

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

Agenda Item Summary Sheet

Committee: Audit Committee

Date of Meeting: June 22, 2011

Agenda Item: Audit Planning Related to 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:

In July 2011, the Board of Trustees will be asked to approve the fiscal year 2012 audit plan. In preparation of that action, Audit Committee input is needed to determine priorities, given risk assessment results, desired audit coverage, and available resources.

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing
Eric Wion, Deputy Director, Office of Internal Auditing

Background:

In August 2010, the Audit Committee approved the following committee goal for the year:

Complete a thorough evaluation of the audit approach for the Minnesota State Colleges and Universities. The evaluation should:

- *Be based on a risk assessment and include a plan for obtaining internal control and compliance audit coverage given that the contractual relationship with the Office of the Legislative Auditor has ended.*
- *Consider the value and role of obtaining annual financial statement audits for individual colleges and universities.*
- *Determine a strategy for an information technology audit approach.*

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BOARD INFORMATION

AUDIT PLANNING RELATED TO SYSTEMWIDE RISK ASSESSMENT

In May, the Audit Committee had an initial conversation on audit priorities based on the results of an audit risk assessment completed by the Office of Internal Auditing. The attached PowerPoint presentation provides additional information and context for the committee to continue a conversation on reevaluating the audit approach for the system.

Date Presented to the Board of Trustees: June 22, 2011



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Minnesota State Colleges and Universities

Audit Planning Related to Systemwide Risk Assessment

Beth Buse, Executive Director, Internal Auditing

Eric Wion, Deputy Director, Internal Auditing

June 22, 2011

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Audit Committee Tasks

- Provide input on design of the 2012 audit plan.
- Complete Audit Committee goal
 - Complete a thorough evaluation of the audit approach for the Minnesota State Colleges and Universities. The evaluation should:
 - Be based on a risk assessment and include a plan for obtaining internal control and compliance audit coverage given that the contractual relationship with the Office of the Legislative Auditor has ended.
 - Consider the value and role of obtaining annual financial statement audits for individual colleges and universities.
 - Determine a strategy for an information technology audit approach.

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Today's Agenda

- Background on System Audit Coverage
- Results of Fiscal Year 2012 Audit Risk Assessment
- Proposed Audit Approach

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Background

- Past Audit Coverage
 - Financial Statement
 - Internal Control and Compliance
 - Information Technology
 - Office of Internal Auditing

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Financial Statement Audits - Purpose

- Opinion on whether financial statements are presented fairly, in all material respects
- Focus on material financial activity
- FY2010 systemwide materiality - \$9 million

Audits consider internal controls over financial reporting but do not express an opinion on their effectiveness.

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Financial Statement Audit - Coverage

- Contracts with external audit firms
 - Principal Auditor (LarsonAllen)
 - Opinion on system financial statement
 - Opinion on Revenue Fund
 - Opinion on Federal Financial Assistance (single audit)
 - 3 year contract expiring in FY12
 - Contract requires individual financial statement audits of colleges and universities on at least 60% of financial activity
 - 13 largest college or university statements
 - Contracts in place with 3 external audit firms
 - Contracts expire after 2011 for 7 institutions

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Internal Control and Compliance Audits - Purpose

- Assess the design and effectiveness of internal controls and compliance
 - Are operations effective and efficient?
 - Is financial information reliable and accurate
 - Are we in compliance?
 - Are receipts and other assets adequately safeguarded?
 - Are employees and vendors accurately paid?

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Internal Control and Compliance Audit Coverage

- Contracted with Office of the Legislative Auditor to provide audit services after merger in 1995
 - OLA matched MnSCU investment until 2010
 - Institution audits on 3 year cycle (FY10 – five colleges, FY09 – eight colleges)
- In past 10 years, the 3 year cycle has only included non-financial statement audited colleges
- No audits completed in fiscal year 2011

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Information Technology Audits - Purpose

- Assess the design and effectiveness of security controls to protect the confidentiality, integrity, and availability of data and computer systems.

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Information Technology Audit - Coverage

- Limited review of financial systems by financial statement principal auditor annually.
- Office of the Legislative Auditor conducted nine audits prior to 2006.
- Internal Audit has not conducted any IT audits for ten years.

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Office of Internal Auditing - Services

- **Assurance Services**
 - Follow-up on prior audit findings
 - Support to external auditors
 - Fraud inquiry and investigation support
 - Systemwide audit work on topics selected by Board of Trustees (e.g. Transfer project)
 - Planning
 - Professional Advice
- **Consulting Services** – eliminated in FY10 due to budget constraints

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System Audit Expenditures

	2010 Actual	2011 Projected	2012 Preliminary (add 1 staff)	2012 Alternative (add 2 staff)
Internal Audit	1,076,751	1,040,866(1)	1,169,134	1,286,134
Contract – OLA	223,522	-	-	-
Contract – CPA system	205,900	205,900	199,000	199,000
Contract – CPA C&U (3)	400,646	363,921	370,821	370,821
Total	830,068	569,821	569,821	569,821
MnSCU Audit Expenditures	\$1,906,819	\$1,610,687	\$1,738,955	1,855,955
Contract – OLA contribution (2)	223,522	-	-	-
Total System Coverage	\$2,130,341	\$1,610,687	\$1,738,955	1,855,955

(1) - includes approximately \$100,000 for a vacant IT audit position

(2) – OLA matched contract amount in previous years

(3) – 1/3 paid by system, 2/3 paid by college or university

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Fiscal Year 2012 Audit Risk Assessment Results

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Risk Assessment Overview

- Risk based decisions made everyday
- Board policy places responsibility for risk management on the Chancellor and Presidents
- System in early stages of developing a formalized enterprise risk management strategy
- Professional standards require internal auditors to consider an assessment of risk when developing an audit plan

Audit risk assessment does not take the place of enterprise risk management



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Audit Risk Assessment



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Enterprise Strategic Risks – Common Themes*

- Difficult economic times and resulting decline of state financial support
- Loss of knowledge due to turnover of key staff
 - In past year, nearly 1/3 of CFO, CIO and financial aid director positions have changed at colleges and universities.
- Insufficient personnel in key areas
 - Office of the Chancellor – limited oversight over student financial aid and grant management

Overall – Higher Level of Risk

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* - Based on discussions with over 200 system leaders.



Enterprise Strategic Risk – Example Areas* of Discussion

- Financial aid administration
- Student & employee safety
- Online education
- Employee professional development
- Tuition & fee costs – use of differential tuition

* 40 areas were identified during discussions with system leaders.

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Financial Risks – Institution

Assessed fiscal risk using the following metrics

Metric Category	Factors Measured
Audit (points = 350)	<ul style="list-style-type: none"> • Time since last internal control and compliance audit and the volume of findings • Whether the institution has an annual financial statement audit and the volume of findings from the last audit • Number of outstanding unsatisfactory audit findings
Financial Condition (points = 300)	<ul style="list-style-type: none"> • Operating gains or the size of losses • Composite Financial Index (CFI) • Overall materiality of financial transactions
Business Operations (points = 200)	<ul style="list-style-type: none"> • Change or loss in key personnel, knowledge, or skills • Diversity or complexity of operations • Number of incompatible security access rights
Other (points = 100)	Use of professional judgment to make adjust for significant financial risks that were not part of the model.

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Financial Risks – Institution Overall Results

Risk	Results	Number of Colleges and Universities
High	≥ 350	10
Medium	< 350 and > 200	17
Low	< 200	11

- Scores ranged from 35 – 525

* Institution total includes the Office of the Chancellor, Northwest Tech – Bemidji, and 5 colleges that comprise the Northeast Higher Education District

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Financial Risks – Institution High Risk

- 5 Universities
 - Last I/C & Compliance audits in 1999 or 2000
 - Material financial activity
 - Large number of incompatible access
 - 1 had a operating loss in 2010 (Southwest)
- 5 Colleges
 - Large number of prior findings
 - Unsatisfactory progress resolving some findings
 - 4 had operating losses in 2010
 - 1 had not had a I/C & Compliance audit since 2001 (Rochester)

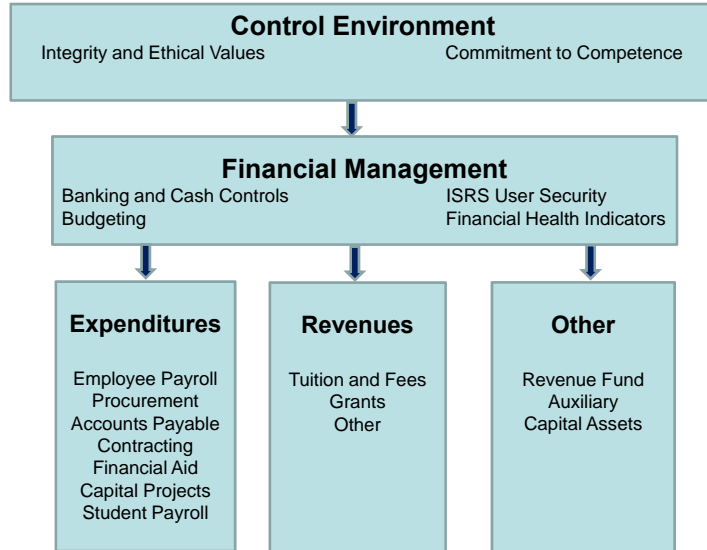
1. Southwest Mn. State U.
2. Hibbing CTC
3. Rochester College
4. Mn. State U. Moorhead
5. Mn. State U. Mankato
6. Bemidji State U.
7. Ridgewater College
8. St. Cloud State U.
9. Vermillion CC
10. Fond du Lac Tribal College

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Financial Risks – Functional Areas



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Financial Risks – Functional Areas Risk Assessment

- Internal Audit and Finance staff assessed risk
- Risk considerations included
 - Materiality
 - Past issues
 - Transaction volume and complexity
- High Risk Areas
 - Banking and cash controls
 - ISRS user Level security
 - Capital assets
 - Financial aid
 - Employee payroll
 - Tuition and fee billing
 - Grants

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Information Technology Risks

- Risks identified during discussions with system leaders.
- Supplemented list with auditor input
- Comprehensive audit risk assessment to be completed in 2012

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Information Technology Risk Areas

- Vulnerability and threat management
- Continuity of operations
- Security and integrity of sensitive data
 - Student
 - Employee
 - Credit card
- Banking and vendor controls
- Quality assurance and change management
- Financial aid ISRS module

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Proposed Audit Approach

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Proposed Audit Approach - Factors

- Core Assurance Services
- Results of Audit Risk Assessment
- Desired Audit Coverage
- Internal Audit Resources

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Proposed FY 2012 Internal Audit Approach Based on Preliminary Budget (addition of 1 staff)

- Internal Control and Compliance Audits – hybrid approach (2,000 hours)
 - Southwest Minnesota State University
 - Functional Area Audits
 - State University Payroll
 - ISRS Security
- IT Audit Strategy
 - Comprehensive IT Audit Risk Assessment
 - IT Audit of Vulnerability Management (600 hours)
- Continue Core Assurance Services (4,910 hours)
 - Follow-up on outstanding audit findings
 - Support to external auditors
 - Fraud inquiries and investigations
- Hold time for Systemwide project (1,100 hours)
 - Topic to be selected during year

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Proposed Audit Approach – Concerns

- Significantly less audit coverage on internal control and compliance audits.
- Systemwide project time limited
 - Flexibility for new chancellor
 - Leadership requested audits

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Proposed FY 2012 Internal Audit Approach Based on Alternate Budget (addition of 2 staff)

- Internal Control and Compliance Audits – hybrid approach (3,000 hours)
 - Southwest Minnesota State University
 - **Anoka Technical College**
 - Functional Area Audits
 - State University Payroll
 - ISRS Security
 - **Banking and cash controls**
- IT Audit Strategy
 - Comprehensive IT Audit Risk Assessment
 - IT Audit of Vulnerability Management (600 hours)
- Continue Core Assurance Services (4,910 hours)
- Hold time for Systemwide project (1,500 hours)
 - Topic to be selected during year

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Next Steps

- July 2011 – Audit Plan
- September/October 2011 – Discuss results of Financial Statement Analysis
- January 2012 – RFP for external audit resources for financial statement audits

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