

COLLEGE & UNIVERSITY

# AUDITOR



## New Perspectives in Audit



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**Blockchain and Higher Education Applications: What Accountants and Auditors Need to Know (Part 2)**

**Auditing Travel and Entertainment Using Data Analytics**

**How Staff Hiring Practices Can Put Your University at Risk**

**The Yellow Book Encourages Auditors to Embrace Their Internal 'Control Freak'**

**Piecing Together the Puzzle of Auxiliaries at Your Institution**

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ACUA members are invited to submit letters and original articles to the editor. Go to [www.ACUA.org](http://www.ACUA.org) and click on the Resources – College & University Auditor journal for further guidelines. The editor reserves the right to reject, abridge or modify any advertising, editorial or other material.

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#### ANSWER KEY

- 1) BLOCKCHAIN  
2) YELLOW BOOK  
3) AUDITATION  
4) STAFF HIRING  
5) INTERNAL CONTROLS  
6) TRAVEL AND ENTERTAINMENT  
7) AUXILIARIES  
8) AUDIT COMMITTEE  
9) NICHE  
10) DATA ANALYTICS

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# LETTER FROM



## THE EDITOR

By Sonja Erickson, CIA, CGAP  
Editor

As I write this, we have said goodbye to 2018 and hello to 2019. Like most people, at this time of year my thoughts turn to fresh starts, hopeful resolutions, and new perspectives. In this spirit, the contributing authors for this Winter issue of *College & University Auditor* offer plenty of new perspectives and fresh ideas for auditing in higher education.

The outside eye of an auditor can offer college and university leaders a new perspective on risks. This is evident in Todd Kucker's case study of how auditors at the University of California—Merced worked with university leaders and faculty to correct loose and discriminatory hiring practices. While new policies and procedures were implemented, Kucker argues the most important change was the shift in leadership's perspective from hiring for expediency to understanding hiring risks and controls. Likewise, David Terry makes the argument that auditing auxiliary services can provide university leadership with a new perspective on the risks these areas can pose to higher education.

As auditors, we also can resolve to keep our skills fresh and to use new tools, techniques, and perspectives in our work. To that end, Allison Stephens and Joseph Sunbury provide a compelling argument that chief audit executives can encourage audit committees to be more effective and responsive to leadership simply by presenting audit information in a new way. Kyle Sax advocates that higher education auditors consider developing a specialization, or a professional niche, as an important step in our professional development, and Leita Fanta leads us through the changes in the 2018 version of *Generally Accepted Government Auditing Standards* (the Yellow Book), including its new emphasis on internal control standards.

In his second installment on blockchain, Sean Stein Smith makes the case that, as new, disruptive technologies become transformative tools in the business of higher education, auditors must consider how this technology will impact our work. Finally, Ricardo Murillo offers suggestions for new ways to use data analytics to audit travel and expense claims.

I encourage you to read all of these great articles, and hope they give you new perspectives and fresh resolve for your audit work this year. Also, I encourage you to share what you learn! You can submit an article, post on Connect ACUA, or volunteer to develop an ACUA Kick Starter to share your expertise, experience, or new lessons learned. We would love to hear your perspective!

Sonja Erickson, CIA, CGAP  
*Lead Auditor, Office of Internal Audit & Consulting Services*  
*University of Missouri System*

# LETTER FROM

## THE PRESIDENT



By  
Justin T. Noble, CIA  
President

Howdy, Friends! I trust this edition of the *College and University Auditor* hits your desk while you are knee-deep in some value-added audit activity. Meanwhile, your all-volunteer Board of Directors and committee members are also working hard to try and ensure our activities are adding value to both the Association and in your daily work. It truly is a work of the heart! I see, on a daily basis, our committees and taskforces pouring their hard-earned time into projects to push the Association forward.

The Partnerships Committee has been hard at work marketing the Association toward other like-minded associations and companies. Since we last published our journal, we solidified a new relationship with EDUCAUSE that is already bringing more expert information technology knowledge to our ranks. The partnership with EDUCAUSE brought two new speakers to Audit Interactive in Savannah, and we published an article in EDUCAUSE's professional journal highlighting ACUA and our higher education focus. Future endeavors are already being planned to continue to leverage both associations' strengths.

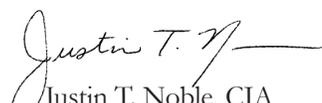
Additionally, on the partnerships front, we agreed to our first Platinum Strategic Partnership with Baker Tilly. Baker Tilly and ACUA have established a trusted and valuable partnership. Baker Tilly has, and will continue to be, a key resource for extending our educational offerings both at conferences and webinars. We are excited to continue our longstanding relationship with this outstanding team.

Next, a substantial amount of effort is being poured into updating our conference offerings. With the successful launch of Audit Interactive and the upcoming refresh of AuditCon, we are working hard to ensure our conferences are relevant, fresh, and financially sound. We are working on multiple fronts including conference format, speaker expectations, content selection, and event networking. We have committed to being willing to listen to our members, try new suggestions, and work toward creating events that are spectacular.

Lastly, I would like to highlight the amazing amount of work being spent on updating our website. We will soon launch a new online presence that is more than just a new look. As part of an entire redesign, we are changing the back-end engine and content management system in addition to looking at how we deliver information to our membership and market ourselves to the general public. I dare say almost every volunteer will, at some point, spend at least a few minutes assisting us in our website redesign efforts.

As you can see, value-add is where we all want to be and value-add is where we are working hard to spend our precious volunteer hours. I hope you are excited and maybe more so, I hope you are inspired to step up and volunteer to serve on one of our committees which are doing these great activities to move the Association forward.

Happy Auditing,

  
Justin T. Noble, CIA  
*ACUA President*  
*Assistant Chief Audit Executive*  
*Texas Tech University System*

# Blockchain and Higher Education Applications: What Accountants and Auditors Need to Know (Part 2)

By: Sean Stein Smith



## ABOUT THE AUTHOR

**Sean Stein Smith** is an assistant professor at Lehman College (CUNY), a member of the AICPA Leadership Academy class of 2017, was named a 40 under 40 by CPA Practice Advisor in 2017 and 2018, and is a member of the Advisory Board of the Wall Street Blockchain Alliance. Sean regularly appears as an expert contributor on blockchain, cryptocurrencies, and other emerging technologies for China Global TV's live business programming. He contributes his research and analysis on blockchain applications for accounting and business to the official IBM Blockchain site - Blockchain Unleashed. He is also an instructor with the Business Learning Institute and consults with the AICPA to develop and deliver blockchain and technology related content. Sean presents often on blockchain (and other emerging technologies) and its implications on the profession. His work and analysis of accounting, blockchain, emerging technologies, and the evolution of the accounting profession has been featured in dozens of practitioner and academic publications and presentations. Additionally, he is the author of numerous books focusing on accounting, technology, and how the profession will change moving forward. He can be reached at [drseansteinsmith@gmail.com](mailto:drseansteinsmith@gmail.com) or [@seansteinsmith](https://twitter.com/seansteinsmith).

Blockchain technology has captivated the attention of accounting and audit professionals like no other recent technology platform. Attempting to balance the hype and realistic use cases, cut down on unhelpful buzz and tamp down the potential over-excitement surrounding this tool is a challenge all practitioners must be aware of in the current environment. **Part 1, “Blockchain Overview: What Auditors Need to Know,”** published in the Fall 2018 issue, addressed the fundamentals of blockchain technology, including drawing a distinction between the two largest categories of blockchains, public and private. In this article, the applications and implications for higher education will be discussed, but it is important to acknowledge that this is not merely an academic or theoretical conversation. Higher education is, for lack of a better phrase, big business. With thousands of institutions of higher education and combined revenues in tens of billions of dollars, maintaining accurate information is of paramount importance.

## HOW BLOCKCHAIN CAN TRANSFORM HIGHER EDUCATION

With the rate of investment and interest continuing to increase over time, building on the billions of dollars and thousands of individuals already tasked with implementing blockchain solutions, blockchain may be able to transform and improve higher education record-keeping and tracking of data. Although every institution and the personnel employed therein are different, there are several categories that do appear ripe for disruption with the increased implementation of blockchain tools:

- 1. Degree verification** – Higher education, as previously stated, is a big business. For many, it is a high-stakes investment that can make the difference between obtaining a satisfactory quality of life and not. Degree fraud, which includes “diploma mills” and fraudulent or unearned degrees, is being uncovered even at large publicly-traded organizations, and serves as proof of how error-prone current systems are. An immutable record of who has graduated from what institution, with what degree, and at what time, would go a long way towards reducing instances of fabricated educational records.
- 2. Credit transfers** – Transfer students make up a substantial percentage of college students across the country, and the inefficiency associated with the current system of transferring and recognizing credits can cause frustration for all parties involved. A system enabling the tracking of college credits in a standardized format would reduce confusion and uncertainty. For example, remember that the Bitcoin blockchain mandates all information be uploaded in a standard format. Additionally, it would free up personnel from verifying credits manually, putting together tuition invoices, and reconciling degree-in-progress records. Instead, auditors and other accounting professionals could be reassigned to more forward-looking and strategic analysis.

...blockchain may be able to transform and improve higher education record-keeping and tracking of data.

3. **Extra security on continuing education certificates** – In the current business landscape, the importance of continuing education, digital badges, and certificate programs are trends that only appear to be increasing in importance. Although many of these certificates are offered cooperatively by established institutions of higher education and reputable partners, there is always a risk of misrepresentation. While accountants and audit professionals employed in the higher education sector may not be directly involved in these programs, the implications of weak controls have a direct financial and reputational effect on the institution and everyone involved. Leveraging the immutable nature of blockchain offers a direct benefit to institutions offering such programs, as well as institutions developing certificate and other non-traditional educational programs. As technology and other forces continue to change the business landscape, the importance of tracking, verifying, and communicating digital badges, credits, and continuing education certificates will only become more important.
4. **Creating a paperless experience** – Even with many blockchain experiments still in beta or pilot program phases, there is a tremendous potential for blockchain to cut down on both the manual labor and paperwork involved in higher education processes. By its very nature, blockchain is a computer-first, cloud-based platform for analyzing, securing, and communicating information. It is difficult to imagine a scenario in which such qualities are more important than in the higher education landscape. On top of pressures from numerous external forces, the financial implications of increased efficiency cannot be ignored; blockchain can, and already is, reducing time spent on manual processes and confirmations across organizational lines.

The time is now to learn, adapt, and engage with this technology platform and its implications.

Blockchain may seem like an intimidating topic, considering the large amount of investment, coverage, and analysis in the press, but it is an area in which every accounting and audit professional can add value to an organization. Higher education, a high-stakes and information-dense industry, is a sector of the accounting profession ripe for disruption. Understanding blockchain fundamentals, illustrated and documented in Part 1 of this series, and being able to communicate how they apply to institutions of higher education are essential skills for accounting and audit professionals across the board.

The time is now to learn, adapt, and engage with this technology platform and its implications. Please visit the AICPA website and contact your state's CPA society for more information on blockchain, how it works, and the affects it will have on a variety of professions.

# Auditing Travel and Entertainment Using Data Analytics

By: Ricardo Murillo

Most people are honest, but it only takes a few employees taking advantage of an unwatched system to start a culture of non-compliance. When looking at exceptions, are you able to determine whether an employee that used their travel and entertainment (T&E) card to fill up their car while on vacation was an isolated incident? Perhaps it was due to a misunderstanding of the policy that needs to be communicated better. Or, maybe it is a habitual problem. Chances are, if you are not analyzing 100% of transactions, that answer may not be one you can stand behind.

Broadening the scope of data being examined helps bridge gaps and allows you to see fraud schemes that would be impossible to detect otherwise.

Audit Strategies

A culture of misuse that goes undetected can be quite costly for any organization. While T&E may not seem like a significant area to impact the profit and loss margin, in some organizations total annual T&E administrative expenses are second only to payroll (operating expenses). Data analytics has become the go-to tool for analyzing and testing data to prevent misuse and fraud.

Appropriate data analysis tools, like CaseWare IDEA, allow the auditor to:

- Examine large volumes of data in different formats, including print reports and PDFs
- Run multiple queries to look for and extract unknown information
- Analyze 100% of transactions to uncover improper claims and expenses
- Report findings in various formats, including graphs, charts, and other visualizations

## START WITH GOOD DATA

Auditors must have a clear understanding of the business and T&E processes, including procedures for approving, recording, and reimbursing T&E expenses. Results from prior audits, including key findings and an updated status of both open and closed issues, can be helpful. Broadening the scope of data being examined helps bridge gaps and allows you to see fraud schemes that would be impossible to detect otherwise. Your request should include:

- Employee reporting forms
- Travel advances
- Authorization levels
- Travel agency booking
- Budgets
- Credit card transaction data
- Merchant databases including Merchant Category Codes (MCCs)
- Foreign exchange currency rates
- Employee master file including file of employees with details such as employee name, identification number, department, vacation schedule, and employment status



### ABOUT THE AUTHOR

**Ricardo Murillo** is a data analysis and programming expert with extensive experience employing IDEA and IDEAScripts to streamline audits and forensic engagements. He leads the Technical Services team at Audimation and can be reached at [ricardom@audimation.com](mailto:ricardom@audimation.com).

Additionally, if the organization uses an expense management system (e.g., Concur), the extraction of data can be automatic and analyzed to ensure compliance. Expense management systems allow employees to submit expenses for approval and/or reimbursements online.

## **T&E ANALYTICS TO UNCOVER IMPROPER CLAIMS AND EXPENSES**

In T&E engagements, the accuracy and propriety of the expense report transactions, as well as the integrity and reliability of the performance management information system, are key objectives. Various volume and service level agreements may require testing as well. Here are some effective tests to perform:

### **Duplicates**

- Duplicate claims across T&E (e.g., expenses charged as both an out-of-pocket and as a University credit card charge)
- Same claim across multiple employees' expense reports (e.g., groups who traveled together to the same location via taxi but submitted individual receipts)

### **Airfare Claims**

- Costs outside of policy or costly late bookings
- Determine whether appropriate seat class is used
- Instances where an employee exchanged a first-class ticket for an economy seat but did not return the balance
- Employees claiming to travel to multiple cities on the same day
- Last minute ticketing when unnecessary, especially cases where it resulted in being bumped to first-class travel

### **Car and Gas Mileage**

- Match claims for personal vehicle usage and rental car for the same period and/or trip
- Mileage claims made for the same period as car rental/gas/other transportation
- Compare mileage claims to actual distances

### **Lodging and Meals**

- Suites with multiple employees requesting reimbursement for the same room
- Lodging expenses different than the normal amount (by location, month, etc.)
- Employees who arrive earlier or stay additional nights when unnecessary
- Stays at expensive hotels (work with management to set the amount, such as \$250- \$300 per night)
- Returning home early but claiming to have stayed in a hotel
- Duplicate claims for meals (e.g., multiple persons, same day, same location)
- Meals charged by employees who were not traveling for business reasons

### **Entertainment**

- Alcohol when company policy prohibits it
- Low job grade charging items to entertainment
- Large per person average expensed (e.g., expensive wine or alcohol)
- Excessive expenses (e.g., sporting events, theater tickets, cruises, green fees, etc.)

### **Suspicious Expenses**

- Unusual MCC codes (e.g., sports centers, nightclubs, retail stores, etc.)
- Purchases made on weekends or holidays
- Expense claims for periods when the employee is on vacation
- Airfare payments/claims with no corresponding hotel or meal charges

- T&E claims that never materialized or were canceled
- Credits that have not been expensed but have corresponding debits that have been reported/reimbursed

#### **Additional Analytics**

- Identify the top 20 spenders to pinpoint which cardholders have the highest total purchases
- Identify cards used by terminated employees and/or employees on leave of absence
- Check for unused or duplicate cards, which may be causing unnecessary liability

### **MONEY-RECOVERY TEST: BEST PRACTICE FOR FRAUD PREVENTION**

The challenge is knowing what to look for and using the right tools to make the process both efficient and effective. For example, data analytics can be used to compare card charges against expense report totals. Gather 12 months of credit card and expense report data then summarize and compare the totals. If expense report totals are significantly higher than credit charges, this may indicate fraud or non-use of the card. If expense reports are significantly lower than credit card charges this may indicate personal or misuse of the card.

Auditors who have access to data analysis technologies can easily analyze large volumes of transactional data and are more likely to identify the root causes of why procedures are missing, deficient, or defective. They are also in the best position to generate cost savings and recoveries or identify fraudulent activities.

Findings can be shared with management to determine where the greatest risks are, and to help management determine which tests to run on a regular basis to prevent future infractions and improve controls or efficiencies.

When an organization is working toward a problem-free environment, it provides a sustainable process to proactively look for and address issues. When employees know every transaction is being monitored, it creates a catalyst for behavioral changes within the organization.

### **LEARN MORE ABOUT USING DATA ANALYTICS FOR T&E AUDITS**

Join us at the ACUA Midyear Conference in Savannah, GA for a special hands-on workshop on Travel & Entertainment Fraud (Track 3). If you are not planning to attend, join us online for our half-day course starting February 26, 2019. Visit the Training and Events section of our website for upcoming courses at [www.audimation.com](http://www.audimation.com).

ACUA members also receive preferred pricing on IDEA software, support and maintenance, and IDEA training. Contact [sales@audimation.com](mailto:sales@audimation.com) for details. We look forward to helping you put data analytics to work!

The challenge is knowing what to look for and using the right tools to make the process both efficient and effective.

# How Staff Hiring Practices Can Put Your University at Risk

By: Todd Kucker

In 2005, the University of California (UC) opened a new campus in the San Joaquin Valley just outside the city limits of Merced, California. UC Merced quickly grew to be one of the largest employers in the rural area. The success of this new University was built on the pioneering spirit and “get it done” attitude, which was instilled in the campus by its first employees.

This rapid “policy-free” growth resulted in a risk that few people anticipated. After a decade of operations, the campus whistleblower hotline was bombarded with complaints of discriminatory hiring practices. The overall theme of the complaints was that you had to know someone to get hired at UC Merced.

While it may be typical for unsuccessful job candidates to complain of unfair recruitment processes, the campus’ inability to disprove allegations of discriminatory hiring practices was ultimately putting the growth of the University’s research at risk. Recruitment documentation in the hiring system showed an incomplete picture of why a particular candidate was hired. More specifically, recruitment documentation often did not adequately explain the following:

- Why particular candidates were considered qualified or unqualified for the position;
- Why some candidates were interviewed while other qualified candidates were not;
- Why a candidate was hired while other candidates were passed over.

Discriminatory hiring practices can put a university at risk of fines, penalties, and even debarment from federal funding.

Compliance



## ABOUT THE AUTHORS

*Todd Kucker has been the Director of Internal Audit at UC Merced since 2011. Todd has ten years of experience in Higher Education Internal Audit as he was part of a two-person audit staff at the University of the Pacific in Stockton, California before becoming Director at UC Merced. He has more than twenty years of internal audit and accounting experience that have included E&J Gallo Winery, Safeway, Del Monte Foods, AAA, and as an Audit Manager at an RSM McGladrey network firm. Todd holds a Bachelor of Arts in Economics from the University of California at Berkeley and a Master of Business Administration from Texas A&M University. Since 2005, he has taught undergraduate and graduate courses in accounting and finance.*

But how were staff hiring practices putting UC Merced’s research at risk? The Department of Labor has an enforcement arm called the Office of Federal Contract Compliance Programs (OFCCP). The responsibility of OFCCP auditors is to evaluate the personnel practices of organizations that receive federal funding. Discriminatory hiring practices can put a university at risk of fines, penalties, and even debarment from federal funding. Hiring documentation should show that candidates from protected categories received the same opportunities as other candidates. To prove this, documentation should show that hiring decisions were based upon objective selection criteria (e.g., the candidate’s education, work experience, skills) rather than relying upon subjective criteria (i.e., the candidate was a good fit).

Campus leadership took the issue very seriously. For the long-term health of the university, the growing campus would need more and more qualified candidates and could not afford a reputation of rigged recruiting. One problem for UC Merced was that the Human Resources department was understaffed and campus departments became accustomed to managing their own new employee recruitments without much oversight. Compliance requirements and documenting the hiring process were not priorities.

To bring the problematic hiring practices to light, Human Resources, in partnership with the Office of Compliance, requested help from Internal Audit. After putting together a test plan similar to an OFCCP evaluation, Internal Audit first focused on the hiring practices of two campus departments. Further requests from leadership eventually increased the scope to include staff recruitments in all campus divisions.

During the audit, a large number of staff recruitments were reviewed to determine whether objective criteria was used to select which candidates would be interviewed and hired. After comparing resumes with job requirements, the audit identified instances where qualified candidates were passed over for unqualified candidates. Department hiring managers would sometimes skip over more qualified candidates for a candidate familiar to them and claim that they already knew the candidate was a good fit for the department. Poor hiring practices were identified in many campus departments and it was apparent that these practices had become part of the overall campus culture.

The results of the audit confirmed what was already suspected—drastic changes were needed! Internal Audit, Compliance, and Human Resources worked closely to come up with solutions. Internal Audit presented the audit results to campus leadership, including all Vice Chancellors and Deans. Detailed reports were written for Vice Chancellors, which highlighted issues identified in their divisions. Compliance communicated the risks and potential fines resulting from the hiring issues. Human Resources proposed new staff hiring policies and procedures. Additional Human Resources recruiters were needed to provide adequate oversight.

The main obstacle to change was that campus departments were used to handling their own recruiting process without Human Resources' involvement. Without considering the risks, department managers expressed concerns that involvement by Human Resources would only slow down the hiring process. Realizing the risks and potential long term impact of poor hiring practices, campus leaders eventually became supportive of the proposed staff hiring changes.

After many months of communicating the proposed new hiring practices and working closely with department managers to come up with workable solutions, new staff hiring policies and procedures were formally issued and implemented. Internal Audit later completed a follow-up audit to verify that the new processes were mitigating the risks related to discriminatory hiring practices. Change takes time at universities. Since the first discussion with Internal Audit, implementing new hiring procedures and the eventual follow-up spanned more than two years. In summary, to begin changing UC Merced's hiring culture, collaboration between the three groups (Human Resources, Compliance, and Internal Audit) was necessary, as well as working across the university's functional divides.

Realizing the risks and potential long term impact of poor hiring practices, campus leaders eventually became supportive of the proposed staff hiring changes.

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# The Yellow Book Encourages Auditors to Embrace Their Internal ‘Control Freak’

By: Leita Hart-Fanta, CPA, CGFM, CGAP

I have lovingly been called a ‘control freak’ a few times by my friends and family, but they are blissfully unaware of what my profession as an auditor entails and how auditors eat, breathe, and sleep internal controls.

Directed by the Government Accountability Office’s (GAO) Yellow Book standards, public sector auditors consider internal controls in almost every step of the audit process. At a minimum, auditors must consider internal controls when gaining an understanding of the audit subject matter, assessing risk, designing testing, drawing conclusions, and reporting findings.

With the 2018 version of the Yellow Book, internal controls will now be on auditors’ minds even more! The biggest change to the 2018 Yellow Book for performance auditors is the inclusion of references to the 2014 Green Book, an internal control standard. This article presents key clauses regarding internal controls that you and your team should be aware of in the 2018 Yellow Book.

With the 2018 version of the Yellow Book, internal controls will now be on auditors’ minds even more!

## FORMAL TITLES OF THE YELLOW AND GREEN BOOKS

The Yellow Book is another name for Generally Accepted Government Auditing Standards (GAGAS). The 2018 version of the Yellow Book has a new format and includes a variety of new paragraphs to align the Yellow Book more closely with AICPA standards.

The Green Book is another name for Standards for Internal Control in the Federal Government (issued in 2014). The Green Book is the federal government’s version of the 2013 COSO (Committee of Sponsoring Organizations of the Treadway Commission) model of internal controls. The Green Book is the gold standard of internal controls according to the Yellow Book as well as the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

Both the Yellow Book and the Green Book are authored by the GAO, the legislative auditor for the federal government. You can find free copies of the Yellow Book and the Green Book on the GAO’s website ([www.gao.gov](http://www.gao.gov)).

## A FOCUS ON INTERNAL CONTROLS

By referring to the Green Book inside of the 2018 Yellow Book, the GAO is calling on auditors to:

1. Expand internal control documentation
2. Increase disclosures regarding internal controls in audit reports
3. Consider internal controls as the cause of findings

### 1. Expand internal control documentation

The Green Book breaks the five components of internal control (i.e., control environment, risk assessment, control activities, information and communication, and monitoring), which were included in the original COSO model published in 1992, into 17 new underlying principles. The 2018 Yellow Book asks auditors to document controls as follows:



#### ABOUT THE AUTHOR

**Leita Hart-Fanta, CPA, CGFM, CGAP** is the founder of YellowBook-CPE and the author of “The Yellow Book Interpreted” and “The Green Book: Standards for Internal Control.” She has taught seminars for over 500 audit teams and regularly teaches audit reporting and audit essentials courses for university, government, and corporate auditors.

**Section 8.40:** “If it is determined that internal control is significant to the audit objectives, auditors should obtain an understanding of such internal control.”

**Section 8.42:** “If internal control is significant to the audit objectives, auditors determine which of the five components of internal control and underlying principles are significant to the audit objectives...”

As a result, your documentation of internal controls needs to include the 17 principles as well as the five components. This will increase the volume of the internal control documentation significantly. However, it is not as bad as it sounds because you are only responsible for evaluating controls relevant to your audit objective.

Therefore, if you limit your objectives—both in number and in scope—you will reduce your documentation burden. Do you want some advice on writing limited objectives? Then check out the IIA’s “Engagement Planning: Establishing Objectives and Scope” Practice Guide at <https://tinyurl.com/IIA-Engagement-Planning-Guide> published in 2017. Additionally, the GAO is working on a tool to help auditors document the 17 principles for internal controls and anticipates having it ready in the spring of 2019.

## 2. Increase disclosures in the audit report

The GAO promotes the concept of transparency and encourages auditors to tell the readers of the audit report about the auditor’s responsibilities regarding internal controls. Now, the GAO asks auditors to address—you guessed it—the 17 principles in the audit report.

**Section 9.29:** “When internal control is significant within the context of the audit objectives, auditors should include in the audit report (1) the scope of their work on internal control and (2) any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed.”

**Section 9.30:** “If not some but not all internal control components are significant to the audit objectives, the auditor should identify as part of the scope those internal control components and underlying principles that are significant to the audit objectives.”

Again, more granularity and more volume. The more objectives you cover in your audit, the bigger this section of the audit report will be. (Side note: the objective, scope and methodology sections for GAO audit reports often run over six pages!)

## 3. Internal controls are the cause

The GAO is not just in the business of pushing auditors to keep up with the latest techniques and models; they are also willing to share their hard-earned audit wisdom, such as the five elements (also known as the “five C’s”) of a finding. The GAO puts solid legs on the concept of transparency by requiring auditors to use the elements of a finding to describe each reportable condition. The auditor describes any reportable condition they find in detail by sharing the condition, effect, cause, criteria, and corrective action (i.e., recommendation) for any issue.

Out of these five elements, the cause is often the most difficult to identify and support with evidence. Thankfully, the new Yellow Book gives us a key to writing a finding that can make it easier for auditors to find and support the cause:

**Section 8.129:** “The cause of a finding may relate to an underlying internal control deficiency...”

**Section 8.130:** “Considering internal control in the context of a comprehensive internal control framework, such as Standards for Internal Control in the Federal Government or Internal Control—Integrated Framework, can help audits determine whether underlying internal control deficiencies exist as the root cause of findings...”

This means that, ideally, the condition statement should state the problem and the cause statement should describe the control weakness that caused the problem. For example, if you find that the student financial aid office gave financial aid to ineligible students, the condition could say that

ineligible students are receiving financial aid and the cause is that no one reviewed the applications against eligibility criteria (i.e., a control weakness).

If the auditor ignores the advice of the GAO and starts with the control weakness as the condition, the cause ends up being vaguely personal and mildly insulting because it is hard to say why a control failed without blaming someone. For instance, if the condition is that no one reviewed the applications against eligibility criteria, where do you go with the cause? You might have to say that the student financial aid staff needs training (implying they are not too smart) or that they did not prioritize their work properly (a euphemism for poor time management).

Both of these causes are personal and hard to back up with evidence. Auditors following the Yellow Book performance audit standards assert that they used evidence to support their findings, as stated in section 9.03, “We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.”

By encouraging auditors to use the control weakness as the cause, the GAO is also, by default, encouraging auditors to perform two kinds of testing—a test of fact to support the condition and a test of controls to support the cause.

By encouraging auditors to use the control weakness as the cause, the GAO is also, by default, encouraging auditors to perform two kinds of testing—a test of fact to support the condition and a test of controls to support the cause.

## WHY ALL THIS HUBBUB ABOUT INTERNAL CONTROLS?

The GAO encourages auditors to be more thorough in evaluating internal controls. As a result, auditors will end up indirectly educating the managers of government-funded programs on internal controls and holding those managers to a higher standard. Better internal controls should lead to improvements in government programs and processes, which will ultimately be good for us all.

The renewed emphasis on internal control documentation is onerous, but it is good for you, program managers, and the taxpayer alike. The introductory letter to the 2018 Yellow Book sums this up nicely:

“Audits provide essential accountability and transparency over government programs. Given the current challenges facing governments and their programs, the oversight provided through auditing is more critical than ever. Government auditing provides the objective analysis and information needed to make the decisions necessary to help create a better future.”

## WHAT SHOULD A FORWARD-THINKING AUDITOR DO NOW?

The implementation date of the new Yellow Book is for performance audits beginning after July 1, 2019. Therefore, it is important to be prepared.

Does your whole team understand the 17 principles? If not, it is time to learn and embrace the principles, which is now necessary for internal control documentation. Stay on the lookout for GAO’s tool for documenting internal controls. In the interim, you could create something yourself and practice using it to document internal controls.

Look at how you structure your findings and ask yourself if your causes are valid. Are causes backed-up with evidence? Did you use a control weakness as the cause or as the condition? Make sure you are performing tests of both facts and tests of controls so that you can support your finding with evidence.

Please also take time to read sections 8.39-8.58 and 9.29-9.34 of the Yellow Book as the GAO has significantly revamped their requirements regarding internal controls in these sections. Make sure you feel comfortable that your team is on track to comply.

If you do all this, you can shrug off anyone that shames you and proudly declare yourself an ‘internal control freak.’

# Piecing Together the Puzzle of Auxiliaries at Your Institution

By: David Terry, CPA, CFE, CIA

Typically, internal audit departments do not allocate much of their department's audit hours to auxiliary operations, unless your institute of higher education has NCAA Division I athletics. This is primarily because most risk assessments of higher education institutions place auxiliaries in the moderate risk range category for a number of reasons. Auxiliaries typically do not receive large state or federal grants, have limited impact on research at universities, and are not responsible for overseeing financial aid funds. However, auxiliary operations can be interesting audit projects from time to time, and some auxiliary operations can feed into key controls and compliance processes that should be spot-checked and tested periodically. Some examples of risk areas related to auxiliaries include:

**Student Health and Counseling** – Student Health and Counseling centers or clinics are typically setup as auxiliary operations in institutes of higher education. Most Student Health and Counseling centers receive funding mainly from student activity fees, which can lead to some administrators assessing lower risk for these types of funds than general funds of the university, or federal or state grant funds.

However, multiple high-risk areas may involve your institution's Student Health and Counseling centers. For example, students suffering from a sexual assault may receive treatment and counseling from professional staff within your institution's Student Health and Counseling center. In addition, counselors and psychologists from Student Health and Counseling may contribute a critical function to your university's threat assessment processes and risk mitigation procedures for students dealing with mental health issues. With the risks related to opioid addiction in the United States, any controlled substances managed by Student Health and Counseling centers should be under heightened review for proper controls over drug diversion, as well as allow management to identify potential theft of controlled substances quickly. Lastly, these centers handle a broad array of personally identifiable information and possibly HIPAA (Health Insurance Portability and Accountability Act) data, depending on how your health and counseling center is established.

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**Housing and Residence Life** – Housing and Residence Life operations can have some unique processes that you may want to consider for a future audit. For example, Title IV financial aid funds may be a major revenue stream for a university and, therefore, high risk due to the negative impact on operations if this funding source were to become temporarily unavailable or significantly reduced. As such, an audit team should look for decentralized departments that may process transactions that affect Financial Aid's compliance processes. Another area to consider testing is how your higher education institution handles meal plan and dormitory room waivers for Resident Assistants receiving Title IV funds. Depending on how the job descriptions read for Resident Assistants, there may be a taxable fringe benefit situation for these waivers. In addition, auditors should review how



## ABOUT THE AUTHOR

*David Terry, CPA, CFE, CIA leads Portland State University's Internal Audit Office. He has more than 15 years of experience in auditing and also holds positions as an audit committee member on two Oregon governmental audit committees.*

the meal plan and dormitory waivers factor into the budgeted cost of attendance for financial aid awarding purposes.

Housing and Residence Life operations have different procedures during summer break when the majority of the institution's student body is away from campus. To help the department generate revenue and utilize dormitory facilities that would otherwise go dormant for a couple of months, Housing and Residence Life may manage summer conferencing and event services. Typically, the department seeks to house professional groups looking to hold an educational conference at your institution, but you may determine that some groups present significant risks to your university. For example, some groups' activities may not qualify for tax exemption under Unrelated Business Income tax regulations or may give rise to potential lodging taxes. Additionally, your institution may have risk exposure for areas that do not fall under your institution's insurance policy, such as when Housing and Residence Life allows summer conference attendees to stay a few days before or after a professional conference hosted at your institution (property damage may occur from an attendee's activities before the scheduled days of the conference).

**Property Management** – Your institution may have a department (or departments) that enter into leases for property intended for academic use or leased to retail businesses/non-profit organizations. Leases can be a great source of data to review if your audit department audits Clery Act compliance. Obtaining your university's population of leases is an effective way to check that your university is inquiring about and tracking any reportable crimes under the Clery Act for all locations that your university controls. In addition, your university's Financial Aid department periodically has to submit a form, Eligibility and Certification Approval Report (ECAR), to the federal government to report the usage of Title IV financial aid funds. Within the ECAR is a section that lists the addresses of qualifying Title IV academic programs operated by your university. This information in the ECAR can be a useful data source to check completeness of your university's Clery Act reporting and tracking processes. Moreover, the ECAR can help provide assurance over the completeness of leased property data provided for an audit project.

While your institution may be generating revenue from leasing space to businesses, there can be some risks or controls to review periodically for these operations. Examples can include, but are not limited to:

- Property tax exemptions
- Common area maintenance expenses and reconciling or allocating those charges to tenant accounts
- Lease payment amounts that may be based on sales of a tenant's business
- Insurance requirements and verification of insurance policies and coverage levels
- Cost escalation clauses in the lease agreement and controls used to ensure that the correct rate is charged to tenants

**Information Technology** – An area for potential data breach risk that sometimes gets overlooked relates to hard drives in leased copier and scanning machines. These hard drives may be setup to store sensitive data without encrypting the data after every scan or copy. In addition, it is important to determine if your organization has effective controls in place to secure the data on those hard drives before the machines leave your institution to help prevent or mitigate the risk of a data breach.

These are just a few reasons why you may want to dive into an audit project within your auxiliary operations in the near future.

# Cybersecurity Management in Higher Education

Every organization faces cybersecurity risks. Organizations typically plan their responses according to their legal and regulatory environment.



But what happens when an organization operates in **multiple environments?**

**Higher education institutions face this challenge.**



From the **variety of data...**

*Housing, financial aid, research and donation data*

...and the types of people who **collect and store the data...**

*Decentralized operations, including people with different skills and needs*



...to the different **standards, regulations** and **legal** requirements...

...and the **availability of funds** influenced by lawmakers, trustees and donors



These realities must be addressed as part of an overall cybersecurity management program.

Download our ebook at [go.bakertilly.com/LP=1367](https://go.bakertilly.com/LP=1367) to learn how to build a sustainable cybersecurity program in higher education.



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Accountants and Advisors

# Driving Change through the Audit Committee Agenda

By: Joseph Sunbury and Allison Stephens

Within the Nevada System of Higher Education, every Audit Committee agenda had looked the same for decades. Work plans were driven by historical data, findings often did not represent areas of significant risk, and Committee meetings elicited minimal engagement from stakeholders. Recognizing these limitations, the Chief Internal Auditor (CIA) and the Audit Committee Chair decided to overhaul the meeting agenda to help achieve their mutually identified goal of enhancing the Audit Department's relevance to the broader organization. Essentially, the CIA and Chair changed the allocation of the Audit Committee's time by updating its agenda to reflect a risk-based approach as they looked at the organization from a hierarchical perspective. They started by understanding the risks that were of greatest interest to the Board, moved down to senior leadership and, eventually, to the roots of the organization.

The CIA did not eliminate routine, but necessary, audits from the agenda. Instead, the results of those audits were moved into the Committee's consent agenda.<sup>1</sup> Now, the consent agenda includes routine, recurring items: meeting minutes, follow-up audits, and administrative items from external auditors. While the Committee still takes appropriate action to accept the items, moving them to the consent agenda provides the opportunity to devote more time and energy to discussion of higher-risk areas.

Another step taken to redirect Committee time was to change the presentation of other routine audits. Previously, the audits were presented in a long-form, narrative format that did not weigh the significance of the findings being discussed, making it difficult for Committee members to easily identify important information. Low-risk items were presented as though they carried the same weight as high-risk items. Today, these audit findings are presented using executive summaries that are shorter and concentrate on issues that factor in materiality.

Finally, the CIA and Chair added a sequence of new standing items to the agenda. The first items added related to Committee Development (i.e., annual orientation and ongoing education). The annual orientation agenda item occurs in the first meeting of the fiscal year, after updating board committee assignments. It includes an overview of the Committee Charter and history of the Committee as it relates to Enterprise Risk Management (ERM). The ongoing education agenda item is on the agenda year-round and offers an opportunity for Committee members to learn about audit, compliance, and risk management, as well as industry trends. This facilitates their understanding and consumption of the agenda items and the annual audit plan.

In addition to Committee Development, the CIA and Chair added a standing item for the Audit Department's updates. These updates include topics such as progress against the annual audit plan and changes to the Department that may impact its ability to complete the audit plan or to stay on budget. The CIA also highlights cross-functional collaboration and professional development. So far, the CIA has used this time to discuss the strategic direction of the Department in unique or emerging areas of risk, identifying how he will build capacity internally and externally. For example, the CIA advised the Committee

## ABOUT THE AUTHORS



**Joseph Sunbury** is the Chief Internal Auditor for the Nevada System of Higher Education. He received his accounting degree from The Ohio State University and is a CPA in Ohio. He

previously worked for a Big Four public accounting firm, publicly-traded companies in the gaming and steel industries, and most recently higher education. Joe believes strongly in the Internal Audit profession and enjoys collaboration with his colleagues, who help him learn something new every day.



**Regent Allison Stephens**, elected to the Board of Regents in 2012 (District 4, Clark County, NV), serves as chair of the Audit and Compliance Committee and Vice Chair of the

Business, Finance and Facilities Committee. She is a member of the Cultural Diversity and Title IX Compliance Committee and was appointed to the Subcommittee on Governance and Funding, part of the Nevada Legislature's Interim Study Concerning the Governance Structure of and Funding Methods for Community Colleges, in July 2013. In 2016, Regent Stephens was appointed to the State Board of Education.

1. A consent agenda is used to group routine, non-controversial items not typically requiring discussion or individual action by a governance committee into one agenda item.

about how the department created a resource to assist with an enterprise-wide information system installation, which required intensive focus during and immediately following its launch.

The final standing item added to the agenda was an open platform for discussing emerging risks. A large component of ensuring the Department's relevance is timeliness, and while a static annual audit plan may have the best of intentions, risks can and do change throughout the year. The Department and Committee needed a mechanism to make sure that changing risks remained on the radar. In addition to this platform for discussion by the Committee, the Department reserved a portion of the annual plan for special projects and requests so that when issues arise, the Department has the flexibility and agility to address the needs of the Committee in a timely manner. This standing item was also useful when the Audit Department updated its risk assessment process, as it allowed for Committee input when weighing newly identified risk factors.

While these standing items enhanced discussion of audit-related matters, the Committee also recognized a broader charge to provide centralized oversight of programs responsible for compliance with policies, procedures, and other requirements. This recognition led to the creation of a Compliance section in each agenda, allowing the newly created Compliance Department to provide updates and plans to the Committee. The Compliance Charter, separate from and parallel to the Audit Charter, allows the Committee to get updates on this important front with a familiar cadence.

All of these changes to the agenda resulted in more robust discussion at the Committee level. The Committee, as well as the institution stakeholders, has a growing level of confidence in the audit and compliance functions because they have seen their input, oversight, and direction yield better risk coverage. These changes provide the ability to relate the time spent in the Audit Committee meetings directly to ERM. The Audit Committee's agendas used to be of interest solely to this committee of the Board; however, the increased relevance of reviews has garnered interest from other committees, the full Board, and the institution. Currently, the Audit Department is participating in this cross-functional support, achieving our goal of being relevant to the broader organization.

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**Governmental Affairs**  
A sub-committee of the ACUA Partnerships Committee

*Governmental Affairs provides ACUA members with guidance on existing and upcoming legislation relevant to higher education.*

Financial Aid	Title IX
Information Technology	Research/Uniform Guidance

Visit us under [Resources](http://www.acua.org) at [www.acua.org](http://www.acua.org)

Thanks to the thoughtful responses from the ACUA membership in a recent survey, the Governmental Affairs sub-committee will focus its efforts during the 2018-19 year on the four "high-priority" areas identified above

Contact your Co-Directors with questions  
Marion Candrea ([marion.candrea@rutgers.edu](mailto:marion.candrea@rutgers.edu))  
Erin Egan ([erin.egan@rutgers.edu](mailto:erin.egan@rutgers.edu))

Volunteer Opportunities Available!

# Diversifying Your Portfolio While Creating Your Niche

By: Kyle Saxe

As an auditor in the world of higher education, you are constantly immersed in a multitude of various topics, even some that would not traditionally be considered auditable. Such topics can include banking, grading data security, or even hazardous waste. The diversity of being an auditor in the higher education realm is one of the draws of the job. Never knowing what is around the next corner or what areas of the institution will need review piques curiosity regarding what can be uncovered.

Keep in mind though, that having a niche is one thing that makes employees desirable. A niche provides the auditor with an area of expertise, one of specific substance. This expertise enables individuals to continue to learn and develop skills and establish credibility with others. Niches do not come easy, however, and there is a niche in knowing how to roll with the punches. Being flexible and knowing how to develop audit programs for an unfamiliar area is critical and may ultimately lead to the start of a newly found niche. It is important to know how to research and seek out experts in a particular field and create relevant audit steps to help develop a personal skillset.

Through auditing various departments within an institute of higher education, there are several lessons to learn—two of the most important are:

1. Be open-minded and prepare for the unexpected; it is always interesting to see what unfolds.
2. Every audit is different, even if it is the same audit as a prior year and the process remained unchanged, it is possible that only the surface was scratched. Be aware of the tiny details, as these can cause big changes. For example, was a new policy enforced? Was there turnover within the department and now there is a new client contact? Always be on the lookout.

If you are lucky enough to know what you love to do and have started to develop your niche, do not be afraid to go into it with tenacity. Take every opportunity to acquire more experience in a specific aspect of the auditing practice that speaks to you. For instance, Information Technology, which is growing and becoming ever more relevant in the auditing world, is an area of expertise that will be beneficial for any auditor. Therefore, if it piques your interest, continue to learn and develop your skills in this area. Look into the webinars, trainings, and any other professional education options you might have, but, most importantly, speak up. Tell those in your department, those in that field, your manager, or those in control of the audit plan, about your interest. Tell them that it is an area you find insight in, it is an area you enjoy, or even that it is an area where the department's involvement would be beneficial. The key is to get excited and show enthusiasm. It is hard to turn down someone who is confident about a decision and is showing excitement about her or his work.

For more information on ACUA webinars to help develop your professional skills, please visit [http://www.acua.org/CPE\\_Events/Webinars.asp](http://www.acua.org/CPE_Events/Webinars.asp).



## ABOUT THE AUTHOR

*Kyle Saxe is an auditor with the University of Wisconsin System. He received his Accounting Degree from the University of Wisconsin–Platteville and has over four years of higher education audit experience. This is Kyle's first published article.*



**AUDIT** Interactive

A Higher Education Collaborative Experience

March 24–27, 2019 Savannah, GA · Hyatt Regency Savannah



# From the Midyear Conference to Audit Interactive! The Revamp of an Established ACUA Conference

By: Nichole Pittman, Chief Audit Executive, University of Alaska System

As internal audit professionals in the higher education industry, we understand that continuous improvement and knowledge gathering is as critical for our effectiveness as assessing and communicating the risks that impact our colleges and universities. In fact, it is the attainment of knowledge that helps inform us of those risks. Knowledge attainment, combined with networking capabilities that ACUA provides for its members, helps us to build our higher education business acumen and produce effective audit outcomes.

It is the desire to provide the most optimal combination of knowledge and networking which drives the ACUA Professional Education Committee in its education offering endeavors. With this in mind, ACUA is excited to unveil a newly refreshed conference in March 2019! A team of volunteers has worked diligently to revamp the training offering formerly known as the Midyear Conference, but now has a new name: Audit Interactive—A Higher Education Collaborative Experience! However, this isn't just a new name on an old product. The team's efforts included surveying ACUA members, reviewing feedback, and implementing numerous changes to ensure ACUA offers the desired content in the delivery formats that are conducive to learning retention. Conference attendees will still benefit from aspects of ACUA conferences that they currently know and love, but they'll see some significant changes, such as:

- The ability to customize their training path by switching between tracks
- Course offerings with a session length that enables a deep dive yet still offers variety
- Four-hour course offerings during the first two days
- Two-hour course offerings during the final half-day
- Tangible “takeaways” from each course
- Increased networking opportunities while learning
- CAE roundtables for both small shop, large shop, and enterprise risk management
- Audit 101 for new auditors and for auditors new to higher education
- Introductory and Advanced courses on information technology auditing
- Introductory and Advanced courses on using IDEA
- Introductory and Advanced courses on research compliance areas

Conference attendees will still benefit from aspects of ACUA conferences that they currently know and love, but they'll see some significant changes.

We reached out directly to speakers to ensure delivery of the educational material needed by higher education audit professionals. As part of these efforts, we are also deploying a new speaker educational expectation model. Our speakers will break down each of their educational modules into three teaching outcomes:

- Learn – Attendees will learn the principle or topic
- Apply – Speakers will provide details on how to execute on the topic
- Collaborate – Attendees will have time to work together for a learning exercise or event

Deep dive sessions are organized by the topics below, but remember, you may switch between topics to build your custom training path!

1. Audit Skills
2. Information Technology and Security
3. Using IDEA
4. University Risks
5. Research

You won't want to miss this opportunity to earn up to 20 CPEs and return home with actionable items!

Please join us at Audit Interactive: A Higher Education Collaborative Experience in Savannah, GA, on March 24-27, 2019.

Visit the ACUA website to view the registration brochure and register online: [http://acua.org/CPE\\_Events/Audit\\_Interactive.asp](http://acua.org/CPE_Events/Audit_Interactive.asp)

Negotiated travel discounts can also be viewed using the link above.

#### **Register online by March 8, 2019**

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Members: **\$875**

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Non Members: **\$975**

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#### **Register onsite**

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Members: **\$975**

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Non Members: **\$1,075**

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We will kick off Audit Interactive on Sunday evening, March 24th, with a welcome reception. Show off your school colors while you catch up with your colleagues and ACUA friends and enjoy cocktails and hors d'oeuvres. This event will also be a great opportunity to meet new ACUA friends!



# Just for Fun — Word Scramble

❄️ ❄️  
Unscramble the letters below to uncover words related to the articles within this Winter issue!

1) OILCNBCAHK \_\_\_\_\_ ❄️

2) WEYLOL KBOO \_\_\_\_\_

3) MUDITAANIO \_\_\_\_\_

4) FASTF GHIIRN \_\_\_\_\_

5) TRAINNLE TCOROLNS \_\_\_\_\_

6) RTEALV DAN NMETTAEENNTIR \_\_\_\_\_

7) ESAAILIRXUI \_\_\_\_\_

8) DATIU TEMTCEMIO \_\_\_\_\_

9) ENHIC \_\_\_\_\_

10) TDAA TANCYLISA \_\_\_\_\_

Answer Key on Page 1



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# 2019 AuditCon



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September 15-19, 2019 | Baltimore Marriott Waterfront | Baltimore, Maryland



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