

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

**Agenda Item Summary Sheet**

**Committee:** Audit Committee

**Date of Meeting:** September 16, 2008

**Agenda Item:** Fiscal Year 2009 Internal Auditing Audit Plan

- 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 Executive Director of Internal Auditing to present an audit plan for each fiscal year.

**Presenter at the Audit Committee meeting:**

John Asmussen, Executive Director, Office of Internal Auditing

**Outline of Key Points/Policy Issues:**

- Anticipates the same level of service as last year.
- Continues to support internal audit needs of Board of Trustees, Office of the Chancellor, and presidents.
- In January 2009, the audit committee must make a final decision on which colleges and universities will be subject to annual financial statement audits and select the topic for the system-wide Internal Audit study.

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

<b>BOARD ACTION</b>
FY 2009 INTERNAL AUDITING AUDIT PLAN

**BACKGROUND**

According to Board Policy 1.D., Part 6, the Office Internal Auditing must submit an annual audit plan to the audit committee. The fiscal year 2009 audit plan is attached.

The September meeting also will provide an opportunity for committee members to discuss other audit related priorities for fiscal year 2009 and beyond. Some decisions about audit coverage will need to be made in January 2009. The committee must select the colleges and universities that will be subject to annual financial statement audits (currently, the seven state universities and five of the larger colleges have annual financial statement audits). Also, it must select a topic for a system-wide Internal Audit study. Some possible topics suggested to date, include:

- Information Technology Operations
  - Project Management, including adherence to schedules and budget
  - Quality Assurance Testing
  - Data Warehouse
- Compliance with Board Policies & Procedures
  - Procedure 7.3.3 Credit Cards
  - Policy 5.20 Presidential Expense Accounts
- Spending on Diversity programs

Depending on the complexity and urgency of interest in these topics, the audit committee also could co-source or out-source some of the work.

**COMMITTEE ACTION:**

On September 16, 2008, the audit committee reviewed the draft Fiscal Year 2009 Internal Auditing Plan and approved the following motion:

**RECOMMENDED MOTION:**

The Board of Trustees approves the Office of Internal Auditing annual audit plan for fiscal year 2009.

*Date Presented to the Board of Trustees: September 17, 2008*

**Minnesota State Colleges and Universities**  
**Office of Internal Auditing**  
**Fiscal Year 2009 Annual Audit Plan**

According to Board Policy 1D.1, Part 6, the Office of Internal Auditing must submit an annual audit plan to the audit committee. Professional internal auditing standards require that the audit plan be based on a risk assessment to ensure that audit resources are focused on the most critical projects.

The Office of Internal Auditing abides by the budget process for the Office of the Chancellor. As a result, this audit plan is built on the premise that Internal Auditing will have the same staffing level as in fiscal year 2008.

An overview of the internal auditing activities proposed for fiscal year 2009 is attached at the end of this plan. Further explanation of these internal auditing activities and planned coordination with the external auditors is presented in the following paragraphs.

## **RISK ASSESSMENT**

For internal auditing purposes, a risk assessment is intended to support the selection of the highest priority projects using audit resources, specifically assurance services. It begins with identification of an audit universe which represents the population of potential audit areas. The MnSCU Office of Internal Auditing identifies a multi-faceted audit universe. The risk assessment has been organized to group potential audit projects into the following three categories:

**I. Comprehensive Assurance Services for Pervasive, System-wide Risks.** Audit coverage for two areas must be approached strategically to ensure that reasonable controls are established as a foundation for programs and operations.

- **Financial Activities** – In January 2005, the Board of Trustees approved a strategic plan for external audit services. This plan established the extent and frequency for auditing financial activities system-wide and at individual colleges and universities. Audit contracts for four colleges and two universities expire after the fiscal year 2008 audits are completed. Thus, the audit committee must decide whether the scope of individual college and university audits will continue in the future or be modified.

The financial statements provide the basis for determining the significance or materiality of financial activities. Because the effectiveness of internal controls is subject to change and possible deterioration, it is essential that basic assessments of these controls be scheduled on a recurring basis. Through fiscal year 2008, the most significant financial activities (system-wide financial statements and federal financial aid, and 12 of the largest colleges and universities) are scheduled for audit review by external auditors on an annual basis. Internal auditing supports those annual audits. The significant financial activities of the other 20 colleges and universities and the Office of the Chancellor are subject to audit once every three years by the Office of the Legislative Auditor. That three-year cycle is subject to change if circumstances warrant a more accelerated schedule at a particular institution.

The current audit scope was established to ensure that at least 60% of the MnSCU financial activity was examined as part of an individual college or university audit. The audits of the seven state universities and five colleges meet this 60% threshold. It could be met with a different mix of institutions or some of the larger colleges could be added to the annual audit schedule. A final decision must be made by January 2009 in order to allow sufficient time to issue a Request for Proposal and select audit firms.

- **Information Technology** – Information technology (IT) controls are subject to basic audit coverage as part of the annual audit of the system-wide financial statements. In prior years, the Legislative Auditor had been able to supplement that coverage and conduct periodic audits of higher risk IT operational areas. Staffing turnover, though, has limited the IT audit capacity of the Legislative Auditor and it has not examined MnSCU IT controls since 2006. Since that time, MnSCU IT operations have undergone significant structural changes and taken on increased organizational importance. Thus, it may be timely to arrange for IT audit coverage in some higher risk areas. A January 2009 decision on IT audit coverage will allow for services to be sought through a Request for Proposal, if warranted. Possible audit topics include:
  - Project Management, including adherence to schedules and budget
  - Quality Assurance Testing
  - Data Warehouse

**II. Selected Assurances Services for Other Compliance and Reporting Risks.** Audit coverage for other areas should be selected based on system priorities and criticality of information needed for making system-wide decisions.

- **Reliability of Accountability Measures** – As the organization moves closer to identifying its priority accountability measures, the criticality of having reliable data underlying those measures is heightened. Reliability is concerned with the consistency, stability and precision of data. In 2007, Internal Auditing examined the reliability of student success data, a vital centerpiece to the System-wide Accountability Framework. Additional assurances may be desired for other accountability measures selected by the Board of Trustees. These projects could focus on elements of the system-wide accountability framework or other areas of high interest to the board. For example, some trustees have suggested that a study of diversity spending might be a good topic.
- **Board Policy Compliance** – Board Policies and Chancellor Procedures are important mechanisms for governing institutional practices. Compliance related to finance and information technology activities will be considered as part of the audit plans identified in the preceding section. In 2008, Internal Auditing conducted a system-wide study of affiliated foundations. That project addressed compliance with existing policy provisions and raised additional issues that could be considered from a policy analysis standpoint. With the creation of the new policy compliance position in the Office of the Chancellor, there will be opportunities for Internal Auditing to work collaboratively on policy compliance topics. Other areas that have been mentioned as possible compliance topics include:
  - Procedure 7.3.3 Credit Cards

- Policy 5.20 Presidential Expense Accounts

**III. Ad-hoc Assurance Services to address immediate concerns or interests.** Planning cannot anticipate all future needs or interests. Accordingly, some audit resources must be reserved to direct assurance services to important issues that will be identified later in the fiscal year.

- **Management Priorities** – The Office of Internal Auditing serves the Board of Trustees, Chancellor, and presidents. Accordingly, this plan allows for the Chancellor and presidents to request assurance or consulting services that address particular risks that they wish to be examined. To the extent that Internal Auditing has available resources after serving the interests of the Board of Trustees, it will undertake projects requested by the Chancellor and presidents.
- **Emergent Issues** – Internal auditing is constantly scanning the environment to be alert for risks that may require audit resources. An example of emergent risks that require internal auditing services periodically are investigations. Other unforeseen programmatic or compliance matters also may emerge as meriting audit resources. As a result, much of this audit plan has been designed with the flexibility to allow for a reassignment of resources when more pressing issues arise.

## **SERVICES TO THE BOARD OF TRUSTEES**

The Board of Trustees created the Office of Internal Auditing to assist with fulfilling its fiduciary responsibilities. Based on a combination of requests from the board and the governance challenges faced by the Board of Trustees, Internal Auditing proposes to provide the following menu of assurance services to the board for fiscal year 2009:

- **Support External Auditors** – Internal Auditing has ongoing responsibilities for supporting the external auditors that examine the system-level financial statements and federal financial assistance programs and the 12 stand-alone institutional financial statements. This effort ensures that contracts with external auditors are affordable and that external auditors consider high risk financial transactions.
- **Test Board Expenses for Legal Compliance** - Internal Auditing previously conducted quarterly audits of board expenses for several years. Beginning in fiscal year 2008, Internal Auditing continues to assist with quarterly compilations of board expenses, but conduct its audit on an annual audit cycle. The quarterly compilations and annual audit report are submitted to the Executive Committee of the board through the Board Treasurer.
- **Monitor Progress toward Implementing Audit Findings** - It is important that the Board of Trustees have confidence that any problems revealed by audits receive appropriate attention. Internal Auditing monitors progress toward implementing findings identified in audits of financial statements and foundations conducted by CPA firms, financial and information technology controls audited by the Legislative Auditor, projects completed by the Office of Internal Auditing, state financial aid audits conducted by the Minnesota Office of Higher Education, and program reviews of financial aid conducted by the U.S. Department of

Education. It will provide exception reports to the board if adequate progress is not made toward resolving prior audit findings.

- **Reinforce Implementation of Board Policy 1C.2, Fraudulent or Other Dishonest Acts** – Since the board approved Policy 1.C.2 in June 2002, Internal Auditing has worked with the Chancellor’s Cabinet and presidential executive teams to implement its provisions. On July 1, 2008, a new Code of Conduct for employees was enacted as Procedure 1.C.0. Internal Auditing will continue to work with the Office of General Council on implementation of this new procedure.
- **Conduct studies that have significant system-wide interest** – Each year, Internal Auditing schedules a study of a topic of major system-wide interest. The risk assessment identifies some high potential projects that Internal Auditing could study in fiscal year 2009. Internal Auditing will recommend a project topic to the audit committee in January 2009.

Although most services provided to the board are in the form of assurance services, the Office of Internal Auditing makes consulting services and professional advice available to the Board of Trustees as requested. For example, Internal Auditing has assisted with planning Board of Trustees retreats in the past. Internal Auditing also reports to the board any significant violations of board policy or law, as required by Board Policy 1D.1.

## **SERVICES TO THE CHANCELLOR**

The Office of Internal Auditing is committed to supporting the strategic directions developed by Chancellor McCormick. Chancellor McCormick has requested Internal Auditing to complete a quarterly review of his travel and expense account (similar to the testing of board expenses). Other specific internal auditing activities will be designed to correlate to Chancellor McCormick’s work plan, as appropriate.

Internal Auditing activities designed to assist the Chancellor include:

- **Facilitate reviews of preparedness for presidential transitions** - Internal Auditing coordinates the work of cross-functional work teams from the Office of the Chancellor on these reviews. Transition reviews will be scheduled as presidential vacancies occur. Internal Auditing facilitated transition reviews at five institutions in fiscal year 2008.
- **Conduct fraud investigations, as requested** – Pursuant to Board Policy 1C.2, Internal Auditing services are available upon request of the Chancellor to conduct fraud investigations. These services are provided on an ad-hoc basis when and if fraud inquiries warrant investigations.
- **Assist Cabinet members with high risk areas** – Internal Auditing assists Vice Chancellors and other Cabinet members with addressing concerns about a variety of high risk areas. For example, at the request of the Vice Chancellor for Information Technology, Internal Auditing is represented on system-level committees concerned with IT security. The Executive Director of Internal Auditing actively supports the efforts of the other vice chancellors and

the Executive Director of Diversity and Multiculturalism, and the Executive Director of the MnSCU Foundation.

- **Support Ongoing Monitoring Activities** – Internal Auditing reports the status of unresolved audit findings to presidents at least twice per year. Also, a status report is provided to the Chancellor at the end of the fiscal year. The Chancellor uses the report as part of the annual presidential performance review process.

## **SERVICES TO PRESIDENTS**

As provided by Board Policy 1D.1, Internal Auditing services are available to college and university presidents upon request. The policy permits the communication of the results of these request services directly to presidents. Only significant violations of board policy or legal requirements, discovered during the project, would have to be communicated directly to the Board of Trustees. Assurance service projects have included topics such as budget and spending practices, financial operations, grant compliance, and cost studies.

In addition, the office has created an array of consulting services that are offered to colleges and universities. Past consulting projects have offered the following services:

- Facilitation services,
- Self-assessment workshops,
- Process mapping, flowcharting, and polarity maps,
- Organizational and process redesign services,
- Climate surveys, and
- Assistance with designing solutions to complex audit findings.

Internal Auditing also offers investigative and inquiry support services to presidents, as requested. Professional advice is available to any interested stakeholders.

Budget constraints require Internal Auditing to be selective about supporting presidential requests for assurance and consulting services.

## **COORDINATION WITH EXTERNAL AUDITORS**

The Office of the Legislative Auditor (OLA) has been a primary source of external auditing services for the System. Since shortly after the 1995 merger, the System has had a contract with the OLA to conduct financial audits of each college and university over a three year schedule. With the hiring of CPA firms to conduct financial statement audits, the role of the OLA has changed. The Legislative Auditor services now focus on the smaller colleges and universities that do not have annual CPA audits.

In April 2007, the Board of Trustees selected the firm of Kern, DeWenter, Viere & Company (KDV) to serve as the principal auditor of the system for the next three years. KDV will audit the comprehensive system financial statements, Revenue Fund financial statements, and federal financial assistance programs for the fiscal years 2007 – 2009. Internal Auditing works closely with KDV and provides significant technical assistance for this important project.

Internal Auditing also works closely with the CPA firms that audit the seven state universities and five of the largest colleges. The Executive Director of Internal Auditing negotiates service level agreements with each firm to ensure that audit resources are used efficiently and effectively.

## **TENTATIVE FY 2009 AUDIT COMMITTEE SCHEDULE**

### **September 2008**

- Review Internal Audit of Affiliated Foundations
- Approve Internal Audit Plan

### **October 2008 (special meeting)**

- Review Legislative Audit Results
- Review Internal Auditing Annual Report
- Discussion of the Roles and Responsibilities of the audit committee (Board Policy 1A.2, Part 5, Subpart E)

### **November 2008**

- Review and Approve Release of Audited Financial Statements

### **January 2009**

- Decide on institutions that will be scheduled for annual financial statement audits
- Select system-wide Internal Auditing project

### **March 2009**

- Select External Auditors for Institutional Financial Statement Audits
- Review Results of Annual Student Financial Aid Audit

Primary Client	Professional Services									
	Assurance	Hours	Consulting	Hours	Fraud	Hours	Professional Advice	Hours	Planning and Development	Hours
<b>Board of Trustees (48%)</b>	Audited Financial Statements	2,400								
	Follow-up and other Audit Services	1,700								
	Expense Reviews	200								
	System-wide studies	3,000								
<b>Chancellor and Presidents (43%)</b>	Presidential Transition Reviews	200	Request Work – Chancellor	900	Inquiries and Investigations	1,200	Contacts and Questions	1,200	Project Development	200
	Request Work – Chancellor	1,200	Request Work - Presidents	900						
	Request Work - Presidents	800								
<b>General (9%)</b>							Roundtables and Task Forces	400	Relationship Building	200
									On-going Risk Assessment	300
<b>Totals</b>		<b>9,200</b>		<b>1,800</b>		<b>1,200</b>		<b>1,600</b>		<b>700</b>
		64%		12%		8%		11%		5%

Major Projects Planned for fiscal year 2009

1. Support external auditors, Office of the Chancellor, and campuses with Financial Statement Audits
2. Support Board of Trustees with implementing governance initiatives, such as indicators, monitoring, etc.
3. Continue with implementation of policy on "Fraud and Other Dishonest Acts."
4. Conduct system-wide study of significant area (topic to be selected later in January 2009).
5. Support functional responsibilities subject to the oversight of the Vice Chancellors.

Other projects to be developed during fiscal year 2009

1. Supporting the priority needs of presidents and the Office of the Chancellor.