

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

**Agenda Item Summary Sheet**

**Committee:** Audit Committee  
2005

**Date of Meeting:** September 20,

**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:**

- Internal Audit activities were consistent with the audit plan for fiscal year 2005
- The Board of Trustees approved a strategic external audit plan in January 2005.
- The Audit Committee charter was strengthened to incorporate key provisions similar to the federal Sarbanes-Oxley Act.
- Additional work is needed by colleges and universities to improve the quality of student data needed to monitor diversity and multicultural activities.

**Background Information:**

- The audit plan approved by the Board of Trustees in June 2004 provided the foundation for the internal auditing activities carried out in fiscal year 2005.

**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 21, 2005*

# MnSCU Office of Internal Auditing Annual Report Fiscal Year 2005

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*Submitted to the MnSCU Board of Trustees on September 21, 2005, as required by Board Policy 1.D. Part 8.*

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During fiscal year 2005, the Office of Internal Auditing continued to help the Minnesota State Colleges and Universities build a strong foundation for integrity and reliable information. In conjunction with the Finance Division, it prepared a strategic external auditing plan that was approved by the Board of Trustees in January 2005. It worked closely with the Leadership Council Diversity Task Force to develop a project plan for monitoring efforts to serve traditionally underrepresented students. It continued to facilitate efforts to develop the system-level accountability framework. The office also completed fieldwork on a major system-wide project on capital construction administration (scheduled for presentation to the audit committee in December 2005).

## **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 2005 marked the fourth year that the Minnesota State Colleges and Universities contracted for an external audit of its financial statements. The external audit firm of Kern, DeWenter, Viere & Company provided an unqualified (clean) opinion on the system-wide financial statements. 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.

In addition, audited financial statements were developed for twelve of the largest institutions: the seven state universities and five two-year colleges. The financial statements for all twelve institutions received unqualified audit opinions from the CPA firms that the board appointed for the audits. In January 2005, the Board of Trustees approved a strategic external auditing plan that will continue a similar scope of auditing institutional financial statements.

Finally, in June 2005, the Board of Trustees approved an amendment to Board Policy 1A.2 that established explicit responsibilities for the audit committee to select and oversee the work of external auditors. These amendments represented practices that had

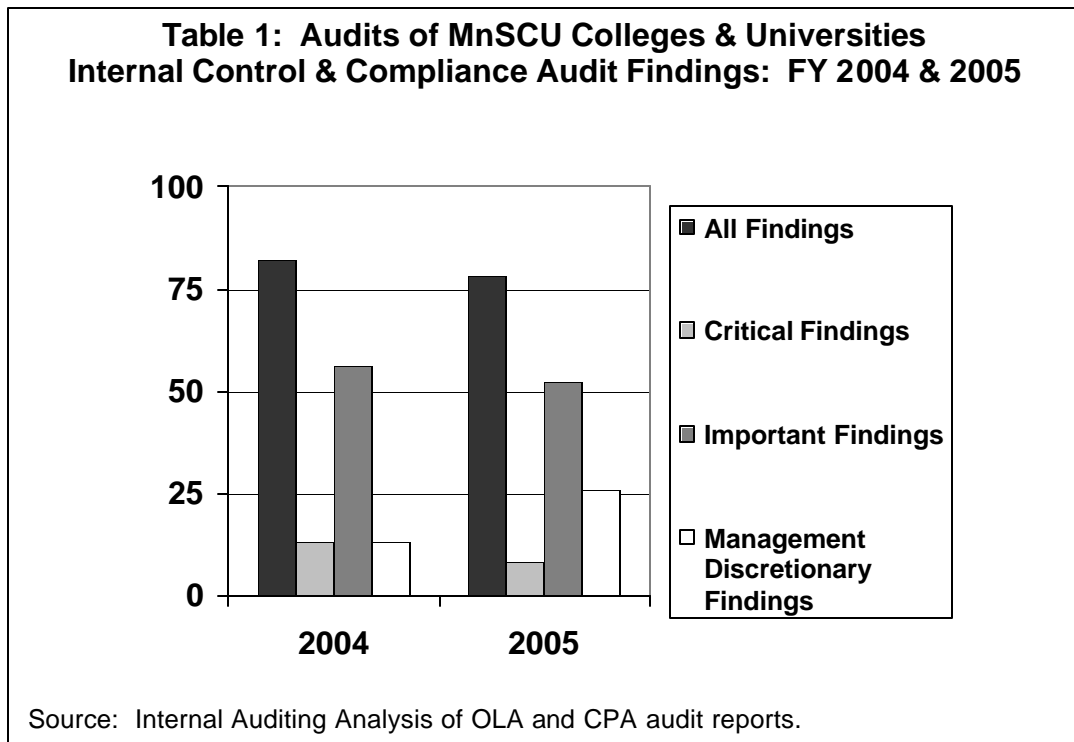
been in place for several years. In light of the impact of the federal Sarbanes-Oxley Act, though, it was determined that the practices should be set in board policy.

**Internal Control & Fiscal Compliance Issues**

The annual financial statement audit program ensures that the most significant internal control cycles are reviewed for universities and five of the largest colleges each year. In addition, the principal auditor for the system-wide financial statements reviews internal controls at about one-third of the remaining colleges each year.

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. Basically, the colleges that are not subjected to an annual financial statement audit are to be audited by the OLA on a three year rotating schedule. In fiscal year 2004, the OLA audits covered seven colleges. In fiscal year 2005, the OLA audits covered seven other colleges and the Office of the Chancellor.

The combined coverage of the CPA firms and the Legislative Auditor results in internal controls being reviewed at about 26 colleges and universities each year. Table 1 shows the audit findings cited as a result of this comprehensive audit coverage.



### **Information Technology Audits**

The Office of the Chancellor also contracted with the Legislative Auditor to conduct two information technology (IT) audits during fiscal year 2005. One audit focused on the application used to facilitate preparation of the annual financial statements – Fundware. The audit cited five findings that could improve the efficiency of using the software, but Internal Auditing classified these as management discretionary issues. The other audit focused on the risks associated with wireless access to college and university networks. This audit identified five serious issues related to wireless access (Internal Auditing classified three findings as critical and two findings as important). Vice Chancellor Ken Niemi initiated immediate actions to address the critical findings and took steps to disable wireless access devices that did not incorporate adequate security. Corrective action plans have been developed for longer term solutions to these issues. Internal Auditing will monitor progress toward implementing these audit findings and report exceptions to Chancellor McCormick and the Board of Trustees, as necessary.

### **Student Financial Aid Audits**

The federal government requires that student federal financial aid programs be audited annually. The principal external auditor for the system conducts this audit in conjunction with its annual audit of the system-wide financial statements. In addition, the Minnesota Office of Higher Education conducts several audits each year of state financial aid programs administered by colleges and universities. These audits cited a total of 51 findings in fiscal year 2005, compared to 66 findings in fiscal year 2004. Internal Auditing classified 9 of the 51 fiscal year 2005 findings as critical. These critical findings related mostly to remaining unresolved problems awaiting resolution with the U.S. Department of Education.

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

During fiscal year 2005, Institutional Research continued to develop data on the measures for the system-level accountability framework. Data has been developed for 23 of 31 core measures in the system. The data is available on a public web site. Also, Institutional Research has developed a prototype for an interactive web based query tool that is designed to facilitate data analysis efforts. During fiscal year 2006, responsibilities for monitoring the accountability data will be transferred from the audit committee to other standing committees. This transfer will help integrate use of this data more directly into the board's decision-making.

In a related development, the Minnesota Legislature appropriated \$400,000 to the Minnesota Office of Higher Education to design an accountability methodology for all public and private higher education institutions in the state. MnSCU has representation on the panel overseeing the design of this new statewide accountability effort. Efforts will be made to link statewide accountability to the MnSCU 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 2005, Internal Auditing conducted several consulting or assurance services which had been requested.

- At the request of the Vice Chancellor - CFO, Internal Auditing completed fieldwork on a major system-wide study of capital construction administration. The results of this study are scheduled to be presented to the audit committee in December 2005.
- Following its July 2004 study (co-sponsored with the Equal Opportunity & Diversity Unit) of Services for Traditionally Underrepresented Students, the Chancellor requested Internal Auditing to assist a newly formed Diversity Task Force of the Leadership Council in developing a plan to implement the study's recommendations. In recent months, the Leadership Council decided to elevate this task force to the status of a full committee. The Board of Trustees also is in the process of developing a standing committee devoted to Diversity and Multiculturalism. Internal Auditing will continue to work with these committees as requested.
- Internal Auditing also provided consulting services to support several projects at the institutional level, including projects focused on business practice improvement, developing a continuous improvement initiative for the Office of the Chancellor, and administering 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 four presidential transition reviews at colleges and universities 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. The Executive Director of Internal Auditing advised the Chair of the audit committee about fraud investigations and informed other trustees about incidents as warranted.

Also, during fiscal year 2005, 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 105 incidents of potential fraud or dishonest acts during fiscal year 2005. The majority of these incidents related to theft of public property. These matters were reported to local law enforcement officials. The remaining incidents were primarily allegations of employee misconduct or misuse of property.

## **Professional Advice**

Internal Auditing also makes itself available to offer professional advice on topics within its expertise. During fiscal year 2005, Internal Auditing fielded about 247 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: Business Practice Alignment Committee, Security Steering Committee, 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, are located on college or university campuses throughout the system. The audit coordinators serve 5-7 colleges or universities located in their region.

Fiscal year 2005 was the eighth year of existence for the MnSCU Office of Internal Auditing. Table 2 shows the distribution of staff hours by year since the office was created.

**Table 2: Internal Auditing Staff Hours – FY 1998 to 2005**

Fiscal Year	Staff Hours			Total
	Technical	Planning	Admin	
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
2005	13,646	223	2,566	16,435

Total staff hours generated in fiscal year 2005 was comparable to prior years. A significant majority of staff hours continue to be invested in technical services.

Each year the Board of Trustees approves an audit plan for the ensuing fiscal year. In June 2004, the board approved a plan that estimated use of staff time. Table 3 shows how actual staff hour percentages applied compares to the audit plan for technical services.

**Table 3: Percentage of Internal Auditing Technical Service Staff Hours  
July 1, 2004 to June 30, 2005**

Activity	Percentage of Staff Hours	
	Audit Plan	Actual
<b>Technical Services</b>		
Assurance Services	64%	69%
Inquiry/Investigations Support	8%	9%
Consulting Services	12%	10%
Professional Advice	11%	10%
<b>Planning &amp; Development</b>	5%	2%
Percentage of Total Applied Hours	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**

In June 2005, the Board of Trustees approved the Audit Plan for Fiscal Year 2006. It and other information on Internal Auditing projects are available at the office website, [www.internalauditing.mnscu.edu](http://www.internalauditing.mnscu.edu).