt  
COMPLIANCE/PRIVACY OFFICER; INTERIM COMPLIANCE OFFICER WITH UNIVERSITY OF TOLEDO PHYSICIANS  
- Six years of experience with the University in Internal Audit and Compliance; 11 years with ProMedica and Auditor of State  
- MBA, Certification in Healthcare Compliance (CHC)

Diane Eisel  
SENIOR AUDITOR  
- Three years of experience with the University in Internal Audit; 23 years of accounting/audit experience with various firms including The Andersons, KPMG  
- Certified Public Accountant (Ohio)

Karen Keune  
STAFF COMPLIANCE AUDITOR  
- One year of experience with the University in Compliance; 19 years with various Northwest Ohio health-care providers  
- Registered Nurse, Certified Legal Nurse Consultant (CLNC)

John White  
STAFF AUDITOR  
- One year experience with the University in Internal Audit; 5 years audit and other experience with Texas Department of Health Services  
- BA in economics, pursuing UT Leadership Development Certificate

Brian Lutz  
ASSOCIATE ATHLETICS DIRECTOR FOR COMPLIANCE  
- Eight years of experience with the University in Compliance and Athletics; 15 years with two other Division I institutions  
- MS in sports management, BS in criminal justice

Scott Polak  
IT AUDITOR  
- Two years of experience with the University in Internal Audit and IT; 20 years of IT programming/security experience with Ford, Owens Corning, 3PM/Mckesson  
- Certified Information Systems Security Professional (CISSP)

Doris Laskey  
EXECUTIVE ASSISTANT  
- 14 years of experience with the University in Internal Audit and other departments; 15 years as a legal secretary with various law firms in Northeast Ohio  
- Notary Public (Lucas County), UT continuing education courses

The Internal Audit Department also employs one student intern that typically rotates each semester.
LINES OF BUSINESS
Following are the key service lines currently offered by UT Internal Audit and its Compliance and Privacy Office:

INTERNAL AUDIT
• Attorney-Client Privilege Audits/Projects
• Benchmarking Studies
• “Best Companies” Services
• Best Practices Consulting
• Business Process Improvement (using tools such as Six Sigma, forensic accounting, and cost accounting)
• Commercial Contract Audits (review vendor compliance with contracts, often resulting in the identification of billing errors)
• Continuous Controls Monitoring (real-time reporting of transactions key to additional Internal Audit review)
• Control Self-Assessments
• Data Privacy Audits
• Financial and Operational Audits
• Information Technology Audits
• Internal Control Consulting
• NCAA (Other Regulatory) Audits
• New Policy Compliance Audits/Projects
• Special Investigations (control-focused)

COMPLIANCE AND PRIVACY OFFICE
• Anonymous Reporting Line (Ethics-Point)
• Athletics Compliance
• Conflict Of Interest Reporting and Auditing
• Ethics Training (new hires, ongoing computer-based training, etc.)
• FACTA “Red Flags” Consulting (to ensure data privacy and identity protection for academic and clinical enterprises)
• HIPAA (Health Insurance Portability and Accountability Act) Training
MORE ABOUT AUDIT AND COMPLIANCE LINES OF BUSINESS

FINANCIAL AUDITING: Evaluates the adequacy of procedures at a financial process level (i.e., payables, payroll and treasury). This is different from audits of the University’s financial statements, which are performed by an independent third party (i.e., Plante and Moran). We do closely collaborate and share information with them to minimize disruptions to you.

OPERATIONS AUDITING: Refers to those audits of full business processes in non-financial areas of the organization, such as academic affairs, facilities and construction and research. The approach is often similar to a financial audit, but may differ slightly.

PERFORMANCE AUDITING: Pertains to a verification of the achievement of departmental goals and performance metrics, and the means by which these metrics are developed. Performance audits also often encompass benchmarking the University’s current operations with generally accepted industry “best practices”.

INFORMATION TECHNOLOGY (IT) AUDITING: Evaluations of the University’s computing systems and reviews of technical areas not reporting to the IT Department but that are related to its services. Examples of IT audits include reviews of “general” and application controls, new systems, telecommunications, security and business continuity.

DEPARTMENTAL “FIELD” AUDITS: “Mini-audits” of an operating unit that address the level of conformance with policies established by the University, in areas such as non-payroll expenditures, account reconciliation, income and cash receipts, time reporting, assets, information technology, segregation of duties and departmental credit cards.

ACADEMIC COMPLIANCE: May resemble traditional internal audits, but they may also take the form of investigations, advisory committees, training and education and legal support. Recently completed compliance projects were in research, safety and security, labor relations, human resources, patents and intellectual property, external affairs/financial aid, and student affairs.

CLINICAL COMPLIANCE: Joint Commission requires that a robust clinical compliance plan be developed and maintained by health-care providers. We currently execute from such a plan, which includes areas such as research, human subjects, laboratory, HIPAA, safety/security, personnel, contracts, information security, patient billing, and health information management.

ATHLETICS COMPLIANCE: The risks of failures to comply with athletics ethical rules necessitate a focused effort on compliance. As such, we have dedicated resources to monitor compliance in the following areas on an ongoing basis: rules education, recruiting, eligibility, financial aid, playing and practice, sports wagering, agents, amateurism, student-athlete paperwork, pre-participation, transfers, benefits and expenses, athletics personnel, and camps and clinics.
<table>
<thead>
<tr>
<th>Level</th>
<th>Services and Role of IA</th>
<th>People Management</th>
<th>Professional Practices</th>
<th>Performance Management and Accountability</th>
<th>Organizational relationships and culture</th>
<th>Governance Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 1 Initial</td>
<td>Ad hoc and unstructured; isolated single audits or reviews of documents and transactions for accuracy and compliance; output dependent on skills of specific individuals holding the position; no specific professional practices established other than those provided by professional associations; funding approved by management as needed; absence of infrastructure; auditors likely part of a larger organizational unit; no established capabilities.</td>
<td></td>
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</tr>
<tr>
<td>Level 2 Infrastructure</td>
<td>Compliance auditing</td>
<td>Individual professional development</td>
<td>Professional practices and processes framework</td>
<td>IA operating budget</td>
<td>Managing within the IA activity</td>
<td>Full access to the organization information assets and people Reporting relationship established</td>
</tr>
<tr>
<td>Level 3 Integrated</td>
<td>Advisory services</td>
<td>Team building and competency</td>
<td>Quality management framework</td>
<td>Output Performance measures</td>
<td>Coordination with other review groups</td>
<td>Management oversight of the IA activity</td>
</tr>
<tr>
<td>Level 4 Managed</td>
<td>Overall assurance on Governance Risk Control</td>
<td>IA contributes to management development</td>
<td>Audit strategy leverages organization’s management of risk</td>
<td>Integration of qualitative and quantitative performance measures</td>
<td>Director of Internal Audit advises and influences top level management</td>
<td>Independent oversight of the IA activity Director of Internal Audit report to the top level authority</td>
</tr>
<tr>
<td>Level 5 Optimizing</td>
<td>IA recognized as key agent of change</td>
<td>Leadership involvement with professional bodies</td>
<td>Continuous improvement in professional practices</td>
<td>Outcome performance and value to the business identified</td>
<td>Effective and ongoing relationships</td>
<td>Independence, Power, and authority of the IA activity</td>
</tr>
<tr>
<td>FY2013</td>
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<tr>
<td>FY2012</td>
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<tr>
<td>FY2014/ FY2015</td>
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</tr>
</tbody>
</table>

**Where we are today**

- **Fully**
- **Partially**

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**FY2014/ FY2015**

**Level 5 Optimizing**

- IA recognized as key agent of change
- Leadership involvement with professional bodies
- Workforce planning

**Level 4 Managed**

- Overall assurance on Governance Risk Control
- IA contributes to management development
- IA activity supports professional bodies
- Workforce planning

**Level 3 Integrated**

- Advisory services
- Performance/Value for money audit
- Team building and competency
- Professionally qualified staff
- Workforce coordination

**Level 2 Infrastructure**

- Compliance auditing
- Individual professional development
- Skilled people identified and recruited
- Professional practices and processes framework
- Audit plan based on management/ stakeholders priorities

**Level 1 Initial**

- Ad hoc and unstructured; isolated single audits or reviews of documents and transactions for accuracy and compliance; output dependent on skills of specific individuals holding the position; no specific professional practices established other than those provided by professional associations; funding approved by management as needed; absence of infrastructure; auditors likely part of a larger organizational unit; no established capabilities.
LONG-RANGE PLAN FOR THE UT INTERNAL AUDIT FUNCTION

<table>
<thead>
<tr>
<th>Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Build an Internal Audit staff to be a knowledge resource serving as assurance and as business advisers.</td>
</tr>
<tr>
<td>Adjust to a stream of internal and external forces affecting strategies and operations, such as new technology, stricter regulations, shifting customer preferences and tougher competition.</td>
</tr>
<tr>
<td>Build audit plans on a risk-based schedule to ensure that University strategy and value-adding activities drive operations of their internal audit departments.</td>
</tr>
<tr>
<td>Engage resources when necessary to provide subject matter expertise in technical internal audit areas.</td>
</tr>
<tr>
<td>Confront risks such as asset misappropriation, corruption and fraudulent financial reporting.</td>
</tr>
<tr>
<td>Mitigate information technology (IT) risks that drive and redefine the operations of the University.</td>
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<tr>
<td>Support University governance programs that promote ethics and transparency.</td>
</tr>
<tr>
<td>Embed technology in all facets of auditing to work more quickly and more accurately.</td>
</tr>
<tr>
<td>Systematically accumulate knowledge about operations, risk and controls, and business process best practices.</td>
</tr>
<tr>
<td>Implement a systematic improvement methodology.</td>
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<tr>
<td>Communicate effectively and with maximum impact.</td>
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</tbody>
</table>
FISCAL YEAR 2012 TACTICAL PLAN

SUCCESSFUL COMPLETION OF THE FISCAL YEAR 2012 AUDIT PLAN:

The Fiscal Year 2012 audit plan has 28 projects, which does not include special requests from management for audit service, and a target completion date of June 30, 2012. These projects are characterized as follows: academic enterprise, clinical enterprise, information technology, support functions, intercollegiate athletics, academic compliance and clinical compliance.

SUCCESSFUL COMPLETION OF THE FISCAL YEAR 2010 FINANCIAL STATEMENT AUDIT:

This audit involves working with the independent auditors (Plante and Moran) to create and present an accurate financial statement to the Audit and Finance Committees prior to filing the report with the State of Ohio.

IMPLEMENT ALL RECOMMENDATIONS FROM THE QUALITY ASSURANCE REVIEW OF THE INTERNAL AUDIT FUNCTION:

In June 2010, an independent quality assurance review was conducted by officials from The University of Texas, who recommended that UT concentrate on several areas to further strengthen the internal audit function (see the “Internal Audit Quality Assurance Review” section of this report). These recommendations will be implemented by September 30, 2012.

IMPLEMENT A FULL COMPLIANCE PLAN OF THE ACADEMIC ENTERPRISE:

This will complement the compliance plan for the clinical enterprise, as required by the Joint Commission, and will include representation from intercollegiate athletics, research, safety and security, labor relations, human resources, contract compliance, information security, bursar’s office, controller, facilities, patents and intellectual property, external affairs/financial aid, communications, student affairs and faculty affairs.

SUPPORT THE VARIOUS INITIATIVES ACROSS THE UNIVERSITY TO IMPROVE THE CUSTOMER SATISFACTION AMONG OUR STUDENT POPULATION:

After students were waiting in long lines for services in fall 2010, workgroups were formed to address the problem. Internal Audit will continue to support the teams through project management, verification of the successful completion of action plans and the identification of best operating practices employed by other institutions.

CONDUCT OUR WORK IN A MANNER CONSISTENT WITH A CONSULTATIVE BUSINESS PARTNER:

We are continually challenged to ensure all employees understand our mission and our scope and that they do not have a negative/punitive perception of our work. Our goal is to conduct our work in a manner that promotes business partnership and advising. Success will be measured by customer surveys and other means.
PERFORMANCE METRICS AND FAST FACTS

<table>
<thead>
<tr>
<th>STAFF SIZE ¹</th>
<th>8 FTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>PROJECTS COMPLETED, FISCAL YEAR 2010</td>
<td>24 PROJECTS</td>
</tr>
<tr>
<td>PROJECTS COMPLETED, FISCAL YEAR 2011</td>
<td>28 PROJECTS</td>
</tr>
<tr>
<td>PROJECT DURATION ²</td>
<td>13 WEEKS</td>
</tr>
<tr>
<td>TIME TO ISSUE AUDIT REPORT ³</td>
<td>2 WEEKS</td>
</tr>
<tr>
<td>DURATION FOR MANAGEMENT TO IMPLEMENT RECOMMENDATIONS</td>
<td>3 MONTHS</td>
</tr>
<tr>
<td>ON-TIME IMPLEMENTATION OF RECOMMENDATIONS</td>
<td>95%</td>
</tr>
</tbody>
</table>

¹ Staff includes a director, an administrative assistant, an IT auditor, financial and operations auditors, compliance professionals, and an athletics compliance officer and a rotating student intern is available to the

² Project duration includes time to plan, execute and report on all aspects of the project

³ Time to Issue Report is also included in the Project Duration metric above

The following shows KEY OBJECTIVES, the OUTCOME MEASURES FOR EACH OBJECTIVE, and HOW THE ACTIVITY WILL BE MEASURED

<table>
<thead>
<tr>
<th>KEY OBJECTIVE</th>
<th>OUTCOME MEASURES</th>
<th>ACTIVITY MEASURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value-adding internal audit (IA) function</td>
<td>Savings due to University-wide cost, quality and time improvements as a percentage of internal audit’s budget</td>
<td>• Number of best practices identified, per IA-audited process</td>
</tr>
<tr>
<td>Highly educated and experienced internal audit (IA) staff with diverse business backgrounds and professional certifications</td>
<td>Percentage of audit projects requiring outside expertise</td>
<td>• Percentage of internal auditors holding credentials as a certified internal auditor (CIA) or other certification</td>
</tr>
<tr>
<td>Complete and timely University-wide risk assessment</td>
<td>Revenue loss attributed to risk factors</td>
<td>• Number and cost of anticipated risk occurrences</td>
</tr>
<tr>
<td>Efficient, cost-effective IA function</td>
<td>• Average time to complete internal audits</td>
<td>• Percentage of IA budget for acquiring automated audit tools and work papers</td>
</tr>
<tr>
<td></td>
<td>• Total annual number of internal audits</td>
<td>• Time between internal audit completion and issuance of internal audit report</td>
</tr>
<tr>
<td></td>
<td>• Number of annual internal audits completed per internal auditor</td>
<td>• Average years of experience per internal auditor</td>
</tr>
</tbody>
</table>
INTERNAL AUDIT QUALITY ASSURANCE REVIEW

In summer 2010, UT Internal Audit engaged representatives from The University of Texas System to conduct a Quality Assurance Review of the Department. The Institute of Internal Auditors’ Professional Standards require that an external quality review be conducted every five years.

In its conclusion, the report commends the internal audit director and the Audit Committee on the significant accomplishments they have made, including:

- Development of an engaged Audit Committee that provides guidance, direction and oversight of the internal audit function.

- Hiring a quality internal audit director and a director, four auditors, an administrative assistant and three compliance professionals.

- Development of a risk-based audit plan with appropriate input from the Audit Committee and management.

- Establishment of a fully functional internal audit department with most of the necessary elements, including policies and procedures.

- Completion of quality audits in a variety of areas across the University.

- Development of positive relationships with audit clients.

In the spirit of continuous improvement, the team recommended that UT concentrate on the following areas in the future. Each of the action plans in these areas has been fully implemented.

Audit Committee Oversight

Internal Audit Independence

Relationship with Senior Management

Internal Audit Culture and Teambuilding

Communicating with the Audit Committee

Value-Added Services

Staffing and Compliance

FOR ADDITIONAL INFORMATION CONTACT DAVE CUTRI, CHIEF AUDIT EXECUTIVE
RECENT KEY PROJECTS OF THE UT INTERNAL AUDIT FUNCTION

ACADEMIC OPERATIONS:
Projects in the Research Expenditures, Student Financial Aid, Conflict of Interest, Purchase Cards and Accounts Payable areas.

HOSPITAL OPERATIONS:
Projects in the following areas: Clinical Risk Assessments, In-patient Charge Capture, Charge Master, Patient Revenue Cycle, UT Pharmacy Operations, Pharmacy Inventory Management, Joint Commission Procedural Compliance, Compliance and Privacy.

INTERCOLLEGIATE ATHLETICS OPERATIONS:
Projects include the Football Attendance Audit required by the NCAA, Student-Athlete Recruiting, Outside Income (barter agreements, sports camps, etc.) and Team Travel.

LARGE CAPITAL PROJECTS:
Recent examples include the Digital Campus, Ottawa House projects and the ThyssenKrupp elevator contract.
On average, these have achieved a 1.5% cash recovery of expenses that were originally overpaid to the contractor and subsequently reimbursed.

DEPARTMENTAL "FIELD" OPERATIONS:
A departmental "field" audit program is now in place.
Operating management now regularly requests these audits, most recently the Dean of the College of Graduate Studies.

IT “GENERAL CONTROLS”:
These audits are performed annually and serve as a “report card” of IT operations, as these controls span multiple application systems and business processes.

NEW SYSTEM IMPLEMENTATIONS:
Examples include oversight for Banner 8 (University’s ERP system), PeopleAdmin (HR system) and a major system redesign affecting Access to Clinical Informatics Systems.

BUSINESS PROCESS IMPROVEMENT:

CONTROL SELF-ASSESSMENTS:
Recent projects include: Payroll Processing and Financial Reporting and Accounting Closing.

STUDENT AFFAIRS/CUSTOMER SERVICE:
We support the vice president of student affairs and leaders in Finance, Information Technology, and Student Customer Service in identifying ways to reduce wait times for receiving services such as meal plan maintenance, residence hall assignments, financial aid and building security.

HIGHER LEARNING COMMISSION (HLC) ASSESSMENT:
We are working with the Provost’s Office to ensure that the academic program self-assessments required by the Higher Learning Commission are being completed on time and in the level of detail and quality required.

CLASSIFICATION OF INSTRUCTION PROGRAMS:
We are currently working with the Provost’s Office to ensure that our academic programs are appropriately registered with the State of Ohio in a way that legally maximizes the funding the University will receive.

CONTINUOUS CONTROLS MONITORING:
This series of more than 100 reports and queries of academic and clinical data has produced almost $900,000 in cash recoveries to the University in the past 12 months.

QUALITY ASSURANCE REVIEWS:
In addition to the review we received from The University of Texas System, we at The University of Toledo will be leading reviews at some of our peer universities, including Ohio University and Cuyahoga Community College.

ADVANCING AREAS OF THE STRATEGIC PLAN THROUGH ANALYSIS/DEVELOPMENT OF POLICY RECOMMENDATIONS:
Examples include work load guidelines, development and system development of accountability of workload policy, minimum class size guideline, etc.

“STEP 5” OF THE STRATEGIC PLAN:
Step 5 of the university’s strategic plan pertains to the reorganization of the academic departments. We provide support to this project by conducting analytical reviews of programs and their cost/profitability/intrinsic value.
FY2012 BUDGET FORMULATION:
Member of the steering committee to accumulate, analyze, and develop plans for implementing employee recommendations for reducing operating expenses by $35 million.

ORGANIZATION DEVELOPMENT:
This subcommittee of the above FY2012 budget formulation committee analyzed span-of-control and the organizational hierarchy of the academic enterprise, and also analyzed the levels of administrative support.

STUDENT ISSUES RESOURCE GROUP:
This subcommittee of the above student affairs/customer service committee benchmarked the scope of the University’s “one-stop” customer service center to those of 15 peer and “best practice” universities.

ICD-10 PREPAREDNESS:
Effective in 2013, ICD-10 will be the new industry standard for health care electronic data interchange. We reviewed the recordkeeping and documentation processes at the clinics and its information systems to determine the necessary steps to be taken to be ready for ICD-10.

JOINT COMMISSION COMPLIANCE:
In anticipation of the upcoming visit by the Joint Commission, we reviewed the alignment of UTMC internal procedures intended to ensure compliance with their provisions. We also review the “self-auditing” and test plans executed by the operating departments that ensure that appropriate supervision of employee activities.

COMMUNITY ENGAGEMENT:
Our employees share their talents with the local community. For example, David Cutri is a member of the Board of the Northwest Ohio chapter of the IS Audit and Control Association. Lynn Hutt chairs the program committee of the Central Ohio chapter of the Health Care Compliance Association. Brian Lutz is on the Board of Apple Tree Nursery. In addition, David recently independently advised Toledo Public Schools on their financial forecasting process.

EDUCATING OUR EMPLOYEE POPULATION:
We developed an internal control training program that qualifies for University certificate credit and is available “on demand” to any department; David Cutri has served as a guest instructor for the Institute of Internal Auditors for the past 15 years; and Lynn Hutt and Karen Keune regularly provide HiPAA training to new employees and administer our online education program spanning various compliance topics. Brian Lutz publishes a quarterly athletics compliance newsletter and daily compliance bulletin distributed across campus.

PRESENTATIONS MADE:
David Cutri is a regular presenter on various risk management topics for The Performance Institute, has presented for Health Care Compliance Association conferences, and regularly presents on various internal control topics at University Business Operations Meetings. In addition, David has provided orientation to Facilities and Construction project managers pertaining to self-auditing of commercial contracts.

David is also an executive faculty member in the University’s Office of Quality and Continuous Learning’s finance certificate program. This is a University program where employees and community members can attend continuing education sessions in specific disciplinary areas, that qualify for University academic credit. David teaches the class “Internal Controls and You – An Introduction to Risk Management.”

In April of 2012, Lynn Hutt and Karen Keune were featured speakers at the Health Care Compliance Association National Compliance Institute, presenting on the topic “Meeting The Compliance Challenge: Operating a Compliance Program in Economically Challenged Time.”

Brian Lutz presented at the June 2010 Audit Committee meeting on recent developments in athletics compliance. The remaining members of the Internal Audit team will be presenting at future Audit Committee meetings on various topics of interest.
CONTINUOUS CONTROLS MONITORING
The UT Internal Audit Department has developed tools ("continuous controls monitoring") to give the University confidence in the accuracy and integrity of transactions underlying our business processes and financial reporting. Following are examples of the over 100 scenarios we monitor on an ongoing basis:

ACADEMIC ENTERPRISE
Compliance (Research and Intercollegiate Athletics)
- Identify expenditures outside grant effective dates
- Identify students not meeting entrance requirements
Vendor Management
- Identify employees paid as independent contractors
- Compare employee address/phones with vendor files
Registration
- Identify students not meeting entrance requirements
- Identify excessive course loads (by faculty or students)
Conflicts of Interest
- Compare outside activities to research sponsors
- Compare outside activity location with travel location
Outside Activities
- Compare outside interest with officer information
- Compare travel activities to outside activity locations
Purchasing and Accounts Payable
- Identify duplicate payments (same amounts, dates)
- Identify unreleased encumbrances
Salaries and Payroll
- Compare dual academic appointments
- Compare salary rates with approved rates
Accounts Receivable
- Identify collected receivables previously written off
- Identify uncollectible amounts
Academics
- Calculate average grade by class or professor
Travel
- Extract travel over holiday periods for personal travel
Tuition Billing
- Compare check amounts per ledger to bank files
Technology
- Compare authentication files to employee files
Financial Aid
- Calculate days from course load decrease

CLINICAL ENTERPRISE
Compliance
- Identify single stay days & subsequent re-admissions
- Identify frequent use of high risk organizations
Vendor Management
- Compare speed/accuracy of delivery by vendor
- Match stock receipts with vendor ledger
Purchase Order Management
- Identify duplicate POs or receipts without POs
- Isolate purchase order types for audit tracking
Charges
- Identify charges posted outside of proper GL period
- Identify late charges by department, by month, etc.
Patient Billing, Accounts Receivable, and Managed Care
- Age service billing dates for timely collections/write-offs
- Analyze rejected payments by class, procedures
Materials Management/Inventory
- Divide inventory into classes, compare % investment
- Identify items with volume under on-hand quantity
Clinical Subsystems
- Identify pricing discrepancies between systems
- List people receiving health benefits
Information Systems/Security
- Compare authentication files to employee files
- Identify people with more access than required
Medical Claims
- Compare claim date, date received, and date paid
- Highlight indicators of fraudulent claims practices
Salaries and Payroll
- Summarize special pay, overtime, premium costs
Physicians
- Evaluate physician history by patient type, payer
Accounts Payable
- Create summary for suppliers with duplicate products
Marketing
- Develop patient statistics by zip, other demographics

In the past 12 months, almost $900,000 has been recovered by these continuous controls monitoring reports for the benefit of the University. Our plan is to ultimately make these reports/queries available to operating management in order to provide these owners of the internal control environment with the tools they will need to succeed.
RISK ASSESSMENT

The University of Toledo executes an annual risk-based audit plan. An enterprise-wide risk assessment forms the basis for the plan. Sources for determining the high-risk areas of the University to audit include interviews with key senior leaders, the external auditors, and reviews of departmental operating plans, capital projects, financial statements and organization charts.

The results of our most recent risk assessment suggested that the University is executing the following eight significant business “imperatives”, which house the majority of the University’s business risk:

<table>
<thead>
<tr>
<th>OPERATIONAL EXCELLENCE</th>
<th>Make cost reduction and operational excellence sustainable</th>
</tr>
</thead>
<tbody>
<tr>
<td>RISK</td>
<td>Link risk and performance throughout the University</td>
</tr>
<tr>
<td>REGULATION</td>
<td>Capitalize on opportunities that come with new regulatory requirements</td>
</tr>
<tr>
<td>INNOVATION AND TECHNOLOGY</td>
<td>Drive competitive advantage through innovation, organizational agility, and strategic investments in technology</td>
</tr>
<tr>
<td>STRATEGY AND GROWTH</td>
<td>Execute deferred transactions to grow, diversify or protect value</td>
</tr>
<tr>
<td>GOVERNANCE</td>
<td>Enhance trust in the business and eliminate information gaps that breed distrust</td>
</tr>
<tr>
<td>SUSTAINABILITY</td>
<td>Manage sustainability strategically to protect and create value</td>
</tr>
<tr>
<td>TALENT</td>
<td>Raise the game of our people, including the C-suite</td>
</tr>
</tbody>
</table>

Supporting the above business imperatives is an audit “universe” of more than 500 possible functional areas to review each year. Each item in the audit universe is evaluated annually in light of various business risks, a few of which are indicated in the next column:

- Enterprise-wide risk
- Emerging market risk
- Ethics and integrity
- Fraud and corruption
- Risk and performance
- Supply chain risk
- Sustainability risk
REQUIRED COMMUNICATIONS TO THE AUDIT COMMITTEE

Institute of Internal Auditors Standards for the International Professional Practice of Internal Auditing requires that certain topical areas be discussed with the Audit Committee at least annually. Following is a summary of these “required communications:”

**STANDARD #1000**
**PURPOSE, AUTHORITY, AND RESPONSIBILITY:**
The Director of Internal Audit reviewed the internal audit charter (enclosed under separate cover) and presents it to senior management and the Audit Committee for approval.

**STANDARD #1010**
**RECOGNITION OF THE DEFINITION OF INTERNAL AUDITING, THE CODE OF ETICS, AND THE STANDARDS IN THE INTERNAL AUDIT CHARTER:**
The Director of Internal Audit discussed the Definition of Internal Auditing, the Code of Ethics and the Standards (each enclosed under separate cover) with senior management and the Audit Committee.

**STANDARD #1110**
**ORGANIZATIONAL INDEPENDENCE:**
The Director of Internal Audit confirmed to the Audit Committee, and will do so at least annually, the organizational independence of the internal audit activity.

**STANDARD #1111**
**DIRECT INTERACTION WITH THE BOARD:**
The Director of Internal Audit communicates and interacts directly with the Audit Committee.

**STANDARD #1312**
**EXTERNAL ASSESSMENTS:**
The Director of Internal Audit has discussed with the Audit Committee the need for more frequent (more than every five years) external assessments and the qualifications and independence of the external reviewer, including any potential conflicts of interest. At the present time, it has been determined that the need does not exist for external assessments of the internal audit function at duration less than five years.

**STANDARD #1320**
**REPORTING ON THE QUALITY ASSURANCE AND IMPROVEMENT PROGRAM:**
The Director of Internal Audit has communicated the results of the quality assurance and improvement program to senior management and the Audit Committee. The results of external and periodic internal assessments have been communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the reviewer’s or review team’s assessment with respect to the degree of conformance.

**STANDARD #2020**
**COMMUNICATION AND APPROVAL:**
The Director of Internal Audit has communicated Internal Audit’s plans and resource requirements, including significant interim changes, to senior management and the Audit Committee for review and approval. The Director of Internal Audit has also communicated the impact of resource limitations.

**STANDARD #2060**
**REPORTING TO SENIOR MANAGEMENT AND THE BOARD:**
The Director of Internal Audit reports periodically to senior management and the Audit Committee on the internal audit activity’s purpose, authority, responsibility, and performance relative to its plan. Reporting also includes significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Audit Committee.
OPPORTUNITIES AND CHALLENGES AHEAD

Crystal ball gazing is an imprecise art, so it is not surprising that internal audit organizations differ somewhat on the future opportunities and challenges for internal auditing.

COMMON CHIEF AUDIT EXECUTIVE TOPICS OF FOCUS BEYOND 2012

- ERM (Enterprise Risk Management)
- New regulation/legislation
- XBRL (Extensible Business Reporting Language)
- New guidance

Compliance and Reputation Risks Are Growing. Under the Obama administration, enforcement actions related to the U.S. Foreign Corrupt Practices Act and many other existing laws have increased dramatically. New regulations have begun emerging from regulatory agencies with great regularity. And implementing regulations for the new health-care law and other statutes enacted during the last two years will be issued soon. The whole universe of compliance risk is growing substantially now. This should be a growing focus area for internal auditing.

Nobody’s really excited about compliance risk, but you have to deal with it. Although a lot of it is high likelihood, low-impact risk, it can still be substantial.

Reputation risks are growing substantially as a result of social media such as blogs. We have policies and procedures in place concerning social networking, but monitoring them is difficult. Still, use of social media is generally positive for the University’s brand. We encourage employee blogging and impromptu customer feedback while still maintaining control to safeguard our reputation.

Management expects coordinated assurance. Senior management and the Audit Committee are increasingly expecting improvements in coordination among the University’s assurance providers. Management doesn’t want to hear the same questions from three or more different entities.

If nothing else, it is a good practice to have assurance functions such as internal audit, the compliance group, the ethics and compliance team, and the external auditors meet periodically. This is “the low-hanging fruit” of Governance, Risk Management, and Compliance (GRC) Coordination.

Even if there is effective GRC governance within the University, there still may be multiple risk assessments because different business units have different perspectives and objectives. As the Audit Committee gets more comfortable with risk management coordination down the road, the expectations could be quite high. After all, there will always be surprises.
SUMMARY

This document afforded an invaluable opportunity to discuss current and future issues and concerns. While many comments and leading practices are captured in this document, 10 overriding themes are worthy of special emphasis:

1. **We must continue to focus on our best people.**
   We must make sure we know who they are—and that they know it also. We must accommodate and mentor them now before the job market gets better and they leave the University.

2. **We must continue to reassess our skills needs.**
   We must think about our internal audit activity’s level of overall business knowledge and specific skills such as data mining and enterprise risk management.

3. **We must continue to rethink our training needs.**
   We must look for creative and affordable ways to conduct training such as webinars, staff-led classroom sessions, and coaching/mentoring from business unit management.

4. **We must continue to hire/acquire new skills.**
   We must get the skills we need in our audit function any way we can—including partnering strategically with the business units. We must adopt a flexible staffing model including guest auditors, rotation programs and outsourcing as needed.

5. **We must continue to develop a flexible/agile audit plan.**
   We must find ways to be nimble in updating our audit plan in response to changing business strategies and risks and discuss our methodology with management and the Audit Committee.

6. **We must continue to develop/expand our strategy for implementing widespread automated auditing.**
   We must make it a strategic imperative to expand the amount and types of automated auditing we perform. We must impress on staff that this is the way of the future and train and equip them to use technology effectively.

7. **We must continue to get involved in new strategic business initiatives.**
   We must ensure that we have a seat at the table during discussions of strategic initiatives under development. We must clarify the unique value Internal Audit involvement provides, and make sure we have the right resources to support new business undertakings.

8. **We must continue to ensure we are up to date on and are adding value to emerging legal, regulatory and public policy issues.**
   We must look for ways to ensure that we are alerted to the legal, public affairs and other relevant staff about these issues, consider who else in the University needs to be involved and serve as a trusted adviser.

9. **We must continue to reassess our coverage of public disclosures of all types.**
   We must develop an inventory of the University’s public disclosures, especially nonfinancial ones. We must risk-assess and provide proactive input into these disclosures; audit the information on our University’s Web site.

10. **We must continue to stay close to our stakeholders as the University emerges from the recession.**
    We must ensure that we are communicating frequently and effectively. We must take special care to communicate to stakeholders how the internal audit activity is evolving to adapt to changes in the University.

While there is no shortage of issues to tackle, hopefully we have demonstrated in this “Profile of an Audit Service” that The University of Toledo Internal Audit Department is well positioned to address them in the coming year.

Thank you for your continued support of the Internal Audit function and our contributions toward “keeping The University safe”!