1. **CALL TO ORDER/ROLL CALL**
   Vice President Lehmann called the meeting of the Executive Committee of the State Board of Higher Education to order at 8:13 a.m.

   On roll call, the following Executive Committee members answered present:
   - Mr. Roger Bassett
   - Ms. Phyllis Wustenberg
   - Ms. Leslie Lehmann

   Absent: Don VanLuvanee (personal conflict) and Jim Lussier (business conflict).

**Other Board Members Present:** Kerry Barnett, Bridget Burns, Rachel Pilliod, and Geri Richmond.

**Chancellor’s Office staff present:** Chancellor Richard Jarvis, Tom Anderes, Shirley Clark, Diane Vines, Ben Rawlins, Alayne Switzer, and Patricia Snopkowski.

**Others:** Philip Conn and Lesley Hallick

Meeting attendees also included other institutional representatives, members of the Chancellor’s Office staff, and interested observers.

2. **DISCUSSION ITEM**
   a. **Review of Audit Findings**

   **DOCKET ITEM:**
   l. **Background**

   As outlined in the Oregon State Board of Higher Education Audit Charter, adopted in November 2002, the Oregon State Board of Higher Education (the Board) has oversight responsibility to ensure that OUS management is performing their duties of financial reporting, effective and efficient internal controls, and compliance with laws, regulations, and ethics. As part of this oversight responsibility, the Board shall have the following responsibilities and powers and shall perform the following functions as it relates to audits. The provisions of the charter include (in part) the following:

   - The Oregon State Board of Higher Education shall approve annually the Internal Audit Division’s annual audit plans and budget.
• The Oregon State Board of Higher Education shall review at least semi-annually the results of Internal Audit recommendations and follow-up procedures. More frequent meetings will be held as deemed necessary.

• The Oregon State Board of Higher Education shall review any recommendations the external auditors or the internal financial or auditing staff may have for improving internal accounting controls, management systems or choices of accounting principles.

The Board shall have and exercise all other powers, as it shall deem necessary, for the performance of its duties.

The Board has delegated these audit duties to the Executive Committee. The Executive Committee shall report the results of internal and external audit findings to the full Board at least once a year.

II. Audits Completed December 2002 to June 2003

The Internal Audit Division (IAD) issued a total of 29 reports and memos between December 2002 and June 2003. In addition, fieldwork was completed and draft reports were issued to management for 14 other audits. All issued reports contain management’s written response that indicated adequate steps will be taken to address any internal control issues noted.
<table>
<thead>
<tr>
<th>Audit Name</th>
<th>Audit Type</th>
<th>Conclusion/Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>FERPA</td>
<td>Scheduled Audit</td>
<td>Satisfactory—Controls are adequate to provide compliance assurance related to confidentiality of student records as required by federal law.</td>
</tr>
<tr>
<td>Asbestos Abatement</td>
<td>Special Request</td>
<td>Noted a need to improve procurement procedures.</td>
</tr>
<tr>
<td>Procurement Review</td>
<td></td>
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</tr>
<tr>
<td>Application Security</td>
<td>Information Technology</td>
<td>Noted a need to restrict access on FIS security classes and create a security policy.</td>
</tr>
<tr>
<td>PARS Follow Up</td>
<td>Audit Follow Up</td>
<td>100% compliance with recommendations—noted improved safeguarding of assets.</td>
</tr>
<tr>
<td>intoCareers Follow up</td>
<td>Audit Follow Up</td>
<td>100% compliance with recommendations—noted improved accounting procedures and safeguarding of assets.</td>
</tr>
<tr>
<td>Athletics Follow Up</td>
<td>Audit Follow Up</td>
<td>85% compliance with original recommendation—noted lack of supervisory review of travel vouchers and communication to management on non-compliance issues noted by staff.</td>
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</table>
## Oregon State University

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<thead>
<tr>
<th>Audit Name</th>
<th>Audit Type</th>
<th>Conclusion/Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>FERPA</td>
<td>Scheduled Audit</td>
<td>Satisfactory—Controls are adequate to provide compliance assurance related to confidentiality of student records as required by federal law.</td>
</tr>
<tr>
<td>Student Housing Construction</td>
<td>Special Request</td>
<td>Noted potential cost recovery of excess contractor charges in the amount over $100,000.</td>
</tr>
<tr>
<td>Overhead Charges</td>
<td>Special Request</td>
<td>Noted self supporting operations were not charged required overhead rates. Business Affairs rectified the issue.</td>
</tr>
<tr>
<td>IT Equipment Tracking</td>
<td>Information Technology</td>
<td>Noted strong internal controls over safeguarding minor equipment with stop tag program and efficiency created by management in streamlining minor inventory recordkeeping.</td>
</tr>
<tr>
<td>Application Security</td>
<td>Information Technology</td>
<td>Noted a need to restrict access on FIS security classes, create a security policy, and reduce approval queue limits.</td>
</tr>
<tr>
<td>Dixon Recreation Follow Up</td>
<td>Audit Follow Up</td>
<td>100% compliance with recommendations—noted improved safeguarding of assets.</td>
</tr>
<tr>
<td>Cashiering Follow Up</td>
<td>Audit Follow Up</td>
<td>45% compliance with recommendations—noted a need to improve safeguards over vault and lack of written procedures.</td>
</tr>
</tbody>
</table>
### Portland State University

<table>
<thead>
<tr>
<th>Audit Name</th>
<th>Audit Type</th>
<th>Conclusion/Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>FERPA</td>
<td>Scheduled Audit</td>
<td>Satisfactory—Controls are adequate to provide compliance assurance related to confidentiality of student records as required by federal law.</td>
</tr>
<tr>
<td>Application Security</td>
<td>Information Technology</td>
<td>Noted a need to restrict access on FIS security classes and create a security policy.</td>
</tr>
<tr>
<td>Financial Aid Review</td>
<td>Special Request</td>
<td>Noted unauthorized change of financial aid record and conflict of interest. The existing controls detected inappropriate change prior to disbursement of funds.</td>
</tr>
</tbody>
</table>

### Western Oregon University

<table>
<thead>
<tr>
<th>Audit Name</th>
<th>Audit Type</th>
<th>Conclusion/Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>President’s Residence</td>
<td>Special Request</td>
<td>Noted cost overruns due to inadequate project management.</td>
</tr>
<tr>
<td>Faculty Travel Irregularity</td>
<td>Special Request</td>
<td>Noted university incurred $1,526 of travel expenses for conferences the professor did not attend.</td>
</tr>
<tr>
<td>Bookstore Review</td>
<td>Special Request</td>
<td>Noted misappropriation of assets of $81,721. Unsatisfactory internal control structure noted. Improvements are being made.</td>
</tr>
<tr>
<td>IT Equipment Tracking</td>
<td>Information Technology</td>
<td>Noted controls deemed appropriate to safeguard assets.</td>
</tr>
</tbody>
</table>
## Southern Oregon University

<table>
<thead>
<tr>
<th>Audit Name</th>
<th>Audit Type</th>
<th>Conclusion/Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>FERPA Audit</td>
<td>Scheduled Audit</td>
<td>Satisfactory—Controls are adequate to provide compliance assurance related to confidentiality of student records as required by federal law.</td>
</tr>
<tr>
<td>RVTV Audit</td>
<td>Special Request</td>
<td>Noted a lack of accounting and monitoring controls.</td>
</tr>
<tr>
<td>Physical Plant Follow Up</td>
<td>Audit Follow Up</td>
<td>100% compliance with recommendations—noted improved safeguarding of assets.</td>
</tr>
<tr>
<td>Athletic Cash Receipts Follow Up</td>
<td>Audit Follow Up</td>
<td>100% compliance with recommendations—noted improved safeguarding of assets.</td>
</tr>
</tbody>
</table>

## Oregon Institute of Technology

<table>
<thead>
<tr>
<th>Audit Name</th>
<th>Audit Type</th>
<th>Conclusion/Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASOIT Follow Up</td>
<td>Audit Follow Up</td>
<td>100% compliance with recommendations—noted improved safeguarding of assets.</td>
</tr>
<tr>
<td>CITS General Controls Follow Up</td>
<td>Audit Follow Up</td>
<td>60% compliance—noted incomplete disaster recovery and security policy, password controls, and untimely removal of terminated employee access.</td>
</tr>
</tbody>
</table>
Chancellor’s Office

<table>
<thead>
<tr>
<th>Audit Name</th>
<th>Audit Type</th>
<th>Conclusion/Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Application Security</td>
<td>Information Technology</td>
<td>Noted a need to restrict access on FIS security classes, create a security policy, and reduce approval queue limits.</td>
</tr>
<tr>
<td>Chancellor Change Review</td>
<td>Special Request</td>
<td>Noted effective transition and no issues with Chancellor Cox’s fiscal transactions.</td>
</tr>
<tr>
<td>ETIC Follow Up</td>
<td>Audit Follow Up</td>
<td>75% compliance with recommendations—consistency and accuracy of fiscal and progress reporting.</td>
</tr>
</tbody>
</table>

Draft Reports

<table>
<thead>
<tr>
<th>Audit Name</th>
<th>Audit Type</th>
<th>Campus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchasing Follow Up</td>
<td>Audit Follow Up</td>
<td>Seven Universities and Chancellor’s Office</td>
</tr>
<tr>
<td>Budget Monitoring</td>
<td>Scheduled Audit</td>
<td>UO, OSU, PSU, WOU</td>
</tr>
<tr>
<td>Athletics Travel</td>
<td>Special Request</td>
<td>WOU</td>
</tr>
<tr>
<td>Animal Sciences</td>
<td>Special Request</td>
<td>OSU</td>
</tr>
</tbody>
</table>

III. Audit Plans for July 2003 to December 2003

The completed 2003 IAD risk assessment identified 230 auditable units, with a total of 45 high-risk units. The unit’s risk score is not a reflection of management. The score is based upon past audit coverage and the nature of operations.

IAD is scheduled to perform audits on 13 high-risk units over the next six months. See section IV for the table listing the units. The areas of coverage scheduled for July to December 2003 are highlighted in gray. This coverage is likely to be reduced to eight to ten units based upon past history of immediate needs such as financial irregularity reviews or other high-risk special requests deemed of greater importance by the Board or executive management.
Other IAD activities over this period will include the following:

1. Internal Control Assessment Committee—Campus self-assessment of controls over high-risk transactions, which will evolve into sharing practices and defining baseline controls.
2. Recruitment and Retention
3. Campus and Chancellor Office Involvement—Committee and training

IV. Risk Assessment Model and Approach

On an annual basis, the Oregon University System Internal Audit Division (IAD) performs a risk assessment in accordance with the International Institute of Internal Auditors (IIA) Auditing Standards 2010 and 2020. The goals of this assessment are to:

- Provide a basis for Internal Audit resource allocation among campuses - individual, Systemwide unit audits, and isolated risk audits.
- Provide management with a tool to summarize risk as it relates to their department.

There are a total of seven steps taken as part of this risk assessment:

- Identify available hours for scheduled and unscheduled activity;
- Identify auditable units and potential emerging cross-sectional issues and benchmark with peers;
- Schedule meetings with management;
- Conduct surveys with management;
- Perform financial analysis;
- Complete risk model; and
- Allocate resources based upon available hours and risk assessment.

**STEP 1 - Hours Allocation**
Typically 40 percent of the hours are spent on direct audits resulting from the risk assessment, 30 percent is spent on special requests (immediate audit needs), 10 percent on information technology, 5 percent on training and recruiting, and 15 percent are considered indirect, (which include administrative time, vacation, and sick leave). This percentage is an efficient use of resources based upon the IIA benchmarking study.

**STEP 2 - Determining the Audit Universe**
Based upon the IAD risk analysis charts, there are approximately 230 units in the System. Given the available hours for each campus auditor, this equates to 12 to 20 reviews on an annual basis. In addition, special request audits are conducted throughout the year. The average annual coverage of the University System is approximately 10 percent.
**STEPS 3 to 5 - Gather Data on Auditable Units**

1. IAD meets with the management at each campus and determines the relative risks associated with their operations.
2. Reputation—Recruitment and retention of staff, students, donors, as well as taxpayer interests.
*3. Operational—Ongoing management.*
*4. Compliance—Ability to comply with rules and regulations.*
*5. Reputation—Recruitment and retention of staff, students, donors, as well as taxpayer interests.*

*NOTE: Items 3, 4, and 5 were inadvertently omitted from the original docket pages.*

**STEP 6 - Complete risk matrix**

The risk assessment calculations are performed after IAD meets with management, reviews with other peer systems, and performs a financial analysis on the assets, revenues, and expenditures of each unit.

The risk model includes seven categories:
1. Compliance - regulatory compliance issues
2. Financial - amount and types of assets and revenue
3. Strategic - impact of unit on university mission and vision
4. Operational - impact of unit on other university activities
5. Reputation - level of attention unit receives from constituents
6. Known or perceived control concerns - new operations or recent turnover
7. Audit history

**STEP 7 - Allocate IAD Resources and Distribute Information to Management**

Units are selected based upon top combined risk scores. The audit objectives of the individual audit will include a more detailed risk analysis on the unit to determine the audit scope of project.

When preparing the annual plans, IAD ensures that three concepts are taken into consideration in order to ensure compliance with IIA standards:

1. Risk based assessments that take into consideration organizational goals;
2. Management input; and
3. Communication of limited resources.
### Risk Assessment Model and Approach (Continued)

#### AD 2003 Risk Assessment - High Level Operating Units and Scheduled Audits

<table>
<thead>
<tr>
<th>OSU</th>
<th>PSU</th>
<th>UO</th>
<th>EOU</th>
<th>WOU</th>
<th>SOU</th>
<th>OIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>College of Engineering</td>
<td>College of Liberal Arts and Sciences</td>
<td>College of Arts and Sciences</td>
<td>School of Distance Education</td>
<td>Academic Directors Division</td>
<td>School of Social Sciences</td>
<td>Engineering, Technology, and Mgmt.</td>
</tr>
<tr>
<td>College of Health and Human Sciences</td>
<td>Extended Studies</td>
<td>Sponsored Awards – Research</td>
<td>School of Arts and Sciences</td>
<td>Library</td>
<td>School of Arts and Letters</td>
<td>Health, Arts, and Science</td>
</tr>
<tr>
<td>Agricultural Experiment Stations</td>
<td>College of Engineering and Computer Sciences</td>
<td>Library System</td>
<td>Information Technology/Telecom</td>
<td>Athletics</td>
<td>School of Sciences</td>
<td>Executive management</td>
</tr>
<tr>
<td>School of Education</td>
<td>Graduate School of Social Work</td>
<td>Sponsored Awards – Public Service</td>
<td>Financial Aid</td>
<td>Library</td>
<td>Physical Plant/ EHS/ Const. /Motor pool</td>
<td></td>
</tr>
<tr>
<td>College of Agricultural Sciences</td>
<td>Facilities</td>
<td>School of Education and Business</td>
<td>Athletics</td>
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<tr>
<td>College of Forestry and Research Laboratory</td>
<td>College of Urban &amp; Public Affairs</td>
<td>Library</td>
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<td>Cascades Campus</td>
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<td>College of Science</td>
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<td>Facilities</td>
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<td>University Centers and Institutes</td>
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<td>Extension Services</td>
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<td>College of Veterinary Medicine</td>
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<td>Distance and Continuing Education</td>
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<td>College of Pharmacy</td>
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<td>Computing Center</td>
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<tr>
<td>Research Programs</td>
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<tr>
<td>Student Health Services</td>
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**LEGEND**

| Scheduled Audits |
V. Organizational Changes and Resource Allocation

In April 2003, IAD reorganized. The reasoning for the reorganization was to provide IAD maximum audit coverage for the regional campuses. Based upon audit history for the past 18 months and the number of special requests made by regional campuses, IAD has been unable to provide regularly scheduled reviews at OIT and EOU. As a result of this lack of coverage, IAD eliminated the Audit Manager position and reassigned these duties to create two supervising auditor positions. A staff auditor will be added to assist the Supervising System Auditor in providing coverage to the regional campuses. An intern program was established by the department in June 2003 to further expand coverage and accommodate special requests made by OUS management.

COMMITTEE DISCUSSION AND ACTION:
Vice President Lehmann began the meeting by stating that there was one item for discussion, the presentation and review of audit findings from the OUS Internal Audit Division.

Patricia Snopkowski, OUS director of Internal Audit, stated that this was the second report since the passage of the Board charter in November 2002. Internal Audit is required to provide the Executive Committee with a progress report every six months.
Audits completed December 2002 to June 2003
She continued by stating that over the last six months, Internal Audit has issued 29 reports. In addition, fieldwork was completed and draft reports were issued to management for 14 other audits. All issued reports contain management’s written response that indicated adequate steps will be taken to address any internal control issues noted.

Ms. Snopkowski then began discussion of the reports of individual campuses.

University of Oregon
FERPA (Family Educational Rights and Privacy Act) audit. This was a compliance audit that was completed across the System. The purpose is to assure that the institutions are complying with the law and privacy rights of students. IAD found the controls to be very satisfactory and issued a positive review.

IAD conducted an asbestos abatement procurement review. This was a special request from management. Some vendor complaints had occurred, stating that there were conflicts of interest and a lack of competitive bidding. There was a predominant vendor, but that vendor was consistently the low-cost bid. IAD made recommendations for improvement of segregation and documentation of bids.

The application security review was a routine review typically of financial systems. At the University of Oregon, as well as the other campuses, IAD recommended some more restricted access over certain employee classes and documentation of the current security procedures or granting and removing access.

There were no open issues in the PARS and intoCareers follow-ups. Some good controls were put into place preventing similar instances from occurring.

The last review at the University of Oregon was an athletics follow-up to a prior financial irregularity involving coaches and distribution of per diem monies (breakfast, lunch, and dinner money that they receive). There were inconsistencies between sports in the rate used.

Ms. Pilliod asked if there was any inconsistency with different values depending on gender. Ms. Snopkowski indicated that it was haphazard inconsistency across-the-board.

Ms. Wustenberg asked how much time the UO has for correction. Ms. Snopkowski stated that it depends. “We like to get in there within six months, but given our schedule, sometimes it takes a year or longer.” She continued, “With this, we went back and actually looked at the University of Oregon. They have implemented some really good policies over this. And the director of athletics asked us to go in and look at all of the sports as a result of instances that were noted in just one sport. As part of our review, one of the things that was noted was there were some instances of travel where the assistant directors did not sign off. There was a compliance, budgetary approval, but the
program’s actual signature wasn’t there. Not really a major issue. We did note, however, even though they had good procedures in place, there were some instances of non-compliance with those procedures and staff weren’t informing management when non-compliance occurred. As a result of this, the director of athletics implemented some policies immediately, effective July 1st. So, we don’t feel that is an issue going forward at the University of Oregon. However, one of the things I did want to point out is we have had similar problems with varying per diem rates and inconsistency at other campuses across the System. As a result, in order to correct this issue, the Controller and Senior Vice Chancellor Anderes have identified and clarified what the FASOM policies are to all of the campuses in System meetings.”

In addition, Internal Audit has shared with other campuses some of the University of Oregon’s best practices that they have developed with policies and procedures such as: established a standard rate that is to be applied across-the-board; student evaluation on an annual basis; client surveys; and inquiring of students verifying the per diem for which they signed.

Just recently, the director of athletics at the University of Oregon implemented a sanctions policy in the event there are any further infractions.

Vice President Lehmann inquired if Internal Audit is doing the same audit at the other campuses.

Ms. Snopkowski stated that all four regional campuses were examined and it was noted that the rates varied across-the-board between sports and between the students and coaches and that is going to be corrected. PSU actually didn’t have a problem because they have a standard rate. At OSU, IAD hasn’t had an opportunity to examine these issues.

**Oregon State University**

The first audit, already discussed, was the FERPA audit. The second audit was of student housing construction. This was a special request where the facilities management asked Internal Audit to examine the vendors’ or contractors’ records. Internal Audit has a “right to audit” clause in all construction contracts, as well as many other contracts. In this case, OSU thought there were overcharges from the contractor. After analyzing the books, it was found that this was the case with regard to personnel and benefit charges. OSU is using this to negotiate the final billings with that contractor.

The overhead charges were an issue that related to the amounts that were charged to self-supporting and designated operations. IAD requires a charge of 8 percent overhead in accordance with state regulations.

Regarding information technology equipment tracking, Ms. Snopkowski mentioned that about a year and a half ago, the Department of Administrative Services Risk Management Unit issued a report to one of the news agencies on all of the losses of equipment across-the-board for state agencies. All of the directors of Internal Audit
Executive Committee Meeting—Minutes

July 18, 2003

across the state were asked to look at some of the policies and procedures with regard to safeguarding these types of equipment. Internal Audit looked at two campuses: OSU and Western Oregon University. It was noted that there were some good controls in place and some new programs that were put in place at Oregon State. One was a “stop tag” program, which is essentially like a permanent tattoo placed on fixed assets that provides an inventory accounting for assets (even if it’s under the $5,000 capital threshold). It also deters theft and provides a record with authorities (the state police) in the event that the item is recovered. It’s a program that will be shared with the rest of the campuses.

Also, OSU has implemented some new procedures with regard to minor equipment. These are items under $5,000. IAD has to account for these for insurance purposes in the event the whole building is lost. Previously, Internal Audit was doing detailed inventories of pens and pencils - not doing that level of detail for every pen but getting a general idea of office supplies. The inventories were behind because of administrative overload. OSU worked with the Controller’s Office and Internal Audit to look at ways to streamline the procedures. They developed one that is acceptable to the state, taking percentages of buildings. The high-risk items are tracked with the stop tag and the rest through percentages of building value.

The application security review, as previously discussed, was very similar. The Dixon Recreation Center was similar to the PARS and intoCareers at the UO. Again, there has been improvement and all of the corrections have been made with regard to follow-up.

There was a relatively low compliance rate with the cashiering problem. There were still some issues open with safeguarding of the vault and the lack of written procedures. The Vice President for Finance and Administration requested an audit. IAD found that there was a transition in the bursar position (the bursar is basically the head cashier). As a result of that transition, compliance with these recommendations had not occurred. OSU has requested another bursar review in January.

To Mr. Barnett’s question if it had worked, Ms. Snopkowski replied that it had – all monies were accounted for.

Ms. Wustenberg inquired if this was an area that would be fraught with the opportunity to commit fraud.

Ms. Snopkowski stated that it was. “Many times what happens with vaults is people think they need to have three or four people having access to the vault for segregation. Actually, that’s not the appropriate way to do it. You want to have accountability and have at least one person and another person for back up. What’s happening in a lot of these circumstances is that it’s too widespread and monies are taken and it can’t be determined who took it. We’re hopefully moving forward with that at OSU and all of the other campuses.”
Portland State University
The financial aid review concerned an employee who made an unauthorized change to a family member’s account and increased the amount of grants that the individual was eligible for, when in reality the person wasn’t eligible for it. PSU detected this before disbursement, which was really critical. And, as a result of that, Internal Audit analyzed the controls to make sure they were in good shape. This is the largest federal award that the Oregon University System receives. As a result, external auditors come here every two years and look at this program in detail. If our controls weren’t in place, we could have been subject to a Department of Education program review.

Ms. Lehmann asked if it was PSU that detected this inconsistency. Ms. Snopkowski replied that, “PSU detected it before the disbursement.”

Western Oregon University
Internal Audit had three special requests, as well as the information technology audit that was talked about previously. The first review received a lot of discussion in the press. This was the president’s residence complaint that came in from the Secretary of State’s Audit Division. The complaint was three-fold: one was that there was excess and profligate remodels done to the president’s house; second, that there was personal use of a vehicle; and third, that the house was remodeled to accommodate a home business. Internal Audit found that all three of those comments were unfounded. It was noted that there were some cost overruns with regard to labor charges, specifically the student labor. There was a lack of supervision with the students over the summer period and, as a result, work had to be redone. There was a high level of facilities workers’ overcharges, too. The facilities director has implemented new standards over utilizing student workers and has discussed the issues of lack supervision with the supervisors. Overall the allegations that were made were not substantiated.

The second review was the faculty travel review. In this case, a faculty member did not attend a conference. He went to a conference on behalf of Western Oregon University and never attended that conference. As a result, he owes the University $1,526. The University is currently working through Human Resources in seeking recovery.

The next report was the bookstore review. This is really the only fraud of any significance in this report and is primarily a misappropriation. Internal Audit was able to ascertain that there was approximately $81,721 of misappropriation. This may be higher but there are no records so there is no way to go back and get all of that information. This primarily stemmed from a lack of segregation over cash deposits as well as accounts receivable. One person was responsible for all aspects, including collection, totaling the deposits, storing the deposits, making out the deposit slips, and sending those over to the cashier’s office. No one was monitoring to ensure the completeness of the daily deposits. As a result, a lapping scheme was occurring. This is a scheme that auditors see quite often, taking one day’s cash receipts for personal benefit and then using the next day’s cash receipts to put into the previous day’s deposits. This underscores why daily completeness is a very important control and there needs to be segregation over that.
This situation continued for a little over a year. IAD noted changes in several areas of the operation, including an improved inventory system and expansion of the inventory system.

Mr. Barnett asked whether charges were brought against any employees. Ms. Snopkowski replied, “Right now the case has been referred to the district attorney’s office, as well as the Department of Administrative Services. Our last conversations with the district attorney was that records had been requested, personal bank records had been requested, and they are anticipating taking this to the grand jury this summer.”

President Conn stated, “All of this occurred before I arrived and was duly noted by the business office. The employee who is responsible for the missing monies was dismissed before I arrived. Since that time, in recent months, the bookstore manager has been discontinued, and we'll have a new bookstore manager. There is no suggestion that the bookstore manager was involved in this, but she was managerially responsible when this took place. We have dealt with this, I think, very properly in terms of personnel actions. The other thing I would mention is that I'm amazed at how slowly the prosecutorial system works because we have shared this with the state prosecutor long ago. I have personally talked twice expressing our eagerness to have this resolved and, for whatever reason, there continues to be a delay in the prosecution going forward. You can imagine why we want this to take place. This has been hanging for two years and when it comes out in the papers, it’s going to be as if it happened yesterday, and that we have ‘not been forthright in dealing with it.’ I shouldn’t be commenting on the court system - I’m sure they have a lot of work to do, but when this does come out in the paper, and surely it will and should, all of you should at least know that this has been dealt with long ago and we’re eager for the courts to deal with it properly.”

Ms. Snopkowski mentioned that an Internal Audit report was issued late last fall or early winter, and IAD went back into the bookstore operations about three months ago to take a look at improvements that have been made. There are still controls that need to be put in place and, as President Conn stated, there is a new bookstore manager being hired. “We think that the needed controls have been put in place to prevent this type of lapping scheme from reoccurring and we’ll do a full-fledged follow-up review later on after the new bookstore manager has been in the position several months.”

Ms. Snopkowski went on to state that the IT equipment tracking was similar to the OSU report performed.

**Southern Oregon University**

The FERPA report is similar to what has been discussed before. Regarding RVTV (Rogue Valley Television), this was a special request by the senior management at Southern Oregon University, and was proactive in nature. They called Internal Audit to examine improvements that could be made in the operation.
Ms. Snopkowski continued by stating that the operation has experienced a lot of growth. They have a new fiscal manager, the operation is moving into a new building and incurring new debt. Internal Audit noted that some improvements and cost accounting standards needed to be improved and worked with management to identify that for future billings. Also, there was some improved monitoring that could take place over accounts receivable that they have with the various constituents across the county. Again, this was a special request and the noted improvements and internal controls are all being taken in consideration. Asking Internal Audit to come in this regard is something that should be commended.

The last two reviews were physical plant and athletic cash receipts follow-ups. The physical plant was a billing recommendation. The athletics cash receipt follow-up was a prior financial irregularity, but in both of those cases, all of the recommendations had been put into place.

**Oregon Institute of Technology**

Internal Audit did two quick follow-ups over the past six months. There was a prior procurement card fraud with ASOIT and a lack of segregation over the procurement card and monitoring. The department has restructured the way that they deal with procurement cards and all of the recommendations have been implemented.

The CITS general controls was an IT audit. When IAD went back to do the follow-up, it was noted that there needed to be more specific recommendations. IAD is working with the ITS unit on some password controls and implementing the last parts of the disaster recovery plan.

Ms. Snopkowski continued, “You may note that there wasn’t any listing for Eastern Oregon University throughout the report. [W]e didn’t get an opportunity to get to Eastern over the past six months. It’s very important that Internal Audit actually gets coverage of all of the campuses on a routine basis. Every time the universities undergo an accreditation review, the team looking at fiscal standards wants to meet with the director of Internal Audit and look at the independence, look at the routine coverage. We realize this is an issue, so what we have done is reorganized our department . . . to provide more coverage to the regional campuses.”

Director Richmond asked how it was decided what kind of audit on each campus. Ms. Snopkowski replied that Internal Audit has an audit plan with scheduled audits. “We also leave a portion of time open for special requests. And then we have a portion of FTE for information technology.”

Vice President Lehmann asked, “If the campuses request you to do a special audit, do you then alter your schedule to do that immediately? Respond to that request immediately?”

Ms. Snopkowski replied that it depends. “I do have a file of audits that have been requested that we didn’t deem necessary. I consult with Senior Vice Chancellor
Anderes on shifting priorities. Before we would shift a scheduled audit, we would
determine whether or not that was necessary. If it is something that is a potential fraud,
we will shift our schedule. But we do have an allotment of hours for those types of
things, so we don’t book 100 percent of our time on scheduled audits. If we did, there’d
be too much and we’d be off-base all of the time.”

Director Lehmann asked if there were any problems that are cropping up that the seven
institutions have in common or where patterns are emerging. Ms Snopkowski answered
that the only thing that was noticed was with team travel with athletics.

Ms. Snopkowski reported on the Chancellor’s Office reviews. This is a review the
Secretary of State requires when there is a change in administrator of a state agency.
Senior Vice Chancellor Anderes requested that Internal Audit do a review to make sure
there were no risks or open issues before the review occurred. No issues were noted
with the fiscal transactions of Emeritus Chancellor Cox, although some
recommendations on policy clarification within the Chancellor’s Office were made. As a
result of that report, the Secretary of State has deemed the report “adequate” and
doesn’t plan on doing that review. (A copy of that report went to the president of the
Board.)

Ms. Snopkowski continued with the ETIC follow up review. Internal Audit noted in the
review that there were still some inconsistencies in the information on the scorecards
(the performance information) that the Board receives. The Board receives fiscal as well
as academic performance information in the way of performance scorecards. Each
campus was doing a good job of pulling together information, but they were using
different standards, criteria, and cut offs. Internal Audit recommended that the
Chancellor’s Office develop some standards in conjunction with the campuses to apply
consistency. The Chancellor’s budget function, as well as Institutional Research, is
assisting in this effort, and this should be corrected by the September reporting period.
Otherwise, the current structure at ETIC, with reporting to Academic Affairs, appears to
be operating effectively. Internal Audit issued a number of draft reports that will be
presented at the next meeting.

Director Richmond asked, “When you’re doing the audits, do you primarily look at state
funds that are used? Or, for example, athletics, I assume that there’s some foundation
money in addition to state money, and there is also grant money, and things like that.
Do you mainly focus on the state’s, or how broadly do you look?”

Ms. Snopkowski replied, “We look at all funds. We don’t go into the foundation
transactions, but we do look at all types of funds. We will look at grant funds and at
various restricted funds, as well as the state funds. It depends upon what the focus of
that review would be, based upon a risk assessment.”

Ms. Lehmann asked if foundations conduct their own audits to which Ms. Snopkowski
answered that they undergo an external financial audit “similar b what we get with
Moss-Adams. They don’t have Internal Audit functions. The president at OSU asked me
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to go in and look at a review a couple years ago with the ServiceMaster agreement so we do have an opportunity, but it’s not a routine function of Internal Audit. That’s actually something that has been raised by legal counsel and myself to take a look at and make some recommendations.”

Director Wustenberg stated that this came up some years ago and the Board was told that foundations were separate entities. “But it was as a result, I guess, of questions asked about activities at foundations and their relationship to the university. And, while there may be an area where they feel they are independent of the University System, everything they do reflects on the University System and the university itself. So, I sense there’s kind of a gray area. Legally, my question is, do we, as the Board, have a responsibility to track those transactions between the foundation and the university, which is their sole purpose of being the foundation: to benefit the university.”

Ben Rawlins, OUS General Counsel, replied, “Currently, perhaps, the easiest way to look at the lines is that once the money comes into the university, then our responsibility for Internal Audit is complete. We do not, at the current time, go into the foundations, recognizing their separate legal status, but instead rely on their own auditing functions to show that the monies that they have disbursed are consistent with their receipts. Many of them are designated, so yes, that is where the lines are currently drawn. There are some other national auditing principles that will change that in the near future, but right now those are the lines. So far they work well.”

Audit Plans for July 2003 to December 2003
Ms Snopkowski continued her report by stating that over the next six months, Internal Audit is going to be concentrating primarily on the scheduled audits. The other main project will be taking a look at an internal control assessment project that came out of the accountability project that was a report that Arthur Andersen presented to the full Board about a year ago. This is a proactive review. All of the campuses and the Chancellor’s Office are doing an internal control self-assessment project in the survey. The controls over really high-risk transactions, including cash, procurement card, fixed assets, and some purchasing of minor equipment will be examined. The goal of this project is to share best practices and create some synergy among the campuses through sharing manuals, and sharing centralized procedures and analytics.

Risk Assessment Model Approach
Ms. Snopkowski discussed the risk assessment process, which is basically a seven-step process that Internal Audit goes through on an annual basis. She stated, “We take a look at where our resources are going to be focused over the next year. Our scheduled audits are approximately 40 percent of our time. When we looked at our risk assessment, there are a total of 230 units within OUS that we can audit. And, of those 230 units, there are 45 high-risk units. The model is new this year and we implemented this as a result of our peer review and some of the new internal auditing standards. We ranked all of these 230 units to determine which are the highest risk units and where we should be spending our efforts. The overall scores are a combination of subjective
matters, but it’s mainly quantitative in nature and really shouldn’t be used as an overall ranking of management’s performance.”

An example is OSU, which is a higher risk because of the large amount of research funds that they receive, which yield a higher financial and compliance score across many of the units, as well as the strong land-grant mission focus on agriculture, and their recent focus on engineering. And OIT’s executive management is high because there are a lot of program funds running through the executive management organization codes when we look at the fiscal systems. It’s not, again, necessarily a reflection of management.”

Ms. Snopkowski stated that there aren’t any units listed from the Chancellor’s Office. One reason for that is Internal Audit covered a lot of the high-risk units over the past year, including ETIC, purchasing, budget operations, human resources, and personnel. Some of those will be on Internal Audit’s next calendar year assessment, including, perhaps, cash and bond management. Academic Affairs has taken on a number of high dollar grants.

Internal Audit’s goal is to cover 13 of these units in the next six months. Four have begun and another four will be started in the fall, with planning for the remainder beginning in the November/December time frame. The 2004 calendar assessment will be done in the November time frame and the new plan will be presented to the Board in January 2004. During this time period, IAD will send out an email to the Board members asking if there was anything they’d like to focus on or consider as part of our risk scoring.

Dr. Richmond asked, “What do you actually look for? You’ve identified the areas that either have high volume, high budgets, and so what do you look for? Is it similar to the other audits you’ve just talked about?”

Ms. Snopkowski answered that Internal Audit does a risk assessment, “then an analysis of the fiscal information. We take a look at the types of financial transactions that are going through. If the department has a lot fixed assets, for instance, that’s a higher risk. So, we’ll go in and look at fixed assets. If the department has a lot of grants, there’s a compliance risk and a fiscal risk, so we’ll focus on that department with regard to grants. Payroll—if there’s a lot of payroll transactions, we’ll take a look at that. So, a large component is fiscal and we’ll analyze it from that perspective. Another large component is compliance. We will look at the internal control structure over some compliance areas. We’ll do a data detailed environmental health and safety, but what we’ll do is ask some general questions on is the university doing a good job of informing and providing the tools that faculty members need to ensure compliance and that we don’t have any risks to find. So, those are the types of things that we perform. We also will take a look at operations as a whole. If there’s a recharge operation, for instance, where there’s billing, fabrication operation, we’ll take a look at the cost accounting associated with that. We will take a look at the operation, the nature of the operation, and get input from management and determine where the risks are. That’s where we’ll spend our effort.
We want to make sure that those risks are mitigated so that we don’t have any problems going forward.”

**Organizational Changes and Resource Allocation**

On a final note, Ms. Snopkowski spoke about the organizational changes that are taking place within IAD. The reason for the changes is that all of the campuses, as well as the Chancellor’s Office, have undergone budget reductions. IAD also will be looking at expanded coverage to the regional campuses. IAD has eliminated the audit manager position and, as a result, has added a staff auditor position, which will primarily work with just the regional campuses. To accommodate key supervision duties over internal auditing standards and planning documents, IAD has promoted two senior auditors and given them more of a senior supervisory role. They will continue to do audits, but 50 percent of their role will consist of some of the duties of the audit manager.

This summer, IAD is hiring a staff auditor. Currently, the IT position is on hold until the budget is a little bit more solidified.

Ms. Wustenberg commented that she noted in the newspaper that our System is one of the three in the state that is being credited with doing the financial audits correctly and meeting the standards. “I want the audit division to know how much I appreciate your efforts. The ultimate responsibility lies with the members of the Board, and it’s quite a responsibility. So I am grateful for your help.”

Director Lehmann added, “I think we were all really gratified to see that . . . public recognition.”

Ms. Snopkowski went on to touch on the fact that Secretary of State’s Audit Division is completing their financial statement audit, as well as their A-133 audit. As part of some of the new auditing standards they have to face, they are required to contact the Chancellor, as well as the Board president and Committee chairs to ask if there are areas of any financial irregularities they would like to speak to. IAD will work with the Board’s Office to make sure that meetings are arranged.

Ms. Lehmann asked if IAD’s working relationships with business staff at the universities were cooperative and if IAD collaborated on these things.

Ms Snopkowski replied that IAD has a very good working relationship with all of the vice presidents as well as the directors of business affairs. “A lot of the times, people are apprehensive when auditors go out there to a different unit, and they have really been advocates for our services in helping the units understand the importance and nature of the work, and that we don’t have a real ‘got you’ approach. It’s been really a good working relationship with the vice presidents and directors of business affairs.”
3. **ADJOURNMENT**
   Meeting adjourned at 9:05 a.m.

Virginia L. Thompson  
Secretary of the Board

James T. Lussier  
President of the Board