



**AUDIT COMMITTEE**  
**JUNE 22, 2011**  
**10:00 A.M.**

**BOARD ROOM**  
**WELLS FARGO PLACE**  
**30 7TH STREET EAST**  
**SAINT PAUL, MN**

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**Please note: Committee/Board meeting times are tentative. Committee/Board meetings may begin up to 45 minutes earlier than the times listed below if the previous committee meeting concludes its business before the end of its allotted time slot.**

**Committee Chair Van Houten calls the meeting to order.**

- (1) **Minutes of May 17, 2011** (pages 1-8)
- (2) 2011 Office of the Chancellor Performance Report - Internal Auditing Division (pages 9-12)
- (3) Report on Committee Goals (pages 13-14)
- (4) Audit Finding Resolution Update: Northeast Higher Education District and Fond du Lac Tribal and Community College (pages 15-16)
- (5) Audit Planning Related to System-wide Risk Assessment (pages 17-33)

Members

James Van Houten, Chair  
Phil Krinkie, Vice Chair  
Christopher Frederick  
Dan McElroy  
Alfredo Oliveira  
Thomas Renier  
Michael Vekich

**Bolded** items indicate action required.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
BOARD OF TRUSTEES  
AUDIT COMMITTEE  
MEETING MINUTES  
May 17, 2011**

**Audit Committee Members Present:** Trustees James Van Houten, Chair; Christopher Frederick, Philip Krinkie, Dan McElroy, Alfredo Oliveira, and Michael Vekich.

**Audit Committee Members Absent:** Trustee Thomas Renier.

**Other Board Members Present:** Trustees Duane Benson, Cheryl Dickson, David Paskach, Louise Sundin and Scott Thiss.

**Others Present:** Chancellor McCormick, Beth Buse, Laura King, Gail Olson, and President Pat Johns.

The Minnesota State Colleges and Universities Audit Committee held its meeting on May 17, 2011, at Wells Fargo Place, 4<sup>th</sup> Floor Board Room, 30 East 7<sup>th</sup> Street in St. Paul. Chair Van Houten called the meeting to order at 12:36 p.m. and reviewed the agenda.

Trustee Van Houten noted that at the Audit Committee had invited Presidents Anderson and Collins to return at the May meeting, but it was later decided that invitation should be pushed back to the June meeting after they had completed their work on resolving outstanding audit findings.

**Approval of the Audit Committee Meeting Minutes**

*Chair Van Houten called for a motion to approve the March 16, 2011 audit committee meeting minutes. There was no dissent and the motion carried.*

1. Review Results of Annual Student Financial Aid Audit (Information Item)

Mr. Eric Wion, Deputy Director of Internal Auditing, introduced Mr. Christopher Halling, System Director for Financial Aid, Mr. Craig Popenhagen, Principal Auditor with the firm of LarsonAllen, and Ms. Brenda Scherer, Lead Auditor on the financial aid work that was done for the system.

Mr. Wion provided background on the Minnesota State Colleges and Universities Schedule of Expenditures of Federal Awards for the Year Ended June 30, 2010. He stated that the State of Minnesota uses a federal formula to determine major programs. The federal student financial aid program and the American Recovery and Reinvestment Act of 2009 (ARRA) were determined to be major programs for the system in 2010.

Mr. Wion stated that student financial aid and student loans had consistently grown each year, but there had been significant growth in 2009 and 2010. Other federal grants had remained fairly consistent; however in 2010 they increased significantly due to the ARRA monies. He stated that there were no findings in that area.

Mr. Wion stated that the PELL grant program increased 67% from 2009. The increase could be contributed to several different factors including the increase in student enrollment, changes in the eligibility requirements that resulted in more students being eligible for financial aid, and also the maximum PELL grant increased in 2010. He stated that the Federal Family Education Loans (FFEL) decreased in 2010, but that direct loans increased substantially.

Mr. Christopher Halling explained that the FFEL program was being phased out by the federal government and would be replaced by the direct loan program. He stated that the decrease did not mean that the colleges and universities were approving fewer loans, but rather a shift to the direct loans program. He noted that the benefit to the system was that with the direct loan program was that the opportunity to work directly with the Department of Education rather than with 2000 different banking entities. He further noted that would likely be opportunities for simplification and exploration of shared cooperative services which could generate efficiencies and cost savings.

Mr. Craig Popenhagen reviewed the audit opinion and stated that extensive sample sizes were pulled from across the system for the Single Audit. He stated that the four findings in the report were not systemic in nature. He stated that LarsonAllen was issuing a clean opinion on compliance. Mr. Popenhagen stated that the audit results were very favorable overall. He further stated that any findings that had been reported on last year's audit had been resolved.

Ms. Buse reminded members that this was the first year with the firm of LarsonAllen as the principal auditor. There were also changes in auditing standards that required larger sample sizes. Finally, she reminded members that the conclusions of the report would be wrapped into the State of Minnesota's Single Audit report which would likely be issued by the end of the month.

Vice Chancellor Laura King noted that there was about a billion dollars of federal funds that flowed through the financial statements annually. She stated that it was a testimony to the work of the financial aid directors, the campus financial aid staff, the business officers and the academic affairs staff that there were only four modest findings in a program area that was the subject of high pressure continuous improvement efforts over the last five years. She extended her thanks to the campus staff for these results.

Trustee Van Houten stated that the findings would not require systemwide training and could be corrected individually. He stated that the Audit Committee could receive the report with pleasure knowing that the complex work was handled so well.

## 2. Audit Planning Related to Systemwide Risk Assessment (Information Item)

Trustee Van Houten stated that the audit plan recommendation would change the assignment of audit work, and he urged members to engage in an in depth discussion of the direction of the audit work that would give trustees comfort with their fiduciary responsibilities. He noted that members would also need to consider options for making changes if the new audit approach did not work well.

Ms. Buse stated that part of the Audit Committee's goal was to evaluate the audit

approach based on a risk assessment. She stated that the risk assessment was based on three separate components; enterprise risks, financial risks, and information technology risks. System leaders were consulted extensively to build out the enterprise strategic risk assessment, and Ms. Buse noted that three themes emerged from the conversations.

The first concern for system leaders was how to manage complex colleges or universities given less resources and increased enrollment. Another concern was the loss of knowledge due to turnover of key staff. Finally she noted that leaders were concerned about having insufficient personnel in some key areas. As turnover and layoffs occur, staff has been asked to do additional functions, resulting in the loss of depth of knowledge. Discussions with leaders identified a list of risks and Ms Buse highlighted five risk areas for the committee.

Mr. Wion reviewed the three different categories of metrics to assess fiscal focused risk factors at each institution; Audit, Financial Condition and Business Operations. He noted that each metric had been assigned points values to determine an overall ranking for each institution. He further noted that there was also an “other” category where risk factors could be added if they were significant and not otherwise considered within the model.

Trustee Van Houten noted that changes in the audit cycle, outstanding audit findings, unsatisfactory progress, as well as changes in key personnel could impact the formula and increase the risk factor. Mr. Wion agreed. Ms. Buse stated that, for those reasons, the risk model would need to be repopulated annually.

Trustee Van Houten stated that it would be helpful to see how likely it was for these risk factors to change. Vice Chancellor King noted that this model should be viewed as a dynamic design, and added that it might be discovered that there was some other variable that was introducing risk that was not being captured.

Trustee Paskach noted that how the factors were weighted was also extremely impactful. He asked if a poor financial condition could drive an institution to the top of the list each year by itself. Ms. Buse stated that no one individual item would move an institution to the top. Mr. Wion presented the results of the assessment work. He noted that there was not a single factor that weighed heavily enough to move an institution into the list of the top ten, but rather it was a combination of factors.

Trustee Vekich asked if resource restrictions influenced the development of the risk assessment. Trustee Van Houten stated that staff was directed to first identify the risks to the system, secondly to consider what it might take to oversee those risks and then finally to design the budget and the audit activities in response to what was necessary to oversee it. The budget would come out of the assessment. Trustee Vekich stated that the budget should not drive enterprise risk assessment. He added that the Audit Committee could determine priorities and decide how much risk it was willing to assume after the risks were fully known. Ms. Buse stated that audit resources were not considered in what was presented as part of the results of the risk assessment. The question of resources was taken into account when the different approaches were reviewed to gain coverage on internal control and compliance.

Trustee Van Houten reminded members that if there was discomfort on the part of the

Audit Committee, Ms. Buse would reconsider the priorities, the staffing and the budget and return with something for the committee to approve at the June meeting.

Vice Chancellor King noted that the five universities got points because they had not had an internal control and compliance audit, which was a management decision when those universities began having financial statement audits. She asked the committee to consider what threshold of assurance it was seeking to gain in this audit design.

Mr. Wion reviewed the pros and cons of structuring an audit that focuses on an individual college or university, and the pros and cons of structuring an audit that focuses on a single functional area across multiple institutions, such as payroll.

Trustee Van Houten noted that past operational audits had turned out well based upon systemwide identification and then focused education plans to correct problems before they showed up at other institutions. Vice Chancellor King stated that she believed operational audits of higher risk areas based on materiality would work, but that the trade off would be the campus auditor presence. She noted that it was important to understand what the committee was seeking from an assurance standpoint. She stated that there were several different objectives that could be appropriate.

Trustee Van Houten added that the use of the new Cooperative would be helpful as priority was given to new audit approaches around consolidated functions. In addition he noted that the new Chancellor might have areas where he would want some special audit work done.

Chancellor McCormick praised staff for all the work that had been done over the years. He stated that it had always been important to him as the Chancellor to have a report from the Office of Internal Auditing to use during presidential evaluations each year. He noted that it was a way to put pressure on colleges and universities that were not making satisfactory progress on audit findings but it was also an opportunity to highlight those colleges and universities that were doing an outstanding job on their campuses. He further stated that he appreciated that the Executive Director of Internal Audit worked directly for the Board of Trustees, but that the Chancellor and the presidents could also make requests for special audit projects over the years.

Mr. Wion highlighted the information technology risk component, specifically in the area of student data. Chancellor McCormick noted that the Information Technology group had recently hired a new staff member to work specifically on security issues. He noted the importance of protecting credit card data of students on campus. Mr. Darrel Huish, Vice Chancellor for Information Technology and Chief Information Officer, confirmed that although coverage in all areas was important, the new staff member would be focusing primarily on the payment card industry standards because student data and credit card data were both high priorities. Mr. Wion agreed and stated the system had made significant investments to ramp up compliance in this area.

Trustee Vekich asked about penetration testing to the information technology systems. Vice Chancellor Huish stated that they had recently contracted with an outside vendor to begin penetration testing, and he stated that testing would begin in the coming weeks. Trustee Vekich asked if any of that testing would get at the social engineering aspect of

security to ensure that individuals were keeping passwords and data secure. Vice Chancellor Huish stated that the current contract would be to do external penetration of the networks, not of individuals. Trustee Van Houten noted that there should be communications between that division and the Office of Internal Audit regarding the information technology audit. Ms. Buse stated that she and Vice Chancellor Huish would work together on the comprehensive information technology risk assessment and would take into consideration the work that the Information Technology Division was doing that might influence the types of activities and the types of risks within information technology.

Ms. Buse stated that part of the recommendation was to conduct a specific information technology audit, but that they were also holding several technical hours available to look into other information technology.

Trustee Vekich expressed concern that the social engineering side should not be left out of the testing process. He stated that the committee needed a risk assessment for the enterprise, regardless of the resources available to handle those risks. He stated that it was important for the Audit Committee to have discussion around its risk profile. After that discussion, the committee could make a decision about the level of risk it was willing to assume based on available resources or it would have to find additional resources.

Vice Chancellor Huish stated he would work with Ms. Buse to bring back responsive information at the June meeting of either the Audit Committee or the Information Technology Committee. Ms. Buse concurred and stated that they would work with the committee chairs to bring the information back in June. Vice Chancellor King agreed and stated that it was incumbent on the system to continue to improve the methodologies so that the committee could have a conversation about scaling the activities and the risks that are related to information technology. She stated that it was an important objective, but that the system was still in the early days from an internal audit perspective.

Trustee McElroy stated that the Center of Excellence in data and system security could be a helpful resource. He also noted that when password security systems get too complex, individuals revert to manual methods of remembering codes which adversely makes systems less secure. He noted that there was some limit to the complexity and frequency that individuals were able to securely remember passwords. Finally, he noted that the system should begin to think in terms of payment systems rather than credit cards. He noted that the majority of payment cards were actually debit cards now and other technologies were continuing to emerge as well. He cautioned that the risk in these areas should not be underestimated.

Ms. Buse continued with the audit resources discussion. She stated that the committee wanted to know how the system would get coverage on financial internal control and compliance audits in the absence of the contract with the Office of the Legislative Auditor.

Ms. Buse reviewed the Office of Internal Audit staffing resources. She stated that in 2009 the office had eleven employees but a fifteen percent reduction in the budget resulted in the loss of a position and a half in 2010. She noted that the office is currently budgeted for that same staffing level. However, due to the change of Executive

Directors, the need to fill the Deputy position and some other restructuring, the office has only had about eight FTE in fiscal 2011. Ms. Buse stated that she was proposing that in fiscal 2012, the Office of Internal Audit would go back up to ten positions, which would include the addition of an Information Technology Audit Coordinator and another position to focus on internal control and compliance audits. Ms. Buse informed the members that there had been a failed search for the new Information Technology Audit Coordinator, but added that she was working with the Human Resources division and networking with peers to develop an approach to filling that position.

Ms. Buse explained that fewer hours would be spent on audit follow-up in the next fiscal year because there would not be as many outstanding audit findings and, without a contract with the Office of the Legislative Auditor, there should be fewer new findings being put into the database. She explained that she was planning to eliminate the support that the Office of Internal Auditing had provided to external auditors in the past. She stated that the office devotes over a position each year to that work and that time could be redirected to more value added work for the committee and for system leaders. She did note, however, that there were still contractual obligations with the audit firms and it would take three years to rotate out of those commitments.

Ms. Buse stated that in addition to adding new staff, they may use contractors to supplement the information technology audit approach. She stated that the hiring market has been tight and they would need to look at different approaches. She told members that she and Vice Chancellor King had met with Audit Committee Chair Van Houten and Vice Chair Krinkie about carrying forward the salary savings from fiscal year 2011 which has been a transition year, into fiscal 2012 in order for us to jumpstart the information technology audit program. Finally, she stated that she wanted to explore the use of other resources such as student internships and faculty sabbaticals.

Ms. Buse reviewed the proposed audit priorities which would include the continuation of the core assurances services, flexibility for a system project, and an information technology risk assessment audit project. Finally, she recommended three specific audits. The recommendation would include an internal control and compliance audit at Southwest Minnesota State University, and Ms. Buse reminded members that the Office of the Legislative Auditor would also begin conducting an internal control and compliance audit at Metropolitan State University soon, the results of which would come to the Audit Committee in the fall. In addition the office would conduct business cycle audits of state university payroll and ISRS security. And the last specific audit that was proposed for fiscal 2012 would be an audit of vulnerability management.

Ms. Buse stated that she would bring the audit plan for fiscal 2012 as an action item for the June Audit Committee meeting. In addition, she would formulate a recommendation for financial statement audit work.

Trustee Van Houten reminded members that the system would plan to continue the same large college and university audits and the system financial audits, but the internal control and compliance audits at the smaller colleges would be done differently. Ms. Buse agreed, stating that there would not be a three-year audit cycle of those two-year institutions. She noted that in the future, there would be more business control cycle audits in combination with audits at individual institutions when a risk profile would

indicate that an audit of a particular college or university would be beneficial.

Trustee Van Houten stated that instead of auditing everything, the system would audit those areas where experience had indicated were most likely to have problems. He added that the campuses would still have an audit presence. The suggestion to the Audit Committee would be that, as time goes by, if the system had not been able to accurately identify those issues appropriately or if there were some need to do a different kind of audit, then the Audit Committee would agree to revisit what would need to be done to achieve the appropriate level of comfort. He stated that he believed that was a stronger approach than to over staff an area or hold reserve funds in the budget.

Trustee McElroy asked how other higher education systems addressed their risks. Ms. Buse stated that different approaches depended on available resources. She did note, however, that best practices in the internal audit industry were starting to move toward more horizontal business practices approaches.

She stated that the University of Minnesota had identified about fifty different entities that they would try to get audit coverage on and they determined a model where they would try to get to their highest risk entities once every three years. Vice Chancellor King stated that when they were designing the financial statement audit strategy they had looked at national patterns and found that it was typical that a system either did a system level enterprise financial statement audit, or they did entity level financial statements audits, but they seldom did both. She noted that this proposed approach was a hybrid of both approaches that would likely be without par around the country. She stated that she liked the approach because it provides audit presence on the campuses and it offers the opportunity to spread discipline, knowledge and competence for financial statement work at the largest entities.

Trustee Krinkie stated that he would like to see the Technology Committee offer their advice and input as to what areas of vulnerability exist and what should be done, not only on the front end, but then also in terms of audit afterwards. Trustee Van Houten agreed, especially with the changes that would be happening with the security efforts in the Information Technology division.

Trustee Vekich stated that he was generally comfortable with the approach, however, he commented that if the committee had not already done so, he would like to have sufficient time at the June meeting for that discussion. He stated that he liked what was in the plan, but that it was incumbent upon the Audit Committee to understand its risk profile and where it wanted to go before it considered the budget constraints. Trustee Paskach noted that a risk profile or a strategic risk assessment, should be about the overall business and the risks that could really damage the business. He agreed with Trustee Vekich, that a conversation about the system's risk profile would be valuable.

Vice Chancellor King stated that the Finance Committee had a discussion in March about the enterprise risk management project that has been started but she stated that those results would not be available in time for the June discussion. She noted that the system did have an appreciation of reputational risks and of student risks, but were in the very early days of trying to design an enterprise risk management program. She added that when that program was fully matured, it would make sense for the audit plan to flow



directly from that program. But she added that until then, the system would need to rely on its best judgments about risks. Trustee Paskach agreed that in the interim, as that program developed, the current recommendations would be useful and should be approved.

Trustee Van Houten stated that the committee understood that should they determine at a later date that the recommended approach did not afford the appropriate comfort level, then the committee would not be held by the initial decisions and could make adjustments. He added that if the committee were not comfortable with the recommendation at the June meeting, then adjustments could be made before the July meeting, and if there was a need to develop an initial budget for the beginning of the fiscal year, the committee could develop an arbitrary budget with the understanding that it would revise it after further exploration.

President Pat Johns, Lake Superior College, noted that the system had matured a great deal in its audit processes. He stated from a president's perspective, having a regular audit presence had offered him a level of security to know that processes would be reviewed and best practices were communicated. He stated that there was a good system in place that worked well, and he cautioned that it would not be appropriate to ease up on the audit practices or exercises. President Johns stated that he liked the recommended approach, and the idea that the approach could be amended if necessary at a later date. Finally, he noted that just like finance and technology, academic quality should be considered as well because it was the core of the system.

The meeting adjourned at 2:40 p.m.

Respectfully submitted,  
Darla Senn, Recorder

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

**Agenda Item Summary Sheet**

**Committee:** Audit Committee

**Date of Meeting:** June 22, 2011

**Agenda Item:** 2011 Office of the Chancellor Performance Report – Internal Auditing Division

Proposed Policy Change       Approvals Required by Policy       Other Approvals       Monitoring

Information

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

The Office of the Legislative Auditor recommended that the Board of Trustees improve its oversight of the Office of the Chancellor performance.

**Scheduled Presenter(s):**

Beth Buse, Executive Director, Office of Internal Auditing

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

- The performance report includes four sections that provide information about the current and projected budget of the division; the functions performed by the division and how they differ or complement those of the institutions; a listing of major goals and accomplishments for FY 11 and preliminary division goals for FY 12.
- Information is being provided to all committees for the corresponding division for which they have oversight.

**Background Information:**

- This report is part of a larger report on the performance of the Office of the Chancellor for FY 2011. It was developed in response to the Office of Legislative Audit recommendation in the 2010 Office of the Chancellor Evaluation that suggested greater Board oversight of the office.
- This is the second annual report in this format; the first report was presented to the Audit Committee in June 2010.

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

<b>BOARD INFORMATION</b>
2011 OFFICE OF THE CHANCELLOR PERFORMANCE REPORT - INTERNAL AUDITING DIVISION

**BACKGROUND**

This report is part of a larger report on the performance of the Office of the Chancellor for FY 2011. It was developed in response to the Office of Legislative Audit recommendation in the 2010 Office of the Chancellor Evaluation that suggested greater Board oversight of the office. The first annual report was presented to the Audit Committee in June 2010.

The performance report includes four sections that provide information about the current and projected budget of the division; the functions performed by the division and how they differ or complement those of the institutions; a listing of major goals and accomplishments for FY 11 and preliminary division goals for FY 12.

The following represents the performance report for the Office of Internal Auditing.

*Date Presented to the Board of Trustee: June 22, 2011*

Office of the Chancellor Performance Report  
Internal Auditing Division

**I. Multi-year Financial and Personnel Data**

**Office of Internal Auditing**

Cost Category / Financing	2010-11 Biennium		2012-13 Biennium	
	2010 Actual	2011 Estimate	2012 Projected	2013 Projected
Salaries & Benefits	1,025,074	876,866	1,084,711	1,084,711
Consulting Contracts	0	20,000	120,000	20,000
Other Administrative Costs	51,677	44,000	64,423	64,423
<b>Total Administrative Costs</b>	<b>1,076,751</b>	<b>940,866</b>	<b>1,269,134</b>	<b>1,169,134</b>
Less: External Funding	0	0	0	0
<b>General Fund Financed Costs</b>	<b>1,076,751</b>	<b>940,866</b>	<b>1,269,134</b>	<b>1,169,134</b>
<u>Distribution of General Fund Activities</u>				
Direct Services to Colleges/Universities	454,179	429,167	583,802	537,802
Systemwide Services	622,572	511,697	685,332	631,332
Division Employee FTE	9.5	8	10	10

Note: Fiscal year 2011 was a transition year for the office. Also, for comparative purposes, fiscal year 2011 salaries and benefits were reduced for severance payments to the former executive director.

**Office of the Legislative Auditor**

Cost Category / Financing	2010-11 Biennium		2012-13 Biennium	
	2010 Actual	2011 Estimate	2012 Projected	2013 Projected
Consulting Contracts	223,522	0	0	0
<b>Total Administrative Costs</b>	<b>223,522</b>	<b>0</b>	<b>0</b>	<b>0</b>
Less: External Funding (1)	0	0	0	0
<b>General Fund Financed Costs</b>	<b>223,522</b>	<b>0</b>	<b>0</b>	<b>0</b>
<u>Distribution of General Fund Activities</u>				
Direct Services to Colleges/Universities	223,522	0	0	0
Systemwide Services	0	0	0	0

Note: Cost of external auditing services from CPA firms is included with the Finance Division data.

**II. Explain the structural distribution between the functional duties performed by this division and similar activities performed by the colleges and universities.**

All internal auditing services for the system are provided through the Office of Internal Auditing. Four internal auditing employees are located on college or university campuses, but report directly to the executive director of Internal Auditing. Board Policy 1D allows the chancellor and presidents to request services from the Office of Internal Auditing. Those requests are granted based on available resources, as long as the office independence will not be impaired. Typical services provided to colleges and universities are fraud inquiry and investigation support services and professional advice.

**III. Cite performance metrics and major accomplishments from the past year (tie to prior year division/committee work plan, if possible).**

Fiscal year 2011 has been a year of transition for the office. The former executive director retired in July after leading the office for nearly thirteen years. A new executive and deputy director were hired. The office also underwent reorganization in order to position itself to build an information technology audit strategy.

The office provided the services anticipated by its annual audit plan (approved by the Board of Trustees in September 2010). Noteworthy accomplishments were:

- Transition to a new principal auditor for the system (LarsonAllen). In addition, the office provided support services for the annual financial statement and federal financial assistance audit. For the first time, no financial statement material weaknesses or significant deficiencies were noted by the external auditors at the system level or any colleges and universities.
- Completion of an initial annual risk assessment for use in prioritizing audit resources that focused on enterprise, financial, and information technology risks,
- Focus on resolution of college and university outstanding audit findings.
- Assistance with the tracking and resolution of numerous fraud inquiries and investigations.

**IV. Identify major division/committee work plan activities planned for upcoming year.**

The office is continuing conversations with the Audit Committee and senior leadership on evaluating the audit approach for the system to determine audit priorities and resources. Specific areas of discussion include; developing an information technology audit approach and determining the appropriate level of audit coverage for financial internal control and compliance audits.

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

**Agenda Item Summary Sheet**

**Committee:** Audit Committee

**Date of Meeting:** June 22, 2011

**Agenda Item:** Report on Committee Goals

- Proposed Policy Change       Approvals Required by Policy       Other Approvals       Monitoring
- Information

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

Chair Thiss asked that each committee chair provide a brief summary of the progress on committee goals during their report at the Board meeting.

**Scheduled Presenter(s):**

Beth Buse, Executive 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.*

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

<b>BOARD INFORMATION</b>
REPORT ON COMMITTEE GOALS

The Audit Committee has had several conversations during the year on the audit approach for the system. Most recently, in May, the committee had an initial conversation on the results of an audit risk assessment. The Audit Committee plans to continue the conversation at the June committee meeting.

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

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

**Agenda Item Summary Sheet**

**Committee:** Audit Committee

**Date of Meeting:** June 22, 2011

**Agenda Item:** Audit Finding Resolution Update: Northeast Higher Education District and Fond du Lac Tribal and Community College

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 1.D.1, Part 4 requires Internal Auditing to follow-up on audit findings generated by either internal or external audits and ensure that findings are satisfactorily resolved.

**Scheduled Presenter(s):**

Beth Buse, Executive Director, Office of Internal Auditing  
Dr. Sue Collins, President, Northeast Higher Education District  
Dr. Larry Anderson, President, Fond du Lac Tribal and Community College

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

- The Board of Trustees and the Chancellor expect timely resolution of audit findings. Accordingly, Internal Auditing maintains a database of audit findings and tracks their resolution.
- The Audit Committee asked President Larry Anderson and President Sue Collins to return to present an update on the resolution of outstanding audit findings.

**Background Information:**

- A status report as of February 2011 on the resolution of audit findings at colleges and universities was presented to the Audit Committee in March 2011
- Two institutions had significant outstanding audit findings where satisfactory progress was not being made.



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

<b>BOARD INFORMATION</b>
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AUDIT FINDING RESOLUTION UPDATE: NORTHEAST HIGHER EDUCATION DISTRICT AND FOND DU LAC TRIBAL AND COMMUNITY COLLEGE
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**BACKGROUND**

The Board of Trustees and the Chancellor expect timely resolution of audit findings. Accordingly, Internal Auditing maintains a database of audit findings and tracks resolution. The database contains audit findings from many sources, including those issued by the Office of the Legislative Auditor, Minnesota Office of Higher Education, other external auditors and findings issued by the Office of Internal Auditing.

The Audit Committee heard a Status Report on Audit Findings in March 2011. The Northeast Higher Education District and Fond du Lac Tribal and Community College each had significant outstanding audit findings where satisfactory progress had not been made.

- **Northeast Higher Education District:** This institution had 31 unresolved audit findings with unsatisfactory progress. Internal Auditing classified 15 of the findings as “important” and 16 as “limited impact”.
- **Fond du Lac Tribal and Community College:** The college had five unresolved audit finding for which progress towards implementation of corrective action was unsatisfactory. One finding, pertaining to the need for improved purchasing and accounts payable controls was classified as critical.

The Audit Committee asked President Larry Anderson and President Sue Collins to return to present an update on the resolution of outstanding audit findings.

*Date Presented to the Board of Trustee: June 22, 2011*

**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.*

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

**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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SYSTEM

## Today's Agenda

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

Slide 3



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SYSTEM

## Background

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

Slide 4



## 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.

Slide 5



## 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

Slide 6



## 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?

Slide 7



## 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

Slide 8



## 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

Slide 11



## System Audit Expenditures

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

- (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



Slide 15



## 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
<b>Audit</b> (points = 350)	<ul style="list-style-type: none"> <li>• Time since last internal control and compliance audit and the volume of findings</li> <li>• Whether the institution has an annual financial statement audit and the volume of findings from the last audit</li> <li>• Number of outstanding unsatisfactory audit findings</li> </ul>
<b>Financial Condition</b> (points = 300)	<ul style="list-style-type: none"> <li>• Operating gains or the size of losses</li> <li>• Composite Financial Index (CFI)</li> <li>• Overall materiality of financial transactions</li> </ul>
<b>Business Operations</b> (points = 200)	<ul style="list-style-type: none"> <li>• Change or loss in key personnel, knowledge, or skills</li> <li>• Diversity or complexity of operations</li> <li>• Number of incompatible security access rights</li> </ul>
<b>Other</b> (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

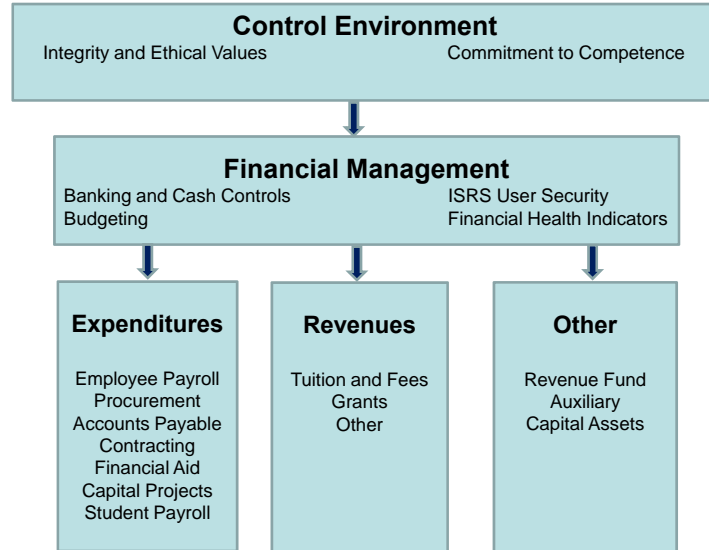
- 5 Universities
  - Last I/C & Compliance audits in 1999 or 2000
  - Material financial activity
  - Large number of incompatible access
  - 1 had a operating loss in 2010 (Southwest)
- 5 Colleges
  - Large number of prior findings
  - Unsatisfactory progress resolving some findings
  - 4 had operating 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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