

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

**Agenda Item Summary Sheet**

**Committee:** Audit Committee

**Date of Meeting:** September 21, 2004

**Agenda Item:** Internal Auditing Annual Report

- 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 requires an annual report from the Office of Internal Auditing.

**Scheduled Presenter(s):**

John Asmussen, Executive Director, Office of Internal Auditing

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

- Audited financial statements for MnSCU institutions continued to expand
- System-wide study of Services to Traditionally Underrepresented Students completed
- Significant risk assessment conducted on Federal Student Financial Aid – Satisfactory Academic Progress
- System-level Accountability Framework continues to be implemented.

**Background Information:**

- The audit plan approved by the Board of Trustees in June 2003 provided the foundation for the internal auditing activities carried out in fiscal year 2004.

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

**BOARD INFORMATION**

**INTERNAL AUDITING ANNUAL REPORT**

**BACKGROUND**

See attached report

*Date Presented to the Board of Trustee: September 22, 2004*

# MnSCU Office of Internal Auditing Annual Report Fiscal Year 2004

---

*Submitted to the MnSCU Board of Trustees on September 22, 2004, as required by Board Policy I.D. Part 8.*

---

During fiscal year 2004, the Office of Internal Auditing continued to help the Minnesota State Colleges and Universities build a strong foundation for integrity and reliable information. Efforts to acquire audited financial statements expanded from the system-level to include twelve of the largest colleges and universities. The office spent considerable time on projects focused on high risk (Financial Aid – Satisfactory Academic Progress) and high interest (Services to Traditionally Underrepresented Students). It also facilitated efforts to develop the system-level accountability framework and provided other consulting services.

## **Assurance Services Requested by Board of Trustees**

The Office of Internal Auditing spent the majority of its time working on assurance services which focus on improving the quality and reliability of information. The following assurance services were conducted at the request of the Board of Trustees.

## **Audited Financial Statements**

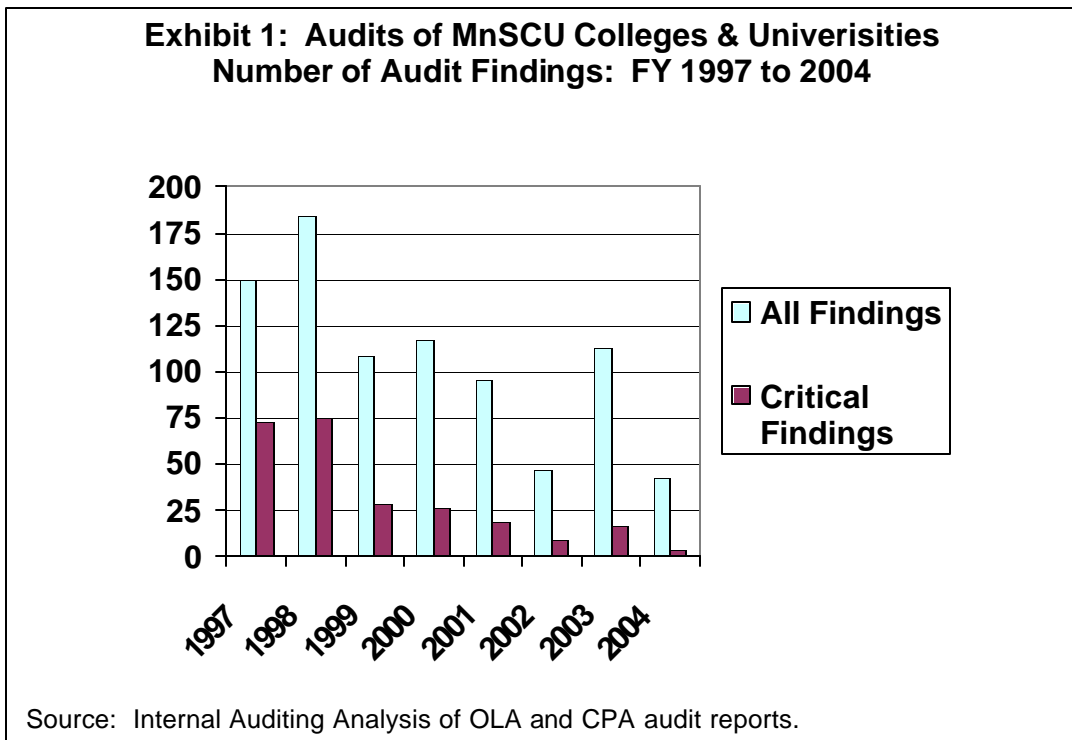
Fiscal year 2004 marked the third year that the Minnesota State Colleges and Universities contracted for an external audit of its financial statements. The external audit firm of Deloitte & Touche, LLP provided an unqualified (clean) opinion on the financial statements again. The Financial Reporting Unit of the Office of the Chancellor and the Office of Internal Auditing both worked very hard to deliver the audited financial statements. Following a competitive bidding process, the Board of Trustees selected the firm of Kern, DeWenter, Viere and Company to serve as the principal external auditor for the next three fiscal years.

In addition, audited financial statements were developed for twelve of the largest institutions: the seven state universities and five two-year colleges. This effort was expanded from six institutional audits last year. The financial statements for all twelve institutions received unqualified audit opinions from the CPA firms that the board appointed for the audits. The same firms remain under contract to audit these institutions for the next year, but the contracts for the original six audits expire at the end of the year. The board requested the Executive Director of Internal Auditing and the Vice Chancellor – CFO to evaluate the impact of the institutional financial statement audits and to offer recommendations for future financial statement audit coverage at the institutional level in December 2004.

**Internal Control & Fiscal Compliance Audits of Institutions**

Since 1996, MnSCU has had a contract with the Office of the Legislative Auditor (OLA) to obtain periodic finance-related audits of each college and university. In fiscal year 2004, the OLA audit coverage was adapted to complement the institutional financial statement audits conducted by CPA firms. The OLA audits focused on seven institutions that did not have financial statement audits by CPA firms. In fiscal year 2003, the OLA had completed audits of 10 MnSCU colleges and universities and in earlier years it had audited 12-13 institutions each year. This revised approach, though, resulted in more institutions having audit coverage in fiscal years 2003 and 2004. In fiscal year 2003, 16 institutions were audited by either a CPA firm or the OLA and in fiscal year 2004, 19 institutions were audited.

Exhibit 1 shows the history of audit findings for MnSCU colleges and universities. It shows that in the first year of adding institutional financial statement audits (fiscal year 2003), the total number of audit findings rose sharply. The increase in findings was partly attributable to more institutions being audited (16 versus 13 in prior years) and uncovering new issues with the rigor needed to prepare audited financial statements. Fiscal year 2004, though, showed substantial improvement. Again, more institutions (19) were audited than ever before, but far fewer audit findings were cited. These results are noteworthy and institutions and the Office of the Chancellor should be commended for the improvement. Internal Auditing will continue to monitor progress toward implementing the corrective action plans for these audit findings.



### **Information Technology Audits**

The Office of the Chancellor also contracted with the Legislative Auditor to conduct three information technology (IT) audits during fiscal year 2004. Two audits focused on newer applications that had been implemented – the Degree Audit Records System (DARS), Course Applicability System (CAS), and the Data Warehouse. Those audits found that the Information Technology Services Division needed to apply IT controls to these newer applications that were similar to more mature applications. The third audit was a follow-up on a fiscal year 2003 audit that cited problems with general security and access controls. The audit found progress, but recommended a more comprehensive planning approach for system security. Vice Chancellor Ken Niemi has developed corrective action plans to address these issues. Again, Internal Auditing will monitor progress toward implementing these audit findings and report exceptions to Chancellor McCormick and the Board of Trustees, as necessary.

### **System-level Accountability Framework**

During fiscal year 2004, Institutional Research presented data on the measures for five of twelve indicators in the system-level accountability framework. In April 2004, the Board of Trustees approved measures for the final seven indicators of the framework. A cross-functional task force of representatives from the Office of the Chancellor and colleges and universities had drafted the measures for the board's consideration. Institutional Research will be working to deliver data for the new measures and updated data for the initial measures. The measurement data is being built into a web site for the Board of Trustees to monitor progress toward implementing the strategic plan.

The accountability framework is an exciting development for the Minnesota State Colleges and Universities. It comes at a time when higher education is being called upon to deliver more accountability to its stakeholders. The State Higher Education Executive Officers Association is conducting a best practice study for higher education accountability. Its report is scheduled for release later in the year and will provide an opportunity to revisit the design of the system-level accountability framework.

### **Requested Assurance & Consulting Services**

The Board of Trustees, as demonstrated in policy 1.D., intends to share internal auditing services with the Office of the Chancellor and college and university presidents. Accordingly, Internal Auditing has made its services available to the chancellor or a college or university president upon request.

Although some requested services are for traditional assurance type audits, many requests are for consulting services. Internal Auditing will accept consulting engagements as long as no conflict is created with its auditing role. The office supplements its traditional audit skills with the services of an organizational improvement coordinator for consulting projects.

During fiscal year 2004, Internal Auditing conducted several consulting or assurance services which had been requested.

- At the request of the Chancellor, Internal Auditing and the Equal Opportunity & Diversity Division co-sponsored a study of Services to Traditionally Underrepresented Students. The study found that although many activities were underway to improve recruitment and retention of these students, data did not exist to evaluate the results. The Chancellor created a Diversity Task Force as part of the Leadership Council to address the study's recommendations.
- Internal Auditing also provided facilitation services to support several projects at the institutional level, including projects focused on academic leadership development, customized training, cost sharing for a multi-institutional facility, and a climate survey.
- Other kinds of recurring services provided by Internal Auditing include projects that:
  - Tested spending by the chancellor and Board of Trustees.
  - Coordinated completion of two presidential transition reviews at colleges hiring new presidents.
  - Assisted the Board of Trustees with compiling the performance evaluations of the Chancellor.

## **Fraud Inquiry and Investigation Support**

Internal Auditing assists with conducting fraud inquiries and investigations. When evidence of fraud is identified it must be dealt with appropriately. The results of most fraud inquiries and investigations were reported to affected presidents or the chancellor for action. Board policy requires that only significant violations of board policy or law, be communicated to the Board of Trustees. Internal Auditing did not find it necessary to report any such matter to trustees in fiscal year 2004.

At the request of the Chancellor, Internal Auditing conducted a system-wide risk assessment to identify potential problems complying with federal student financial aid regulations pertaining to satisfactory academic progress. A federal program review in fiscal year 2003 had identified a significant incident of non-compliance with these regulations at a state university. The risk assessment found potential problems at two other state universities and four colleges. As a result, the Office of the Chancellor developed a new board policy in this area. The board approved the new policy in March 2004. Internal Auditing has been working with Academic and Student Affairs to resolve the potential problems found by the risk assessment and to implement the new policy.

Also, during fiscal year 2004, Internal Auditing continued to assist institutions with implementing Board Policy 1.C.2 on Fraud and Other Dishonest Acts. Presidents have identified key contacts on campus for the policy. Internal Auditing has worked with these contacts to process evidence of potential fraud or dishonest acts and to improve awareness of the policy at the institutions.

Internal Auditing received reports on 103 incidents of potential fraud or dishonest acts during fiscal year 2004. About 67% of these incidents related to theft of public property. These matters were reported to local law enforcement officials. The remaining 34 incidents were primarily allegations of employee misconduct or misuse of property. None of these incidents, however, constituted a serious violation that warranted notification of the trustees as required by Board Policy 1.D.

## **Professional Advice**

Internal Auditing also makes itself available to offer professional advice on topics within its expertise. During fiscal year 2004, Internal Auditing fielded about 200 questions dealing with various topics. Common questions pertained to compliance with board policies and best practices. Internal Auditing representatives also sit on various MnSCU task forces and committees, including: Information Technology Round Table, Security Steering Committee, Student Data Integrity Group, the Finance User Group, Financial Aid Directors and System Office Quality Steering Committee. Internal Auditing also contributed expertise to a consortium of colleges committed to using an alternative method of self-assessment for accreditation.

## **Analysis of Staff Hours**

Internal Auditing has a staff complement of ten professional auditors and consultants and one administrative assistant. The majority of its professional staff, regional audit coordinators, is located on college or university campuses throughout the system. The audit coordinators serve 5-7 colleges or universities located in their region.

Fiscal year 2004 was the seventh year of existence for the MnSCU Office of Internal Auditing. Exhibit 2 shows the distribution of staff hours by year since the office was created.

**Exhibit 2: Internal Auditing Staff Hours – FY 1998 to 2003**

Fiscal Year	Staff Hours			
	Technical	Planning	Admin	Total
1998	2,403	631	1,038	4,072
1999	9,365	2,451	3,012	14,828
2000	11,734	1,454	3,606	16,794
2001	13,778	729	3,037	17,544
2002	11,529	1,077	4,151	16,757
2003	12,315	1,052	2,849	16,216
2004	13,823	413	2,461	16,877

Total staff hours generated in fiscal year 2004 was comparable to prior years. More staff hours were invested in technical services, though, as fewer hours were needed in administrative and planning areas.

Each year the Board of Trustees approves an audit plan for the ensuing fiscal year. In June 2003, the board approved a plan that estimated use of staff time. Exhibit 3 shows how actual staff hour percentages applied compares to the audit plan for technical services.

**Exhibit 3: Percentage of Internal Auditing Technical Service Staff Hours  
 July 1, 2003 to June 30, 2004**

Activity	Percentage of Staff Hours	
	Audit Plan	Actual
<b>Technical Services</b>		
Assurance Services	61%	59%
Inquiry/Investigations Support	8%	22%
Consulting Services	12%	9%
Professional Advice	11%	7%
<b>Planning &amp; Development</b>	8%	3%
<b>Percentage of Total Applied Hours</b>	100%	100%

Finally, it should be noted that Internal Auditing has committed the equivalent of two full-time positions to supporting the needs of external auditors (shown as assurance services). This level of support provides a cost saving measure to make the external audit contracts affordable and strengthens the external audit coverage by using Internal Auditing's working knowledge of the Minnesota State Colleges and Universities and its business systems.

### **The Future**

The corporate governance developments in the private sector deserve to be monitored for their potential impact on the public sector. In particular the federal Sarbanes-Oxley Act of 2002 presents some potential best practices to be considered. In January 2004, Internal Auditing, the Finance Division, and General Counsel provided a presentation to the Board of Trustees about the potential impact of the Sarbanes-Oxley legislation. The Executive Director of Internal Auditing will continue to work with the Audit Committee on practices that pertain to auditing. The Vice Chancellor – CFO will continue to work with the Finance/Facilities Committee on practices that pertain to financial reporting and internal control.

In June 2004, the Board of Trustees approved the Audit Plan for Fiscal Year 2005. It and other information on Internal Auditing projects are available at the office website, [www.internalauditing.mnscu.edu](http://www.internalauditing.mnscu.edu).