

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES**

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: April 15, 2003

Agenda Item:

FY 2004 Systemwide Risk Assessment

Proposed
Policy Change

Approvals
Required by
Policy

Other
Approvals

Monitoring

Information

Cite policy requirement, or explain why item is on the Board agenda:

Board Policy 1D.1, part 6, requires the Office of Internal Auditing to conduct a system-wide risk assessment each year.

Scheduled Presenter(s):

John Asmussen, Executive Director, Office of Internal Auditing

Outline of Key Points/Policy Issues:

External environmental factors and internal operational factors have been identified that could have a substantial influence on the system.

Background Information:

The risk assessment is intended to inform the Board of Trustees about potential consequences created by uncertainties in the external environment and internal operations. This information will be used as a foundation for the FY 2004 Audit Plan which will be presented to the Board of Trustees in June 2004.

**BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES
*INFORMATION ITEM***

FY 2004 SYSTEM-WIDE RISK ASSESSMENT

BACKGROUND

Minnesota State Colleges and Universities Board Policy 1D.1, Part 6, requires the Office of Internal Auditing to conduct a system-wide risk assessment each year. The system-wide risk assessment was distributed to college and universities presidents and the Chancellor's cabinet for their review in early April. The system-wide risk assessment, its purpose, and methodology are explained in the attached document. This risk assessment is being released two months prior to presenting the fiscal year 2004 audit plan to the Audit Committee.

Date presented to the Board of Trustees: April 16, 2003

**Office of Internal Auditing
System-wide Risk Assessment
April 2003**

MnSCU Policy 1D requires the Office of Internal Auditing to conduct a system-wide risk assessment each year. The risk assessment is intended to inform the Board of Trustees about the potential consequences created by uncertainties in the external environment and internal operations. It also serves as an important foundation for the annual audit plan which focuses the use of internal auditing resources.

This risk assessment represents the collective, professional judgment of members of the Office of Internal Auditing. This judgment was informed by interviewing college and university presidents to obtain their views on the most significant risks facing the system.

EXTERNAL ENVIRONMENTAL FACTORS

Environmental factors are beyond the control of MnSCU, but have a substantial influence on our operations. Some of the significant environmental factors that pose risks for the system are cited below.

Demographic Factors

- Access to higher education for certain subgroups, particularly subgroups traditionally underserved by higher education, may be threatened by the possibility of significant tuition increases.
- Campus locations may not align with anticipated population growth areas.

Economic Factors

- The prolonged economic recession may result in decreased state and corporate funding for higher education.
- Unemployed or underemployed persons return to college to learn new job skills. The increased enrollment from non-traditional students may exacerbate the access challenges created by funding problems.
- Union contracts may constrain budgetary solutions.

Social/Legal Factors

- State or federal lawmakers may enact mandates that have adverse consequences.
- Gangs, street people, and terrorists may threaten personal safety and state property.
- Executives may be vulnerable to increased legal and reputation damages.

Technology Factors

- Hackers and internal computer users may compromise data privacy provisions and access, abuse or destroy protected information.
- As technology companies develop new generations of infrastructure and software, existing systems (like ISRS) may become outdated and lose support.

Competition Factors

- Private colleges may gain support at the expense of public higher education.
- On-line education programs, particularly those offered by for-profit private colleges, may supplant campus-based programs. This may be particularly true for high profit, low investment programs such as business administration.

INTERNAL OPERATIONAL FACTORS

In contrast to environmental factors, operational factors are subject to the control of management. Operational risks may result from failing to respond adequately to a risk originating from an environmental factor. Operational risks also occur because the organization does not have unlimited resources and is faced with choices that may trade risks for opportunities. The following operational risks are organized by functional areas.

Cross-functional risks

- Reliable data may not be available for internal metrics.
- Inefficiencies may exist in operations and not be detected.
- Economies of scale may not be realized due to structural impairments to shared or regionalized services.
- The value of the Office of the Chancellor to the system may not be achieved or recognized.
- Current organizational structures for multi-campus institutions may be ineffective.

Academic Affairs

- Unnecessary duplication may exist in academic programs.
- Technical education programs may be losing their emphasis, particularly in consolidated colleges.

Finance/Facilities

- The allocation of funding may not be aligned with system priorities.
- Depleted reserves may challenge the financial viability of some institutions.
- Budget cuts and capital budgeting methods may discourage investment in capital repairs and replacements.

Human Resources

- Employee misconduct may escalate as a result of budget cuts and layoffs.

Information Technology

- Business continuity may be disrupted due to system downtime or degradation.
- Compliance with software licensing terms may be at risk at a time when licensors are seeking greater enforcement.

Many of these risks may be mitigated through efforts of system and institutional work plans. Internal Auditing will focus on residual risks when developing its annual audit plan to be presented to the Board of Trustees in June 2003.